Watchstone.

Watchstone Group plc

Annual Report and Financial Statements for the year ended 31 December 2020

In this year's Report

Key Summary

- £68.9m of cash returned to shareholders (2019: £nil)
- Total profit after tax £7.7m (2019: £30.9m)
- Group operating loss of £1.4m (2019: £3.6m)
- Group net assets of £17.1m representing approximately 37 pence per share (2019: 169 pence per share)
- Group cash and term deposits at 31 December 2020 of £16.7m (31 December 2019: £71.6m)

Chairman's Report

The Group achieved a number of significant milestones in 2020, consistent with our plan to dispose of businesses when appropriate, resolve legacy issues and return cash to shareholders.

Taking these objectives in turn, the disposal of our Canadian Physiotherapy business completed in February 2020 after regulatory approval. In light of the impact of COVID-19 around the world, particularly for face to face service industries, the timing was fortuitous. Whilst this has adversely impacted the recovery of additional contingent consideration from the sale, the Group has recorded a profit on disposal and resultant cash inflows rather than experiencing a significant cash drain which would have inevitably occurred owning this business through this difficult period.

The disposal of ingenie in November 2020 completed the process of disposing of our trading businesses and we wish our former colleagues every success under the new ownership of the business.

In April 2020, the Serious Fraud Office ("SFO") informed us that the Company will not be prosecuted for criminal offences in respect of those matters which were the subject of the investigation. We continue to co-operate with the SFO in their remaining ongoing investigation. We have received no further correspondence in respect of the threatened shareholder class actions since November 2019.

The disposal of businesses and resolution of legacy matters has allowed us, with Court approval, to return a further £68.9m to shareholders during 2020 taking the total to almost £500m.

We continue to pursue litigation both in the UK and Canada where we believe we have a very strong case and therefore it is in the interests of shareholders. We plan to make further returns to shareholders as, and when, the outcome to our litigation becomes clearer.

In accordance with the AIM Rules, the disposal of ingenie constituted a fundamental change of business and the Company was classified by AIM as an AIM Rule 15 cash shell leading to our suspension from AIM. Accordingly, the Board were keen to provide shareholders with the services of a regulated market and a trading facility while it pursues its litigation assets and its strategy unfolds. Therefore, we decided to apply for admission of our shares to trading on the AQSE Growth Market operated by the Aquis Stock Exchange. Our Acquis listing commenced after the year end on 30 April 2021.

I would like to thank our now former colleagues for their commitment as we have worked through a difficult but ultimately successful year. I would also once again like to thank our shareholders who have been patient in waiting for the cash returns which recommenced in 2020 and for their support for the Company as the work to maximise value from all our assets has continued. As always, the Board remains confident that we will go on to reward that support.

Richard Rose
Non-executive Chairman

Group Chief Executive Officer's Update

2020 was another key year for the Group as we continued to address the remaining operational and litigation assets and issues. In the year, we completed the sale of the Healthcare Services division and the ingenie business, our final remaining operating assets. Both businesses are well placed for future success in their new owners' hands and we wish them well.

We successfully defended the Group against further putative claims and it is now more than 17 months since the threat of new litigation against the Group was last received. We also received confirmation from the SFO that its investigation into the Group's historic business and accounting practices had been closed. A number of small claims were resolved in our favour in the year.

Litigation in relation to the historic activities of the Group is being pursued where it is considered that we have a strong case and where the Board, having taken advice, expects a successful outcome in favour of the Group. These include claims against PricewaterhouseCoopers LLP ("PwC"), Aviva Canada Inc ("Aviva Canada") and HMRC.

We also successfully completed two court approved cash returns and further rationalised the central cost and corporate structure such that we now operate from a virtual office and with only Lee James, our Finance Director and myself as executive, permanent staff. We use additional remote consultancy resource judiciously to maintain as flexible a cost base as possible.

Update on outstanding legacy matters

In August 2020, we filed and served a claim against PwC in the High Court. The claim against PwC is for damages or equitable compensation of £63m plus interest and costs. The claim is for breach of contract and/or breach of confidence and/or breach of fiduciary duty and/or unlawful means conspiracy. PwC has filed its defence and the matter is not expected to go to trial before H2 2022. The Group expects to initiate a claim against its former auditor, KPMG LLP ("KPMG"), in respect of its audit of the Group's accounts for the year ended 31 December 2013 which were restated in the subsequent financial year.

Our claim for the recovery of historic VAT paid in the ingenie business is expected to go to a Tribunal in December 2021. Finally, our Canadian subsidiary's claim against Aviva Canada is ongoing.

We will continue to co-operate with the continuing SFO investigation but the Company itself is no longer a suspect and will not be prosecuted in respect of it.

2021 outlook

At the end of April 2021, we joined the Acquis market to provide our shareholders with continued access to trading and the benefits of a regulated market in advance of the suspension from AIM which occurred on 4 May 2021. In due course, we expect to delist from AIM following the suspension caused by becoming a cash shell when we disposed of ingenie. We will look to prosecute our remaining litigation assets for the optimal return for shareholders. Central costs will be carefully managed at reduced levels consistent the needs of the organisation.

Stefan Borson
Group Chief Executive Officer

Strategic Report

1. Business Review

1.1 About Watchstone

The Company is now exclusively focused on managing the Group's litigation in order to achieve maximum shareholder value following the sale in the year of its remaining operating assets.

During 2020, the Group returned a total of £68.9m to shareholders in two tranches.

For the majority of 2020, the Group operated its ingenie business, 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 and analytics capability to certain third parties as a technology solutions provider. The ingenie business was disposed of in November 2020.

1.2 Board decision making (section 172 statement)

The Board has a duty to promote the success of the Company for the benefit of its members as a whole whilst also having regard to other stakeholders. The Company operates within the framework provided by the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") to provide robust governance over its wider decision-making processes and the Board. Further details are provided in the Corporate Governance Report.

The Company meets with shareholders and analysts as appropriate and uses its website to encourage communication with existing and prospective shareholders. The Company also maintains regular contact with private investors via meetings, email correspondence and investor forums.

The Board constantly monitors the performance of the business as detailed in section 2.4 below, Internal Financial Discipline. The major board decisions of 2020 were in respect of the disposal of Healthcare Services, ingenie, its two capital returns and its litigation strategy. The decision to dispose of Healthcare Services was largely completed during 2019 despite completing in the current year. The financial impact of these items is discussed elsewhere in this report whilst the main factors in the Board decision making process is summarised as follows:

1.2.1 Return of cash to shareholders

The latest two reductions of capital and returns of cash to shareholders were consistent with the Board's stated objectives of resolving legacy matters and returning value to shareholders whilst prudently managing the Group's assets and liabilities. The reductions of capital required some restructuring of the Group and its balance sheet and Court approval processes to ensure the interests of creditors are protected. External advice was taken to review the cash forecasts prepared by management, the assumptions made, and sensitivities to a number of factors.

These reports were presented to the Board, and subsequently the Court as part of their consideration. The Board concluded that the two capital reductions and returns of capital were in shareholders' interests as:

- they were consistent with the stated objectives of the Group;
- they were subject to shareholder approval through a vote at General Meetings;
- the review of cash forecasts demonstrated there should be no material increase in risk to the Group's creditors.

1.2.2 Sale of ingenie

The Board considered the sale of the ingenie business for cash consideration of up to £5.5m including an aggregate of £3.0m in cash payable on completion to be in the best interest of the stakeholders of the Group for a number of reasons.

In particular:

- The sale to A-Plan, as an expert buyer already operating in a similar market to ingenie presented the best long term prospects for the business, and, since A-Plan continue to operate the ingenie brand and products, the best prospects for the existing employees and suppliers in becoming part of a larger organisation.
- Retail customers were consulted over the transfer of their policies to a new Company and any objections resolved.
- It was consistent with the Group's previously stated objective to prepare its businesses for future disposal and to divest at the optimal time.
- Any residual risk in running a business authorised and regulated by the Financial Conduct Authority has been removed.

- The structure of the deal enables the Group to retain its subsidiary which is seeking repayment of overpaid VAT in the sum of over £2.0m from HMRC.

The sale was as a result of a competitive sales process and, having taken advice, the Directors considered the terms of the Sale to be fair and reasonable.

1.2.3 Litigation

The Board is appraised of all outstanding litigation, whether as a defendant or claimant, at each board meeting and discusses the relative merits of each course of action, whilst considering the views and objectives of the stakeholders in the business versus the relative risks and rewards.

1.2.4 Other stakeholders

Until the disposal of ingenie the majority of the Group's employees were employed by subsidiary undertakings which have their own boards and policies in respect of employee engagement and involvement.

The Group closed its corporate head offices during 2019 and even before the COVID-19 crisis made extensive use of technology to save money and to limit its impact upon the environment through reduced travel.

1.3 Overview of 2020

1.3.1 Continuing business activities

Since the Group disposed of its remaining trading business, ingenie, in November 2020 the results of ingenie are included within discontinued operations and the 2019 results restated on the same basis. The results of Healthcare Services had been reclassified to discontinued operations in the Annual Report and Accounts for the year ended 31 December 2019 and were presented on a consistent basis in the 2020 results until the date of disposal.

Continuing business activities therefore represent the small executive team which was reduced further during 2020 to two full time individuals supported by the non-executive board members and our external legal and other professional advisers. The Group incurred legal expenses of £1.6m during 2020 primarily in pursuit of litigation in relation to the historic activities of the Group where it is considered that we have a strong case and where the Board having taken advice, expects a successful outcome in favour of the Group. These include filed cases against PwC, Aviva Canada as well as potential claims against other parties currently in contemplation. The Group is also seeking repayment of historically overpaid VAT within one of its subsidiaries from HMRC.

1.3.2 Discontinued business activities

Discontinued business activities primarily relate to ingenie and Healthcare Services. Whilst discontinued, ingenie was under the ownership of the Group for 10 months of 2020, whereas the disposal of Healthcare Services completed in February 2020. Consequently, Healthcare Services only contributed £3.1m of revenue and £0.4m retained loss during 2020.

1.3.2.1 ingenie

Continuing the trend from H1, the results of ingenie to the date of disposal improved significantly from 2019 despite the impact of COVID-19 restrictions, which included temporary halts to driving tests in the UK. The ingenie business was however inevitably adversely impacted by COVID-19. The results to the end of October 2020, being the last month under ownership of the Group saw year to date revenues of £7.6m compared to £7.3m for the full 12 months of 2019. Similarly, the retained loss for the business was £1.0m for the 10 months compared to £3.1m for the full year to 31 December 2019. At the time of disposal, the business was also approaching break even at an EBITDA level for the year to date. This resilience is a result of the investment in technology made by the business during 2019.

As previously announced in the first half ingenie signed a deal with Endsleigh Insurance Services Limited ("Endsleigh") for the provision of an end-to-end telematics, behavioural coaching, data analytics, policy administration, and claims management solution which built upon ingenie's decade of experience in insurance and technology. It is in part this relationship and showcasing of the ingenie proposition which enabled the successful sale of the business to A-Plan Group Limited, being the parent of Endsleigh, in the second half of 2020.

1.3.3 Resolving legacy matters

Legal settlements in 2020

During 2020, the Group settled all outstanding claims with two members of former management resulting in total payments to the Group of £617,000.

Other

Certain potential assets and liabilities are not recognised in the Financial Statements due to their uncertainty:

- Contingent assets include recoveries relating to taxation and litigation in progress; and
- Contingent liabilities could include damages from adverse outcomes. These are disclosed but no liability is recognised.

Strategic Report (continued)

Amounts will be recognised in line with applicable accounting standards if, and when, the appropriate level of probability of payment or receipt and appropriate reliability of measurement has been achieved.

Further details are provided in note 30 to the Financial Statements.

1.4 Overview of Financial Statements

The Financial Statements are presented on pages 27 to 74. An overview of the main factors which have influenced the Financial Statements are the:

- **Sale of Healthcare Services and ingenie.** At 31 December 2019, the assets and liabilities of Healthcare Services were included within assets and liabilities held for sale in the Consolidated Group Balance Sheet. The trading of this business until disposal in February 2020 resulted in £0.4m of the loss after tax from discontinued operations (2019: £2.0m), and the disposal itself, £7.9m profit. The profit on disposal is net of £1.9m cumulative foreign exchange loss arising upon consolidation from Canadian Dollars since acquisition of the business and not previously recognised in profit and loss. ingenie contributed £1.0m loss to the results of discontinued operations and £2.4m profit arising upon disposal.
- **Resolution and settlement of historical matters.** The cessation of the SFO investigation into the Company and the elapsed time relating to the matters purported to be the basis of a potential class action have enabled the release of £3.5m of legal provisions during 2020. Settlements with former management have resulted in credits of £0.6m in the year. The remaining legal fee provision at 31 December 2020 relates to the obligation of the Group to continue to support the SFO in their enquiries.
- **Pursuit of litigation in relation to the historic activities of the Group** is the major contributor to legal expenses of £1.6m. The Group has provided security of costs to a party to the action and holds £1.9m in escrow at 31 December 2020. This is included within other debtors in the Consolidated Statement of Financial Position. Legal expenses in 2019 of £4.4m were primarily driven by expenses and provisioning in respect of the S&G litigation.
- **Capital reductions and returns of cash.** £68.9m of cash has been returned to shareholders during 2020 through two capital reductions and returns of capital. This has reduced the share premium account by the same and the cash and term deposits held by the Group have decreased from £71.6m at 31 December 2019 to £16.7m at 31 December 2020.

1.5 Acquisitions and Investments

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

1.6 Retained earnings

As at 31 December 2020, the Company had negative distributable reserves of £49.4m and unrealised profit amounts totalling £0.9m in retained earnings.

2. Financial Review

The Group previously classified its continuing operating business and the supporting Group cost centre as underlying, with businesses sold or closed as either non-underlying or discontinued as appropriate. Given the classification of the remaining trading businesses in the Group as discontinued this presentation is no longer considered useful to give a better guide to the business performance of the Group. All continuing activities of the Group, being those not otherwise presented as discontinued are therefore presented in a single column in the Consolidated Income Statement. The 2019 results have been represented on the same basis. An analysis of material items is included within the note to the Financial Statements.

2.1 KPIs and Alternative Performance Measures

Throughout 2020, the Board used a number of measures some of which are not statutory accounting measures to determine the performance of the Group. Total cash and term deposits along with net assets have been reduced as a result of the cash returned to shareholders. Large year on year differences in provision releases and legal fees have a direct impact upon EBITDA. Further analysis is provided in note 8 of the Financial Statements.

	Year ended 31 December 2020	Year ended 31 December 2019
	£000	£000
Cash returned to shareholders	**68,916**	–
EBITDA	**(1,359)**	(3,561)
Group net assets	**17,138**	77,692
Cash and term deposits	**16,656**	71,611
Basic loss (pence per share)	**(2.6)**	(7.2)

2.2 Business performance and results

2.2.1 Revenue and gross profit margin

The classification of ingenie as a discontinued operation resulted in their being no continuing revenue or cost of sales in the Consolidated Income Statement.

2.2.2 Operating loss

The operating loss decreased from £3.6m during 2019 to £1.4m in 2020. This is primarily a result of a reduction in legal fees (including new legal provisions) of £2.8m. Administrative expenses also included an increase in credits of £0.3m from £3.8m in 2019 to £4.1m in 2020. Further details are shown in note 8 of the Financial Statements.

2.2.3 Loss before tax

The Group has incurred a continuing loss before tax of £1.2m for the year (2019: £3.3m).

2.2.4 Cashflow

During the year, the Group continued with the placement of term deposits on a rolling basis with a major UK bank. This increases the income arising on these deposits whilst the rolling maturities ensure that we have regular deposits maturing should we require access to the cash. Accounting standards require these deposits to be classified as Term Deposits rather than cash. In monitoring and managing the Group's cash flow, we consider funds held within both Cash and Term Deposit balances.

The Group had net cash outflows, excluding the impact of movements in term deposits, of £55.4m (2019: cash inflows £22.0m) resulting in a closing balance of cash and term deposits of £16.7m (2019: £72.1m). The major cashflows in the year relate to the return of cash to shareholders and the disposals of Healthcare Services and ingenie.

	2020	2019
Year ended 31 December £m	**£m**	£m
Total cashflows from operating activities (including discontinued operations)	**(6.3)**	31.0
Non-operating cashflows relating to discontinued operations	**(2.0)**	(9.3)
Proceeds from disposals	**21.6**	–
Interest income	**0.2**	0.3
Total investing activities	**21.8**	0.3
Returned to shareholders	**(68.9)**	–
Overall net cash inflow/(outflow)	**(55.4)**	22.0
Opening cash including term deposit investments	**72.1**	50.1
Closing cash including term deposits investments	**16.7**	72.1
Analysed as:		
Term deposits	**–**	15.0
Cash	**16.7**	56.6
Cash included within assets held for sale	**–**	0.5

The overall net cash outflow and inflows above reconcile to the Consolidated Cashflow Statement as follows:

	2020	2019
Year ended 31 December £m	**£m**	£m
Overall net (decrease)/increase in cash and term deposits	**(55.4)**	22.0
Investment in term deposits	**(30.0)**	(75.0)
Maturity of term deposits	**45.0**	100.0
Net (decrease)/increase in cash and cash equivalents	**(40.4)**	47.0

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2.2.5 Balance Sheet

The net assets shown in the Statement of Financial Position at 31 December 2020 were £17.2m (2019: £77.7m).

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

Balance sheet movement summary:

	Central	Discontinued and non-underlying	Total Group
	£m	£m	£m
At 31 December 2019 (as presented)	**66.8**	**10.9**	**77.7**
Retained loss	(1.3)	(1.4)	**(2.7)**
Profit on disposal[1]	–	12.2	**12.2**
Return of capital	(68.9)	–	**(68.9)**
Dividends paid to non-controlling interests	–	(0.3)	**(0.3)**
Non-controlling interests disposed of	–	(0.2)	**(0.2)**
Other balance sheet and reserves movements including foreign exchange[2]	20.3	(21.0)	**(0.7)**
At 31 December 2020	**16.9**	**0.2**	**17.1**

1 The profit on disposal of Healthcare Services was £7.9m after a transfer from the foreign currency translation reserve of £1.9m, loss. The net impact upon net assets of the disposal was therefore £9.8m.

2 The total other balance sheet and reserves movements including foreign exchange represents the total movement presented on Other Comprehensive Income. Movements between categories primarily relate to dividends paid within the Group.

The remaining net assets within discontinued operations primarily relate to a receivable for working capital adjustments, less residual liabilities to be settled.

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

	2020	2019
As at 31 December	**£m**	£m
Cash including term deposits	**16.7**	71.6
Net assets of businesses classified as held for sale (Including preference shares)	**–**	9.9
Other net current assets/(liabilities)	**0.4**	(5.5)
Non-current assets	**–**	1.7
Net Assets	**17.1**	77.7

At 31 December 2020, other net current assets include £1.9m held in escrow as security of costs in respect of legal claims and certain assets and liabilities of the ingenie statutory entities which remained in the Group. The latter are expected to be recovered or settled during H1 2021.

2.2.6 Earnings per share

The basic and diluted EPS from continuing operations, as defined in note 12 of the Financial Statements, was a loss of 2.6 pence per share (2019: loss of 7.2 pence per share).

2.3 Going concern

The Group has significantly reduced its working capital requirement through the sale of its remaining trading businesses. Whilst significant cash has been returned to shareholders, the Group holds significant cash reserves and no debt. The Group has concluded that its cash reserves will be sufficient to fund the Group's ongoing running costs together with any future investment in litigation required.

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

2.4 Internal financial discipline

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

- Ethics. Relationships and transactions are conducted to high ethical standards. Customers, staff and suppliers are treated fairly, and transactions concluded on an arms-length basis. Regulators and the SFO are communicated with in an open and cooperative way;
- 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;
- Establishment of investment disciplines. Appropriate investment is made by the Group in order to maximise shareholder value from its assets;
- Authorisation and accountability. Matters are reserved both for 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:

Q3	Strategic review and target setting for the Group.
Q4	Detailed business planning and budget setting with. Board review and approval.
Monthly	Reporting of financial results and KPIs at subsidiary and Group level including re-forecast of the full year expected cash flows 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 2021

We intend to prepare a set of interim Financial Statements for the 6 months ending 30 June 2021.

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.

At 31 December 2020, there is no external debt finance in the business and the Group maintains sufficient liquid funds to be able to fund the future operations of the Group.

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 Key personnel and resources

The success of the Group depends to an unusually large extent upon its small executive management team and its ability to 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.

4.2 Other legal, regulatory and reputational risks

Despite the confirmation that the Company will not be prosecuted, the SFO investigation may still 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 with our suppliers including litigation partners. In addition, investigations by external agencies could also affect our ability to recruit and retain talented employees. 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.

Much of the future returns of the Group will arise out of the proceeds (if any) from its litigation assets. Whilst the Group is confident in the merits of its claims (and, where relevant, defences), as with any litigation there can be no guarantee that the actions will succeed and the dismissal of claims could give rise to adverse costs consequences.

4.3 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.

4.4 Impact of COVID-19

Following the disposal of the Group's trading businesses the impact of COVID-19 upon the Group is significantly reduced. In the medium term the recovery of the young driver market in the UK will have an impact upon the realisation of the contingent consideration of up to £2.5m from the disposal of ingenie, being based upon the business performance

Strategic Report (continued)

during 2021. Similarly, as a result of COVID-19, Healthcare Services is considered unlikely to meet its target revenues in the 12 month post disposal period and therefore no further consideration is probable.

We primarily work remotely and have experienced minimal disruption to the Group's central management.

4.5 Impact of the UK leaving the European Union

The UK left the European Union during 2020 and the transitional arrangements ceased at 31 December 2020. The Group did not experience any material impact of this during the year and, having disposed if its remaining trading business by the year end, has not encountered any material impacts since.

4.6 Climate change

The Group no longer operates trading businesses and the remaining Directors and employee use remote working where possible to reduce the impact of the Group upon the environment.

4.7 Foreign exchange

The international nature of some of the Group's operations and litigation mean that it was or 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. In addition to owning Healthcare Services which operates in Canada for the first month of 2020, the Group's Canadian subsidiary is currently engaged in a legal case in Canada, and therefore its most significant foreign currency exposure was 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.

By order of the Board

Stefan Borson

Group Chief Executive Officer and Company Secretary

Board of Directors

Richard Rose (age 65)

Non-executive Chairman

Richard Rose is Non-Executive Chairman of Escape Hunt plc 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 and Booker Group plc where he was Non-Executive Chairman. He is also Non-Executive Chairman of CurrencyFair Limited.

Stefan Borson (age 46)

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 sale of the PSD. He continues to act as Group General Counsel & Company Secretary in conjunction with his Group Chief Executive Officer role and is the sole executive director of the Company.

The Rt. Hon. Lord Howard of Lympne, CH, QC (age 79)

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. He is currently Non-Executive Chairman of South West Strategic Developments Limited.

David Young (age 59)

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, Key Retirement Group and Seven Investment Management LLP. He was Non-executive Chairman of ingenie until its disposal.

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 2020 and the remuneration policy that applies in 2021.

Remuneration Committee

Lord Howard is chairman of the Committee alongside additional members 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 once 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 package for the executive Director comprises the following main elements:

- basic annual salary;
- 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 focused on the ultimate distribution of capital to shareholders.

Remuneration of the executive Director in 2020

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 Financial Reporting Council ("FRC"), the FCA (both now terminated) and the SFO (ongoing but not now relating to the Group itself). 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 (2019: £450,000 per annum) and an entitlement to an annual bonus of up to 150% of salary. 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.

Annual bonuses of the executive management team

Mr Borson is the only member of the executive management team whose remuneration entitles him to an annual bonus. In deciding on the annual cash bonus awarded to him for 2020, the Remuneration Committee took into account his work in respect of, inter alia, the:

- strategy and handling of the legal matters the Group is pursuing in its favour;
- resolution, careful management and mitigation of other complex legacy matters both at the plc level and within our operating companies;
- disposal and restructuring of the Group's operating businesses; and
- performance of the Group's operating businesses prior to disposal.

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

For 2021, the annual discretionary bonus for Mr Borson will again 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:

- optimisation of returns from contingent assets; and
- careful cash and efficient cost management.

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

Long term incentive plan – the Distribution Incentive Scheme

The Committee believes that the Distribution Incentive Scheme focuses the executive Director on enhancing value and returning that value to shareholders and ensures alignment of the Board's and shareholders' interests.

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. 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 after 1 January 2018 in excess of a cumulative £57,205,403 (calculated as to £46,038,333 (being £1 per ordinary share) plus the increase of the hurdle due to the now historical and ceased payment of Guaranteed Elements of past annual bonuses) ("Distribution Hurdle"). The Distribution Hurdle was permanently passed during 2020 as a result of the returns of cash to shareholders. Accordingly, Mr Borson received a payment of £634,000 under the scheme. Mr Borson will be entitled to cash bonuses of 5.43% of any future distributions to shareholders. Mr Borson is the sole participant in the Distribution Incentive Scheme.

Non-executive Directors

The Non-executive Directors do not have service contracts, nor do they participate in any share option plan, 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 Mr Borson, was as follows (see note 9 to the Financial Statements):

	Salary and fees	Bonus	Contributions to personal pension schemes	Distribution incentive scheme	**Total**
2020	£000	£000	£000	£000	**£000**
Executive					
S Borson	484	675	3	634	**1,796**
Non-executive					
R Rose	183	–	–	–	**183**
M Howard	73	–	–	–	**73**
D Young	73	–	–	–	**73**
Total	**813**	**675**	**3**	**634**	**2,125**

	Salary and fees	Bonus	Contributions to personal pension schemes	Compensation for loss of office	**Total**
2019	£000	£000	£000	£000	**£000**
Executive					
S Borson[1]	482	675	7	–	**1,164**
M Williams[2]	131	–	6	320	**457**
	613	**675**	**13**	320	**1,621**
Non-executive					
R Rose	185	–	–	–	**185**
M Howard	75	–	–	–	**75**
D Young	75	–	–	–	**75**
Total	**948**	**675**	**13**	320	**1,956**

Notes

1. Bonus included the Guaranteed Element of £337,500 for the year ending 31 December 2019 increasing the hurdle relating to the Distribution Incentive Scheme to a cumulative £57,205,403.
2. Resigned 30 June 2019.

This report was approved by the Board on 5 May 2021 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 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, includes disclosure considering each principle in turn and references where the appropriate disclosure is given. The Company is currently not fully compliant with Principle 7 – specifically in connection with Board evaluation processes and succession planning, further details are provided on our website at the address above.

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 management. During the year, the Board of Directors comprised a single executive Director and three independent Non-executive Directors.

The Board meets monthly throughout the year (save in August and December when Board packs are still distributed) 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 2020, the Board held ten monthly Board meetings and a number of Board calls in between 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 once a year and is responsible for reviewing the performance of the executive Director. The Committee's report is set out on pages 12 and 13.

Nomination Committee

The Nomination Committee is chaired by Richard Rose and also consists of Lord Howard and David Young. It meets as required 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 Stefan Borson who sits alongside Richard Rose. 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 from 30 April 2021, the AQSE Access Rule Book) 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 and, where appropriate the Company's external legal advisers. 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 welcomes feedback from investors about its published reports and website. Please address your feedback to our investor relations team by e-mail to investor.relations@watchstonegroup.com or in writing to 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 pages 8 and 9.

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 2020.

Directors

The Directors who held office at 31 December 2020 were Richard Rose, Stefan Borson, 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 12 and 13.

As at 31 December 2020, the following Directors held shares in the Company: Stefan Borson (330,000), Richard Rose (100,000); 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 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 24 to the Financial Statements summarises the rights of the ordinary shares.

Substantial shareholdings

As at 4 May 2021, 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	13,460,255	29.24
Beach Point Capital Management LP	6,884,995	14.96
Sand Grove Capital Management LLP	5,179,279	11.25
M&G Plc	2,916,666	6.34
Subtotal	**28,441,195**	**61.78**

Dividends

The Directors do not recommend the payment of a final dividend (2019: 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 2020 are contained in the Corporate Governance section of this Annual Report and in the Directors' Remuneration Report on pages 12 to 15.

Corporate governance

The Group's report on Corporate Governance is on pages 14 and 15 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 52, 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

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 32 to the Financial Statements, 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.

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. David Young notified the Board that he is a director of Premium Credit Limited, with which ingenie had a trading relationship during the year. Mr Young played no part in negotiating or agreeing the terms of the relationship.

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. The Directors have included the impact of potential or actual litigation and the impact of COVID-19 in their considerations. 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 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 28 to the Financial Statements.

Political donations

The Group has not made any political donations during the year ended 31 December 2020 (2019: £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

The Directors are responsible for preparing the annual report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group and Company Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 Company and of the profit or loss of the Group for that period. The Directors are also required to prepare Financial Statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM and, from 30 April 2021, the Aquis Stock Exchange Primary Rules for the AQSE Growth Market which set out the continuing obligations of issuers once admitted to trading.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006.

Directors' Report (continued)

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

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 BDO LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting ("AGM")

The 2021 AGM will be held on 29 June 2021 in London. The Chairman of the Board and of each of its Committees will, to the extent possible with COVID-19 restrictions, be in attendance in person or on video conference at the AGM to answer questions from shareholders.

The Notice of Meeting and an explanation of the resolutions to be put to the meeting will be made available on the Company's website at **www.watchstonegroup.com** and will be posted to those shareholders registered to receive paper copies in due course.

The ongoing COVID-19 situation and the related Government restrictions will likely impact the ability of shareholders to attend the AGM in person. In normal circumstances, the Board greatly values the opportunity to meet shareholders in person.

However, the Board currently intends to conduct the AGM in a reasonable manner with the fewest possible participants. The AGM will be convened with the minimum necessary quorum of two shareholders (as arranged by the Company) in order to conduct the business of the meeting.

It is our current intention to live-stream the AGM so that shareholders will be able to follow the meeting remotely. However, this will be kept under review and subject to the Government guidance in place at the time of the AGM. For further details of how to access the AGM remotely, please email **info@watchstonegroup.com**.

Shareholders are encouraged to monitor the Company's website for any further updates in relation to arrangements for the AGM.

By order of the Board

Stefan Borson
Group Chief Executive Officer and Company Secretary

Audit Committee Report

The 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 the Group's Chief Executive Officer and Finance Director 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. Particular attention has been paid to reporting the profit on sale of Healthcare Services and of ingenie. There were two formal meetings of the Committee as well as briefing discussions with individual committee members.

Relationship with the Auditor and Change of Auditor

Shareholders approved the re-appointment of BDO at the 2020 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 BDO. As part of this review, the Committee has received and reviewed written confirmation that, in BDO's professional judgement, BDO 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. The Committee Chair has also reviewed the results of the FRC's Audit Quality Review into BDO which were published in July 2020, compared to other Big 7 firms.

2020 Audit and Financial Reporting

The Committee reviewed with both management and BDO in respect of the full year, the appropriateness of the 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 estimates made or where there has been challenge from the Auditors;
- the audit report which BDO has 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.

The Committee supports the Auditors in displaying the necessary professional scepticism their role requires and, when necessary, meets with the Auditors without the executive management 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:

- **Presentation of profits on businesses sold**
  The accounts are presented with both Healthcare Services and ingenie treated as discontinued as both were sold during the year. The disclosure of the assets and liabilities sold and the treatment of any contingent consideration in the profit disclosed on disposal has a highly material impact on the presentation of the Financial Statements.

Audit Committee Report (continued)

- **Income statement presentation and prior year restatement**
  Following the disposal of the Group's two remaining trading businesses, Healthcare Services and ingenie, the Income statement presentation has been changed as set out in section 2 of the Strategic Report and the prior year restated as set out in section 2 of that report. The Committee considered the appropriateness of this treatment.
- **Cash and term deposits**
  Given the high percentage of the Group's net assets represented by cash and term deposits and the expected return of a majority of those balances in the return of capital, the Committee considered the procedures to verify those balances.
- **Estimates of provisions required at the year end**
  The Group still has some material provisions for legal disputes and regulatory matters as shown in note 22 to the Financial Statements. The overall level of net provisions has again reduced significantly during the year as issues have been settled. 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. The Committee reviewed whether contingent liabilities and assets have been correctly treated.

Risk management and internal control

In the light of the reduction in the size of the Group, the Committee reviewed ability of the now small financial management team to prepare accurate and relevant management information and manage the Group's assets and legacy issues.

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

Opinion on the Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

We have audited the Financial Statements of Watchstone Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 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 notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions 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 under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included evaluating the following:

- The Directors' future plans in relation to the going concern assessment, including the ongoing activities of the Group subsequent to the disposal of the remaining two trading businesses and the anticipated timing of future capital distributions to shareholders. This was achieved through inspection of board minutes and enquiries of management and those charged with governance in relation to future plans and comparison of the forecast operating costs and cash flows to historic results and known commitments;
- The Directors' stress-testing of the forecasts to the extent of reasonable worst-case scenarios in relation to their estimates of planned operational costs;
- Establishing the extent to which future expenditure, particularly legal costs in relation to the pursuit of ongoing litigation, are committed and non-discretionary through procedures such as direct enquiries with the relevant law firms; and
- The adequacy and appropriateness of disclosures in the Financial Statements regarding the going concern assessment with reference to the circumstances of the entity.

We carried out the above procedures through using our understanding of the business model, objectives, strategies and related business risk, the measurement and review of the entity's financial performance, forecasting and budgeting processes and the entity's risk assessment process.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	119% (2019: 117%) of Group profit before tax. Note that the coverage exceeds 100% as the components not subject to full-scope audit by the Group engagement team contributed a net loss. 100% (2019: 99%) of Group total assets.

Key audit matters

	2020	2019
Legal cases	✓	✓
Business disposals	✓	✗
Revenue recognition	✗	✓
Presentation of held for sale assets and liabilities and discontinued operations	✗	✓

Revenue recognition is no longer considered to be a key audit matter as the two remaining trading businesses have been disposed of during the year, meaning that no revenues are presented in the Consolidated Income Statement and the business disposals negate any cut-off risk at the closing balance sheet date.

The presentation of held for sale assets and liabilities and discontinued operations is no longer considered to be a key audit matter due to the two discontinued operations having been disposed of during the year, therefore removing any judgement in relation to their presentation.

Materiality	Group Financial Statements as a whole £0.4m (2019: £1.3m) based on 2.5% of net assets (2019: 1.5% of gross assets).

1. These are areas which have been subject to a full scope audit by the group engagement team.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the Financial Statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We considered there to be three significant components including the Parent Company that were all subject to a full-scope audits by BDO LLP. Two of these components were audited by the Group engagement team, while one of these components was audited by a component auditor within BDO LLP.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group Financial Statements as a whole. Our involvement with component auditors included the following:

- The issuance of detailed instructions that included prescriptive procedures to be performed on the significant risks of material misstatement;
- Further involvement in directing the audit strategy through a review of the component auditor's work plans at the audit planning stage;
- Supervision of the audit process that included regular communication with the component auditor and a review of their audit files; and
- Attending an audit close meeting at the conclusion of the component audit.

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Legal cases The accounting policy in respect of provisions is set out on page 37 – with the critical accounting judgement described on page 39. Further information in relation to significant balance sheet items is included in the Provisions note on pages 50 and 51.	The Group has a number of ongoing legal cases. Depending on the status of the respective matters at the balance sheet date, there can be significant judgement as to whether or not there are contingent liabilities or assets to be recognised or disclosed. As at 31 December 2020, Management was of the view that, due to events during the year, there were no longer any contingent liabilities while, in situations where the Group is litigating, there is not sufficient certainty to recognise a contingent asset. Due to the judgements involved we considered this to be a key audit matter.	Having assessed their competence and independence, we wrote to each of the law firms acting on the Group's behalf and followed up with a telephone call – having assessed them as Management's experts – and received direct confirmation as to: ■ The matters that they had been engaged in during the year; ■ The status of those matters and views on the likelihood of possible outcomes; ■ Fees rendered during the year; and ■ Any unbilled fees at the balance sheet date. We also gave further consideration to the completeness of the information presented through inspecting board minutes and regulatory announcements. We used this information to assess Management's judgement as to the status of the respective cases at the balance sheet date and the financial reporting implications. We evaluated the appropriateness of the disclosures against the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. **Key observations:** We consider the judgements made by management in accounting for the ongoing legal cases and the related disclosures are appropriate.
Business disposals The accounting policy in respect of the basis of consolidation is set out on page 33. In addition, the critical accounting judgement in relation to the recognition of contingent consideration is set out on page 39. Further information in relation to significant balance sheet items is included in the Discontinued operations and disposals note on page 59.	During the year the Group disposed of both its Healthcare Services and ingenie businesses. The disposals represent material one-off transactions that are outside of the normal course of business. In addition, there is Management judgement involved in determining the extent of any contingent consideration to be recognised as an asset. We therefore considered this to be a key audit matter.	We have checked the key inputs into the profit on disposal calculations through use of information sources such as: ■ The sale and purchase agreement in order to check the consideration; ■ The completion accounts – as agreed between the Group and the respective acquirers – in order to check the net assets disposed of; and ■ Evidence of the agreement between the Group and the respective acquirers in relation to the working capital adjustment in support of the valuation of the net assets on disposal. We have obtained a paper from Management in justification of contingent consideration having not being recognised as an asset for either transaction, which was largely due to the impact of COVID-19 on their trading performance. This view was taken on the basis of their expected financial performance across the earnout period and we have assessed this judgement against the disposed businesses' recent financial performance and market conditions. We have also reviewed the key clauses in the sale and purchase agreement in considering the completeness of the financial reporting and disclosure of the transactions. **Key observations:** We consider that the business disposals have been appropriately accounted for and disclosed.

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the Financial Statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole and performance materiality as follows:

	Group financial statements		**Parent company financial statements**	
	2020	**2019**	2020	2019
	£m	**£m**	£m	£m
Materiality	0.4	1.3	0.35	0.8
Basis for determining materiality	2.5% of net assets	1.2% of gross assets	90% of group materiality	160% of group materiality
Rationale for the benchmark applied	Having disposed of the remaining trading businesses, we consider gross assets to be of most interest to the users of the financial statements in light of the Group's strategy to return capital to the shareholders. Materiality has therefore changed to a net asset basis as a reflection of this strategy.		Calculated as a percentage of Group materiality for Group reporting purposes.	
Performance materiality	70% of materiality, being £0.25m	65% of materiality, being £0.85m	70% of materiality, being £0.25m	65% of materiality, being £0.5m
Basis for determining performance materiality	Performance materiality has been increased to 70% on the basis of it being our second year as auditors and we have low expected value of known and likely misstatements.			

Component materiality

We set materiality for each component of the Group based on a percentage of between 32% and 93% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £120,000 to £350,000. In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £11,000 (2019: £39,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: ■ the information given in the Strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and ■ the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: ■ Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or ■ the Parent Company Financial Statements are not in agreement with the accounting records and returns; or ■ certain disclosures of Directors' remuneration specified by law are not made; or ■ we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the 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 the Directors 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 for the audit of the Financial Statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We focused on laws and regulations such as FCA compliance and tax legislation that could give rise to a material misstatement in the Group Financial Statements and the susceptibility of the entity's Financial Statements to material misstatement including fraud, such as any provisions relating to legal matters or contingent consideration. Our procedures included, but were not limited to:

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

- Evaluation of management incentives and opportunities for fraudulent manipulation of the Financial Statements including management override. This included gaining an understanding of management remuneration schemes and the extent to which remuneration is influenced by reported results;
- This evaluation involved a particular focus on the judgements and estimates inherent in the key audit matters and exercising professional scepticism in considering the impact of those estimates and judgements on the reported results and key performance measures;
- Discussions with Management and the Audit Committee regarding known or suspected instances of non-compliance with laws and regulations;
- Obtaining an understanding of controls designed to prevent and detect irregularities;
- Review of board meeting minutes for any evidence of fraud or non-compliance with laws and regulations including FCA compliance and taxation regulations; and
- Assessment of journal entries to accounts that are considered to carry a greater risk of fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team and component auditor team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the Financial Statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we are to become aware of it.

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

Use of our report

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

Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton
United Kingdom
5 May 2021

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

Financial Statements

Consolidated Income Statement

for the year ended 31 December 2020	Note	**2020 Total £000**	2019 Total £000
Administrative expenses	8	**(1,361)**	(3,606)
Group operating loss		**(1,361)**	(3,606)
Finance income	10	**169**	352
Finance expense	10	**(12)**	(69)
Loss before taxation		**(1,204)**	(3,323)
Taxation	11	**–**	3
Loss after taxation for the year from continuing operations		**(1,204)**	(3,320)
Net gain on disposal of discontinued operations	31	**10,268**	–
(Loss)/profit for the year from discontinued operations, net of taxation	31	**(1,381)**	34,214
Profit/(loss) after taxation for the year		**7,683**	30,894
Attributable to:			
Equity holders of the parent		**7,683**	30,869
Non-controlling interests		**–**	25
		7,683	30,894
Earnings per share (pence):			
Basic	12	**16.7**	67.1
Diluted	12	**16.7**	67.1
Loss per share from continuing operations (pence):			
Basic	12	**(2.6)**	(7.2)
Diluted	12	**(2.6)**	(7.2)

The accompanying notes form part of the Financial Statements.

Financial Statements (continued)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020	**2020**	2019
	£000	£000
Profit after taxation	**7,683**	30,894
Items that may be reclassified in the Consolidated Income Statement		
– Exchange differences on translation of foreign operations	**(688)**	(6)
Total comprehensive income for the year	**6,995**	30,888
Attributable to:		
Equity holders of the parent	**6,995**	30,856
Non-controlling interest	**–**	32
	6,995	30,888

The accompanying notes form part of the Financial Statements.

Consolidated Statement of Financial Position

as at 31 December 2020	Note	2020 £000	2019 £000
Non-current assets			
Goodwill	14	–	–
Other intangible assets	13	–	819
Property, plant and equipment	15	–	646
Other receivables		–	260
		–	1,725
Current assets			
Inventories	17	–	435
Corporation tax	11	**81**	178
Trade and other receivables	18	**2,468**	2,777
Term deposits	19	–	15,000
Cash	20	**16,656**	56,611
		19,205	75,001
Assets of disposal group classified as held for sale	31	–	27,601
Total current assets		**19,205**	102,602
Total assets		**19,205**	104,327
Current liabilities			
Trade and other payables	21	**(1,808)**	(4,719)
Provisions	22	**(258)**	(4,147)
		(2,066)	(8,866)
Liabilities of disposal group classified as held for sale	31	–	(17,749)
Total current liabilities		**(2,066)**	(26,615)
Non-current liabilities			
Provisions	22	–	(19)
Deferred tax liabilities	23	**(1)**	(1)
		(1)	(20)
Total liabilities		**(2,067)**	(26,635)
Net assets		**17,138**	77,692
Equity			
Share capital	24	**4,604**	4,604
Other reserves	25	**69,752**	137,486
Retained earnings	25	**(57,222)**	(64,905)
Equity attributable to equity holders of the parent		**17,134**	77,185
Non-controlling interests		**4**	507
Total equity		**17,138**	77,692

The Financial Statements of Watchstone Group plc, registered number 05542221, on pages 27 to 74 were approved and authorised for issue by the Directors on 5 May 2021 and signed on its behalf by:

Stefan Borson
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 2020	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 2020	4,604	127,251	(10,024)	22,988	(2,729)	137,486	(64,905)	77,185	507	77,692
Profit for the year	–	–	–	–	1,870	1,870	7,683	9,553	–	9,553
Other comprehensive loss	–	–	–	–	(688)	(688)	–	(688)	–	(688)
Total comprehensive income	–	–	–	–	1,182	1,182	7,683	8,865	–	8,865
Capital reduction	–	(68,916)	–	–	–	(68,916)	68,916	–	–	–
Return of capital	–	–	–	–	–	–	(68,916)	(68,916)	–	(68,916)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(287)	(287)
Non-controlling interests disposed of	–	–	–	–	–	–	–	–	(216)	(216)
Total transactions with owners, recognised directly in equity	–	(68,916)	–	–	–	(68,916)	–	(68,916)	(503)	(69,419)
At 31 December 2020	4,604	58,335	(10,024)	22,988	(1,547)	69,752	(57,222)	17,134	4	17,138

The accompanying notes form part of the Financial Statements.

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2019	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 2019	4,604	127,251	(10,024)	23,316	(2,716)	137,827	(96,288)	46,143	661	46,804
Profit for the year	–	–	–	–	–	–	30,869	30,869	25	30,894
Other comprehensive loss	–	–	–	–	(13)	(13)	–	(13)	7	(6)
Total comprehensive income	–	–	–	–	(13)	(13)	30,869	30,856	32	30,888
Preference shares repaid and not converted	–	–	–	–	–	–	186	186	(186)	–
Expiration of share options	–	–	–	(328)	–	(328)	328	–	–	–
Total transactions with owners, recognised directly in equity	–	–	–	(328)	–	(328)	514	186	(186)	–
At 31 December 2019	4,604	127,251	(10,024)	22,988	(2,729)	137,486	(64,905)	77,185	507	77,692

The accompanying notes form part of the Financial Statements.

Financial Statements (continued)

Consolidated Cash Flow Statement

for the year ended 31 December 2020	Note	**2020** £000	2019 £000
Cash flows from operating activities			
Cash used in operations, net finance expense and tax	26	**(6,283)**	30,977
Net cash (used by)/generated from operating activities		**(6,283)**	30,977
Cash flows from investing activities			
Purchase of property, plant and equipment		**(790)**	(5,732)
Purchase of intangible fixed assets		**(618)**	(693)
Disposal of subsidiaries net of cash foregone		**–**	–
Investment in term deposits		**(30,000)**	(75,000)
Maturity of term deposits		**45,000**	100,000
Interest income		**170**	333
Disposal of subsidiaries		**21,617**	–
Net cash generated by investing activities		**35,379**	18,908
Cash flows from financing activities			
Finance expense paid		**(451)**	(1,052)
Finance income received		**42**	56
Redemption of preference shares		**–**	(1,832)
Return of capital		**(68,916)**	–
Dividends paid to non-controlling interests		**(287)**	–
Net cash used in financing activities		**(69,612)**	(2,828)
Net (decrease)/increase in cash and cash equivalents		**(40,516)**	47,057
Cash and cash equivalents at the beginning of the year	20	**57,176**	10,113
Exchange gains on cash and cash equivalents		**(4)**	6
Cash and cash equivalents at the end of the year	20	**16,656**	57,176

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 31.

At 31 December 2019, the Group cash and cash equivalents of £57,176,000 included £565,000 within assets held for sale.

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 4.

2. Significant accounting policies

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

Basis of preparation

These Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 will be sufficient to fund the ongoing litigation and operations of the Group's business together with any future investment needs of the business.

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

Basis of Consolidation

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

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

Business Combinations

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.

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. Upon disposal of overseas operations realised exchange within the foreign currency translation reserve is transferred to retained earnings.

Notes to the Financial Statements (continued)

Other than as noted above discontinued operations follow the same accounting policies as the rest of the Group, as set out as follows.

Revenue recognition – all within discontinued operations

The Group received 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 – Healthcare 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, and therefore right to consideration, is to treat and successfully discharge the patient. Each treatment of a patient is not separated into 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.

Telematics services and devices – ingenie
Goods and services, such as the provision of telematics devices and associated data 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. 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 and fees – ingenie
Broking commissions and fees for insurance business represent a performance obligation met a point in time, being either upon inception of the insurance policy, cancellation or change in vehicle, since at this point the Group has met its obligations to the insurer. Commission amounts are receivable as a single amount upon inception and are subject to clawback as detailed below.

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 – ingenie and Healthcare Services
When persuasive evidence of a contract exists, the performance obligations within the agreement are assessed. If insufficient evidence exists, then no revenue is recognised. The product and services are highly interrelated, and it is not possible to separate the performance obligations within each contract. For example, the provision of a software licence and services to configure the system for use by the customer. 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.

Contract amendments
Where further agreements in respect of licence fees and SaaS 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. This typically occurs when negotiating an extension to an existing contract.

Marketing expenses

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

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.

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.

Other intangible assets

Intangible assets with finite useful lives are initially measured at cost, or their fair value on the acquisition date if acquired in a business combination. 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.

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.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. On other assets, depreciation is calculated to write off the cost less estimated residual values over their estimated useful lives as follows:

Notes to the Financial Statements (continued)

- 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 are depreciated at 20%-33⅓% per annum reducing balance.

Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the expected term of the relevant lease, further details are provided in note 3. 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.

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. Goodwill is tested for impairment annually, regardless of if an indicator of impairment exists. 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.

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

At inception of a contract the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight line method from the lease commencement date to the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially valued at the present value of lease payments that are not paid at the commencement date, discounted at a borrowing rate equivalent to a similar loan in the same territory as the right-of-use asset, being the incremental borrowing rate at the date of inception. Lease payments included in the calculation of the lease liability include payments in optional renewal periods if the Company reasonably expects they will be exercised. Variable payments are only included in the measurement of the lease liability if they depend on an index or rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate or if there is a change in the Company's assessment of the likelihood of a renewal option being exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset or is recorded in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets within property, plant and equipment and lease liabilities within borrowings in the Statement of Financial Position.

Leases of low value assets:
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets. The lease payments associated with these items is recognised on a straight line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials 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 into 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 uses 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 historical observable default rates, adjusted by forward looking estimates of the economic environment within the next twelve months.

Trade payables

Trade payables do not carry any interest and are recognised initially 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.

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. Term deposits do not qualify as cash since they are not held with a view to meeting the short term cash requirements of the Group.

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 (non-controlling interests) at initial fair value and is not remeasured.

Notes to the Financial Statements (continued)

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.

Contingent consideration

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

3. Adoption of new and revised Standards

There are no new standards impacting the Group for the year ended 31 December 2020.

Standards, amendments and interpretations not yet adopted

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the company has decided not to adopt early. The following is effective for the period beginning 1 January 2021 and is not expected to have a material impact upon the Financial Statements of the Company:

- IFRS 17 'Insurance Contracts'

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The Company does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities.

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 and judgement: Legal cases

The Group is involved with a number of actual or potential legal cases which, if successful, could result in material cash inflows to the Group. The relative merits of these cases and the assessment of their likely outcome is highly judgemental by nature. Similarly, management recognise the hurdle set by accounting standards to recognise an asset or disclose a contingent asset is very high and therefore neither is recognised or disclosed within these Financial Statements.

Judgement: Recognition of contingent consideration due on disposals

The disposal of ingenie included an element of contingent consideration of up to £2,500,000. The receipt of this is contingent upon the revenue of the disposed business during 2021 exceeding a predetermined level. Given the impact of COVID-19 and in particular the cessation of driving tests during periods of lockdown it is not considered probable at 31 December 2020 the contingent consideration will be received. Accordingly, no amount has been recognised within the profit on disposal calculations presented.

Judgement: Recognition of liabilities arising under the Distribution Incentive Scheme

As discussed in the Directors' Remuneration Report on pages 12 and 13 the Group Chief Executive Officer is entitled to 5.43% of any distribution over and above a prescribed distribution hurdle ("DIS Hurdle") which was first exceeded during the year. Accordingly, a payment of £634,000 was made to Mr Borson during 2020 as a result of the second return of cash breaching the DIS Hurdle. No amounts have been recognised in these Consolidated Financial Statements in respect of any future payments as it is the judgement of management that the liability does not crystallise, and is materially uncertain, until Court approval has been obtained for the related capital reduction and cash return and furthermore, any distribution (and therefore incentive payment) is made at the discretion of the Group. The impact of this judgement is 5.43% of future amounts distributed.

5. Key performance indicators

	2020	2019
Year ended 31 December	**£000**	£000
Cash returned to shareholders	**(68,916)**	–
EBITDA	**(1,359)**	(3,561)
Group net assets	**17,138**	77,692
Cash and term deposits (continuing businesses)	**16,656**	71,611
Basic loss (pence per share)	**(2.6)**	(7.2)

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	2020	2019
	£000	£000
EBITDA	**(1,359)**	(3,561)
Depreciation and amortisation	**(2)**	(45)
Group operating loss	**(1,361)**	(3,606)

Notes to the Financial Statements (continued)

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). The Group historically operated two segments, being Healthcare Services and ingenie. During the year ended 31 December 2020 both of these segments were disposed of and therefore neither form reportable segments.

	United Kingdom	**Canada**	**Rest of World**	**Total**
Year ended 31 December 2020	**£000**	**£000**	**£000**	**£000**
Total non-current assets	**–**	**–**	**–**	**–**
Capital expenditure				
Tangible assets	**790**	**–**	**–**	**790**
Intangible assets	**618**	**–**	**–**	**618**

	United Kingdom	**Canada**	**Rest of World**	**Total**
Year ended 31 December 2019	£000	£000	£000	£000
Total non-current assets	1,725	–	–	1,725
Capital expenditure				
Tangible assets	1,264	4,468	–	5,732
Intangible assets	536	283	–	819

7. Operating loss

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

	2020	2019
	£000	£000
Depreciation of property, plant and equipment	**2**	45
Amortisation of intangible assets	**–**	–
Net foreign exchange loss	**12**	73
Auditor’s remuneration	**189**	284
Unused provisions released:	**(3,533)**	(2,439)
Staff costs, continuing business (note 9)	**2,854**	2,470

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

	2020	2019
	£000	£000
Fees payable to the Company’s Auditor and its associates for the audit of the Parent Company and Consolidated Financial Statements	**52**	55
Fees payable to the Company’s Auditor and its associates for other services:		
– Additional amounts in relation to the prior year audit	**43**	45
– The audit of the Company’s subsidiaries	**65**	146
– Corporate finance services	**29**	–
– Other assurance services	**–**	9
– Taxation compliance services	**–**	29
	189	284

8. Administrative expenses

	2020	2019
Year ended 31 December	£000	£000
Administrative expenses include:		
– Legal expenses	**1,578**	4,419
– Releases of provisions for legal expenses and tax related matters	**(3,503)**	(2,797)
– Legal settlements	**(617)**	(1,026)
– Restructuring	**79**	123
	(2,463)	719

For the year ended 31 December 2020, legal expenses primarily relate to the costs of actual or proposed litigation where the Group is the Claimant. No provisions are made in respect of the costs of such actions since the Group is not obliged to continue to pursue them.

The release of provisions for legal fees in 2020 relates to the discontinued SFO investigation into the Company and potential class action. Further details are included in note 22.

During the year ended 31 December 2019, legal expenses includes £3,701,000 of additional legal fee provisions in respect of legal claims, £3,412,000 of which was utilised during the year in achieving settlement with S&G. The settlement resulted in £2,797,000 of provision releases. Further details are provided in note 22.

The legal settlement credits of £617,000 and of £1,026,000 during 2019 relate to settlements with former management for which further details are provided in note 32.

For the year ended 31 December 2019, the restructuring expense of £123,000 is stated after taking into account the release of unused provisions of £211,000.

9. Employee numbers and staff costs

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

	2020	2019
	Number	Number
Front office technology, consulting and outsourcing	**43**	650
Back office management and administration	**11**	20
	54	670

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

	2020	2019
	£000	£000
Emoluments	**2,124**	1,736
Compensation for loss of office	**–**	220

The emoluments of the highest paid Director were £1,795,000 (2019: £1,164,000). One Director received £3,000 (2019: two Directors a total of £13,000) in connection with contributions to pension schemes. Further details are provided in the Directors' Remuneration Report and in particular the tables on page 13 form part of this note to the Financial Statements.

Notes to the Financial Statements (continued)

Total employee costs for both continuing and discontinued operations were as follows:

	2020	2019
	£000	£000
Wages and salaries	**4,539**	25,878
Social security costs	**382**	1,929
Pension costs	**154**	217
	5,075	28,024

Included in the total above are £618,000 (2019: £536,000) of salaries which were capitalised during the year in relation to software development.

10. Net finance income

Continuing operations:

	2020	2019
Year ended 31 December	£000	£000
Bank interest receivable	**169**	352
Total interest receivable	**169**	352
Foreign exchange loss on intercompany loans	**(12)**	(69)
Other interest payable	**–**	–
Total interest payable	**(12)**	(69)
Net finance income	**157**	283

11. Taxation

Continuing operations:

	2020	2019
Year ended 31 December	£000	£000
The taxation credit comprises:		
Current tax:		
– Current year	**–**	(3)
– Adjustments in respect of prior years	**–**	(178)
Total current tax credit	**–**	(181)
Deferred tax expense:		
– Origination and reversal of temporary differences	**–**	77
– Adjustments in respect of prior year	**–**	(77)
Deferred tax credit	**–**	–
Total tax credit	**–**	(181)

Income tax for the UK is calculated at the standard rate of UK corporation tax of 19.0% (2019: 19.0%) on the estimated assessable profit for the year. The total charge for the year can be reconciled to the accounting profit as follows:

	2020	2019
	£000	£000
Profit/(loss) on before tax from continuing operations	**7,683**	(6,629)
Tax at 19.0% (2019: 19.0%) thereon	**1,460**	(1,259)
Effect of:		
Expenses not deductible for tax purposes	**88**	608
Losses eliminated on disposal	**138**	–
Unrecognised deferred tax on losses and fixed assets	**–**	1,102
Movement on provisions and movement on impairments	**(664)**	(374)
Movement on unrecognised deferred tax	**675**	–
Effect of lower tax rate overseas	**–**	(3)
Disposal of subsidiaries	**(1,697)**	–
Adjustments to tax charge in respect of prior periods	**–**	(255)
Total tax credit for the year	**–**	(181)

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.

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 intangibles that is expected to be deductible for tax for continuing business is £nil (2019: £725,0000). At the Statement of Financial Position date, there are unrecognised deferred tax assets of £9,550,000 (2019: £9,175,000).

Factors affecting future tax charges

The UK corporation tax rate reduced to 19% with effect from 1 April 2017. An additional reduction to 17% (due to be effective 1 April 2020) was substantively enacted on 6 September 2016. In March 2020 the Chancellor announced that the 17% reduction will not go ahead and the rate will remain at 19%. The rate of 19% was substantively enacted on 17 March 2020. The deferred balances have been recognised at 19% at the year end.

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:

	2020	2019
	£000	£000
Profit attributable to ordinary shareholders[a]	**7,683**	30,869
Less: Net loss from discontinued operations (including profit on disposal from discontinued operations) attributable to ordinary shareholders[c]	**(8,887)**	(34,189)
Loss attributable to ordinary shareholders from continuing activities[b]:	**(1,204)**	(3,320)
Basic weighted average number of shares	**46,038,333**	46,038,333
Dilutive potential ordinary shares	**–**	–
Diluted weighted average number of shares	**46,038,333**	46,038,333

There are no potentially exercisable options at 31 December 2019 or 31 December 2020.

	2020	2019
	Pence	**Pence**
(a) Profit per share (pence):		
– Basic	**16.7**	67.1
– Diluted	**16.7**	67.1
(b) Loss per share from continuing operations (pence):		
– Basic	**(2.6)**	(7.2)
– Diluted	**(2.6)**	(7.2)
(c) Earnings per share from discontinued operations (pence):		
– Basic	**19.3**	74.3
– Diluted	**19.3**	74.3

13. Intangible assets

	Note	2020 £000	2019 £000
Other intangible assets		–	819
Goodwill	14	–	–
		–	819

The movement in other intangible assets was as follows:

	Customer contracts, data, brands and relationships £000	IPR, software and licences £000	Total £000
Cost			
At 1 January 2019	6,332	6,649	12,981
Additions – purchased	–	80	80
Transfer to contract assets	–	(254)	(254)
Additions – internally generated	–	739	739
Disposals	–	(6)	(6)
Exchange differences	26	43	69
Transfer to assets held for sale	(3,558)	(4,397)	(7,955)
At 1 January 2020	**2,800**	**2,854**	**5,654**
Additions – internally generated	**–**	**618**	**618**
Disposals	**(2,800)**	**(3,472)**	**(6,272)**
At 31 December 2020	**–**	**–**	**–**
Amortisation			
At 1 January 2019	5,939	3,898	9,837
Charge for the year	151	1,398	1,549
Disposals	–	(6)	(6)
Exchange differences	19	8	27
Transfer to assets held for sale	(3,309)	(3,263)	(6,572)
At 1 January 2020	**2,800**	**2,035**	**4,835**
Charge for the year	**–**	**247**	**247**
Disposals	**(2,800)**	**(2,282)**	**(5,082)**
At 31 December 2020	**–**	**–**	**–**
Net book value			
31 December 2020	**–**	**–**	**–**
31 December 2019	–	819	819

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.

Amortisation relating to discontinued activities during the year ended 31 December 2020 was £247,000 (2019: £1,549,000).

Notes to the Financial Statements (continued)

14. Goodwill

The movement in goodwill is as follows:

	Goodwill
	£000
Cost	
At 1 January 2019	96,063
Exchange differences	415
Transfer to assets held for sale	(37,328)
At 1 January 2020	**59,150**
Disposals	**(59,150)**
At 31 December 2020	**–**
Impairment	
At 1 January 2019	87,906
Exchange differences	323
Transfer to assets held for sale	(29,079)
At 1 January 2020	**59,150**
Disposals	**(59,150)**
At 31 December 2020	**–**
Net book value	
31 December 2020	**–**
31 December 2019	–

15. Property, plant and equipment

	Freehold land and buildings	Right of use assets	Leasehold land and buildings	Plant and equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2019	299	–	3,089	7,232	10,620
Adoption of IFRS 16 (note 3)	–	15,398	–	–	15,398
Additions	14	–	1,227	1,382	2,623
Disposals	–	–	(616)	(3,576)	(4,192)
Transfer to assets held for sale	(316)	(15,571)	(3,031)	(3,267)	(22,185)
Exchange differences	3	174	(326)	38	(111)
At 1 January 2020	**–**	**1**	**343**	**1,809**	**2,153**
Additions	**–**	**–**	**–**	**790**	**790**
Disposals	**–**	**(1)**	**(343)**	**(2,599)**	**(2,943)**
At 31 December 2020	**–**	**–**	**–**	**–**	**–**
Depreciation					
At 1 January 2019	91	–	2,253	6,422	8,766
Charge for the year	10	2,246	447	977	3,680
Disposals	–	–	(316)	(3,181)	(3,497)
Transfer to assets held for sale	(102)	(2,219)	(2,069)	(3,090)	(7,480)
Exchange differences	1	(27)	28	36	38
At 1 January 2020	**–**	**–**	**343**	**1,164**	**1,507**
Charge for the year	**–**	**1**	**–**	**611**	**612**
Disposals	**–**	**(1)**	**(343)**	**(1,775)**	**(2,119)**
At 31 December 2020	**–**	**–**	**–**	**–**	**–**
Net book value					
31 December 2020	–	–	–	–	–
31 December 2019	–	1	–	645	646

There were no material commitments for the acquisition of property, plant or equipment at either 31 December 2020 or 31 December 2019. Depreciation of £877,000 (2019: £2,508,000) was charged in the year on assets of the disposal groups prior to being classified as held for sale.

Right of use assets relate to land and buildings.

Telematics devices which are included as part of the services to end users were held with a net book value of £nil (2019: £653,000) on which depreciation of £606,000 (2019: £782,000) was charged in the year. The depreciation on these devices is included within Discontinued Operations.

Notes to the Financial Statements (continued)

16. Investments

	Fair value degree observable	2020	2019
		£000	£000
Investments carried at fair value	Level 3	–	–

In note 28, 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 39.

	Shares in investments
	£000
Cost	
At 1 January 2019	4,323
At 31 December 2019 and 31 December 2020	**4,323**
Impairment	
At 1 January 2019	4,323
At 31 December 2019 and 31 December 2020	**4,323**
Net book value	
31 December 2020	**–**
31 December 2019	–

Details of the fixed asset investment of the Group and of subsidiary undertakings are provided in note 39.

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

	2020	2019
	£000	£000
Telematics devices held pending fitting	–	435
	–	435

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

	2020	2019
	£000	£000
Trade receivables (net of impairment provision)	**81**	244
Other receivables	**2,352**	1,931
Prepayments	**35**	602
	2,468	2,777

At both 31 December 2020 and 2019, 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 28.

19. Term deposits

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

	2020	2019
	£000	£000
Term deposits	**–**	15,000
	–	15,000

20. Cash and cash equivalents

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

	2020	2019
	£000	£000
Cash	**16,656**	56,611
	16,656	56,611
Amounts classified as held for sale		
Cash	**–**	565
	16,656	57,176

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

	2020	2019
	£000	£000
Current liabilities		
Trade payables	**194**	729
Payroll and other taxes including social security	**70**	84
Accruals	**1,304**	2,003
Contract liabilities	**–**	1,453
Other liabilities	**240**	450
	1,808	4,719

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.

The movement in lease liabilities is as follows:

	£000
At 1 January 2019	–
Adoption of IFRS 16	15,398
Interest	781
Payments	(2,375)
Foreign exchange	187
Transfer to discontinued operations	(13,990)
At 1 January 2020	**1**
Payments	**(1)**
At 31 December 2020	**–**

22. Provisions

	Tax related matters	Legal disputes	Onerous contracts	Other	Total
	£000	£000	£000	£000	£000
At 1 January 2019	1,700	8,207	87	1,410	11,404
Additional provisions	–	3,701	47	409	4,157
Unused amounts released	(1,700)	(127)	–	(1,010)	(2,837)
Used during the year	–	(7,978)	(48)	(534)	(8,560)
Exchange movements	–	–	2	–	2
At 1 January 2020	**–**	**3,803**	**88**	**275**	**4,166**
Additional provisions	**–**	**–**	**–**	**1,100**	**1,100**
Unused amounts released	**–**	**(3,503)**	**(30)**	**–**	**(3,533)**
Used during the year	**–**	**(100)**	**–**	**(1,136)**	**(1,236)**
Disposals	**–**	**–**	**–**	**(239)**	**(239)**
At 31 December 2020	**–**	**200**	**58**	**–**	**258**
Split:					
Non-current	–	–	–	–	–
Current	–	200	58	–	258

Tax related matters

During 2019, as part of the settlement announced on 19 October 2019 with S&G (see note 31), S&G assumed the liability for historical disputed VAT amounts against which S&G had previously been indemnified for by the Group in respect of the disposal of the PSD. Consequently, the remaining provision was reversed.

Legal disputes and regulatory matters

It is the policy of the Group to provide for legal costs in cases where the Group is (or would be) the defendant, 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.

The provision as at 31 December 2019 represented the costs of additional legal fees in respect of the Group's defence against any proposed class action and in respect of the investigation by the SFO. On 27 April 2020, the SFO informed the Company of its decision not to proceed to prosecute the Company for criminal offences in respect of those matters which were the subject of the investigation. The investigation continues and the Group continues to co-operate fully.

In respect of the proposed class action the Group has received no further correspondence since November 2019 nor objections during the 2020 Court approved capital reduction processes. Further details are included in note 30.

Since the SFO is not proceeding to prosecute the Company and the putative class action has not proceeded, all defence costs provided at 31 December 2019, other than those utilised during the year and the estimated costs of continuing to support the SFO with their enquiries with which the Company is obliged to do, have been released to the income statement.

The future costs of assisting the SFO with their enquiries may ultimately be different from the amount provided at 31 December 2020.

During the year ended 31 December 2019, additional provisions and amounts used during the year in the table above primarily relate to higher than expected legal costs in the defence of the claim from S&G settled during the year.

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. Similarly, in such legal cases where the Group is the claimant and has indemnified a third party, potential future costs associated with the indemnification are not provided for.

Onerous contracts

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. At 31 December 2020, the provision relates exclusively to the maximum exposure remaining under onerous property leases, the timing of which may be reliably determined. These are expected to be resolved in full during the next twelve months.

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. At 31 December 2019, these primarily relate to policy cancellations within the ingenie business which are based upon historic experience and is limited to one year from policy inception. These obligations were disposed of as part of the disposal of the ingenie business. Further details are provided in note 31.

Notes to the Financial Statements (continued)

23. 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 2019	101	(100)	1
Credit to Income Statement	(70)	70	–
At 1 January 2020	**31**	**(30)**	**1**
Credit to Income Statement	**(31)**	**30**	**(1)**
At 31 December 2020	**–**	**–**	**–**

	2020	2019
	£000	£000
Deferred tax liabilities	–	1
	–	1

At the Statement of Financial Position date, there are unrecognised deferred tax assets of £9,550,000 (2019: £9,175,000).

24. Share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
	'000	£000	£000	£000
At 1 January 2020 and 31 December 2020	**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.

25. Reserves

	2020	2019
	£000	£000
Share premium account	**58,335**	127,251
Reverse acquisition and merger reserve	**(10,024)**	(10,024)
Other equity reserves	**22,988**	22,988
Foreign currency translation reserve	**(1,547)**	(2,729)
Total other reserves	**69,752**	137,486
Retained earnings	**(57,222)**	(64,905)
Non-controlling interests	**4**	507

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.

During 2020 the Company undertook two separate capital reductions to enable a return of capital to shareholders. The effect of this was to reduce share premium by £68,916,000.

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 disposal of Healthcare Services during 2020 resulted in the cumulative historic gains and losses arising upon translation of this businesses results and net assets since acquisition, denominated in Canadian dollars, to be realised. Accordingly, £1,870,000 of loss was transferred to profit and loss and recognised within the profit arising upon disposal. Further details are provided in note 31.

Other equity reserves comprise:

	Equity reserve	Share-based payments	Share consideration reserve	Total other equity reserves
	£000	£000	£000	£000
At 1 January 2019	54	328	22,934	23,316
Expiration of share options	–	(328)	–	(328)
At 1 January 2020 and 31 December 2020	**54**	**–**	**22,934**	**22,988**

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 or when options expire.

Notes to the Financial Statements (continued)

26. Cash flow from operating activities

	2020	2019
	£000	£000
Profit/(loss) after tax	**7,683**	30,894
Tax	**–**	(165)
Net finance expense/(income)	**239**	736
Operating profit/(loss)	**7,922**	31,465
Adjustments for:		
– Share-based payments	**–**	–
– Depreciation of property, plant and equipment	**612**	3,697
– Amortisation of intangible assets	**247**	1,550
– Impairment of goodwill	**–**	–
– Impairment of other intangible assets	**–**	–
– Loss on disposal of plant, property and equipment	**824**	679
– Loss on disposal of intangibles	**–**	–
– Profit on disposal subsidiary undertakings and operations (note 32)	**(10,268)**	–
Operating cash flows before movements in working capital and provisions	**(663)**	37,391
Decrease in inventories	**435**	–
Decrease in trade and other receivables	**5,702**	484
Decrease in trade and other payables	**(11,757)**	(6,898)
Cash used by operations before exceptional costs	**(6,283)**	30,977

27. 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
2019					
Cash	10,113	–	47,069	(571)	56,611
Overdrafts and bank loans	–	–	–	–	–
Cash and cash equivalents	10,113	–	47,069	(571)	56,611
Other secured loans > 1 year	–	–	–	–	–
Cumulative redeemable preference shares < 1 year	(2,209)	–	1,832	377	–
Cumulative redeemable preference shares > 1 year	(1,278)	–	–	1,278	–
Net funds	6,626	–	48,901	1,084	56,611

	1 January	**Acquisitions & Disposals**	**Cash flow movements**	**Non-cash movements**	**31 December**
	£000	**£000**	**£000**	**£000**	**£000**
2020					
Cash	**56,611**	**(565)**	**(39,386)**	**(4)**	**16,656**
Overdrafts and bank loans	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**56,611**	**(565)**	**(39,386)**	**(4)**	**16,656**
Net funds	**56,611**	**(565)**	**(39,386)**	**(4)**	**16,656**

28. 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:

	Financial assets	Other liabilities	Total carrying value	Total fair value
	£000	**£000**	**£000**	**£000**
At 31 December 2020				
Trade and other receivables	**2,433**	**–**	**2,433**	**2,433**
Trade and other payables	**–**	**(264)**	**(264)**	**(264)**
Term deposits	**–**	**–**	**–**	**–**
Cash and cash equivalents	**16,656**	**–**	**16,656**	**16,656**

	Financial assets	Other liabilities	Total carrying value	Total fair value
	£000	£000	£000	£000
At 31 December 2019				
Trade and other receivables	244	–	244	244
Trade and other payables	–	(813)	(813)	(813)
Term deposits	15,000	–	15,000	15,000
Cash and cash equivalents	56,611	–	56,611	56,611

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

(a) The fair value of cash and cash equivalents and term deposits is equivalent to the carrying value due to the short-term nature of those instruments; and

(b) 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 financial assets 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.

Term deposits and amounts are held with major UK banks.

(b) Fair value hierarchy

The Group's financial instruments which are carried at fair value comprise available for sale investments in unlisted companies. 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 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:

Notes to the Financial Statements (continued)

- 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

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.

	2020	2019
	£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:

The following are the contractual maturities of financial liabilities:

	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**
	£000	**£000**	**£000**	**£000**	**£000**
Non-derivative financial liabilities					
2020					
Trade and other payables	**264**	**(264)**	**(264)**	**–**	**–**
	264	**(264)**	**(264)**	**–**	**–**

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
2019					
Trade and other payables	813	(813)	(813)	–	–
	813	(813)	(813)	–	–

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 and the proceeds from realisation of 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 investment expenditure.

Credit risk

Having disposed of its trading businesses the Group is not subject to significant concentration of credit risk in respect of end customers. The remaining trade Receivable balances at 31 December 2020 relate to legacy balances not transferred as part of the disposal of ingenie and were collected in 2021. 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 held in a UK regulated bank with a higher credit rating.

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

		2020	2019
	Note	**£000**	£000
Non-derivative financial assets			
Other receivables	18	**2,352**	1,931
Trade receivables	18	**81**	244
Term deposits	19	**–**	15,000
Cash and cash equivalents	20	**16,656**	56,611
		19,089	73,786

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

	2020	2019
	£000	£000
UK	**81**	244
Canada	**–**	–
	81	244

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

	2020	2019
	£000	£000
Sterling	**81**	244
Canadian Dollar	**–**	–
	81	244

The ageing of trade and other receivables at 31 December 2020 was as follows:

	2020 Gross	**2020 Impairment**	**2020 Net**	2019 Gross	2019 Impairment	2019 Net
	£000	**£000**	**£000**	£000	£000	£000
Under 1 year	**81**	**–**	**81**	441	197	244
1-2 years	**–**	**–**	**–**	–	–	–
	81	**–**	**81**	441	197	244

Notes to the Financial Statements (continued)

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

	2020	2019
	£000	£000
At 1 January	**197**	153
Provision for receivables impairment	**480**	197
Receivables written off	**–**	–
Unused amounts reversed	**(588)**	(42)
Transfer to assets held for sale	**(89)**	(119)
Exchange differences	**–**	8
At 31 December	**–**	197

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.

29. 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 2020.

30. Contingent assets and liabilities

Litigation in relation to the historic activities of the Group is being pursued including claims against PricewaterhouseCoopers LLP and Aviva Canada Inc. The Group expects to initiate a claim against its former auditor, KPMG LLP, in respect of its audit of the Group's accounts for the year ended 31 December 2013. These give rise to contingent assets, which are not recognised within the Financial Statements due to lack of certainty as to the outcome, despite an inflow of economic benefit being considered probable.

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.

During the year ended 31 December 2019, a firm purporting to act for a group of twelve individuals wrote a "Notice of intended claim" to the Company ("Notice"). The Notice related to potential pursuit of a claim arising under section 90A and Schedule 10A of the Financial Services and Markets Act 2000. However, it provided no information to support the validity or valuation of the individual prospective claimants' claims, which they would be required to prove in due course in any litigation. The Company responded fully to the Notice, outlining its view that the purported claim had no legal merit, because the legal tests for bringing a claim of this sort were not satisfied. Furthermore, the Group has received no further correspondence nor objections during 2020 including during the Court approved capital reduction processes. Since the possibility of any action is now considered remote no amounts, including for defence costs, have been provided at 31 December 2020.

31. Discontinued operations and disposals

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

	2020	2019
	£000	£000
Healthcare Services	**(382)**	(1,981)
Other Hubio	**(29)**	(67)
ingenie	**(970)**	(3,128)
Partial recovery of PSD escrow	**–**	39,390
(Loss)/profit for the year from discontinued operations net of tax	**(1,381)**	34,214

Discontinued operations during 2019 includes the reversal of the element of the previously impaired PSD sale proceeds which had been held in escrow to the extent it was recovered.

Net gain from discontinued operations:

	2020	2019
	£000	£000
Healthcare Services	**2,392**	–
ingenie	**7,876**	–
Net gain from discontinued operations	**10,268**	–

Disposal of businesses in 2020

ingenie

In November 2020, the Group completed the sale of ingenie to A-Plan Group Limited acting through its related companies Endsleigh Insurance Services Limited ("Endsleigh") and Trafalgar Bidco Limited for cash consideration of up to £5.5 million including an aggregate of £3 million in cash payable on completion. In addition to the Initial Consideration, the Group will be entitled to up to an aggregate of £2.5 million in cash payable conditional on the financial performance of the Ingenie Business during 2021. The Company will also retain its subsidiary WTGISL which is seeking repayment of overpaid VAT in the sum of over £2 million from HMRC. The remaining WTGIL entity is also retained.

The Disposal was effected through the sale of the entire issued share capital of Romeo Newco (which has acquired certain of the assets and liabilities of ingenie Limited and the transfer of the general insurance broking business operated by ingenie Services Limited under the name "Ingenie".

As such the results of the business have been included within Discontinued Operations within the Consolidated Income Statement. The Consolidated Income Statement for the year ended 31 December 2019 has been restated on the same basis. At 31 December 2020, there were no assets or liabilities classified as held for sale.

The profit arising upon disposal is as follows:

	£000
Sales proceeds	**3,000**
Net assets at disposal	**(413)**
Expenses and other costs of sale	**(195)**
Profit arising on sale	**2,392**

The contingent consideration is not included within the proceeds above.

Notes to the Financial Statements (continued)

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

	2020	2019
	£000	£000
Revenue	**7,560**	7,342
Expenses	**(8,611)**	(10,648)
Loss before tax of discontinued operation	**(1,051)**	(3,306)
Tax	**81**	178
Loss after tax of discontinued operation	**(970)**	(3,128)

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

	2020	2019
	£000	£000
Operating cash outflows	**937**	(384)
Investing cash flows	**(1,408)**	(1,798)
Financing cash flows	**(451)**	(1,052)
Total cash flows	**(922)**	(3,234)

Healthcare Services

The sale of Healthcare Services completed in February 2020. The profit arising upon disposal is as follows:

	£000
Sales proceeds	**21,713**
Net assets at disposal	**(11,163)**
Expenses and other costs of sale	**(804)**
Profit arising on sale	**9,746**
Cumulative foreign exchange losses recognised through OCI	**(1,870)**
Net profit arising on sale to be recognised in profit and loss	**7,876**

Up to a further CDN $800,000 becomes payable should the business generate target revenues in the year after disposal. Given the impact of COVID-19, which was not anticipated at the date of disposal, therefore, at the balance sheet date it was not anticipated the target revenues could be achieved and therefore the additional proceeds were not recognised within the proceeds above.

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

	2020	2019
	£000	£000
Revenue	**3,056**	31,146
Expenses	**(3,438)**	(33,127)
Loss before tax of discontinued operation	**(382)**	(1,981)
Tax	**–**	–
Loss after tax of discontinued operation	**(382)**	(1,981)

The result for the year ended 31 December 2019 included certain non-recurring costs arising from the disposal process.

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

	2020	2019
	£000	£000
Operating cash outflows	**807**	480
Investing cash flows	**–**	(460)
Financing cash flows	**–**	(1,832)
Total cash flows	**807**	(1,812)

Disposal of businesses in 2019

The Group did not complete the disposal of any businesses during 2019.

32. Related party transactions

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

Compensation of key management personnel

The key management personnel are the Directors.

	2020	2019
	£000	£000
Short-term employee benefits	**2,121**	1,623
Post-employment benefits	**3**	13
Termination benefits	**–**	320
	2,124	1,956

Transactions with a supplier

One of the Group's subsidiaries has entered into an arms-length agreement with a Company of which Mr Young, a non-executive Director of Watchstone Group plc is also a director ("Related Company"). Mr Young has not been involved with negotiations regarding the agreement. Total commissions received by the Group from the Related Company during the year ended 31 December 2020 were £1,363,675 (2019: £1,403,000) and the amount due to the Group at 31 December 2020 was £nil (31 December 2019: £184,000).

Transactions with Directors and Key Management

There have been no transactions with Directors and Key Management during 2020 (2019: none).

Transactions with former management

During 2020, the Group settled all outstanding claims with two members of former management resulting in total payments to the Group of £617,000. In October 2019, the Group settled all outstanding claims with Mr Terry, this resulted in a repayment by Mr Terry and others to the Group of £1,026,000.

33. Post balance sheet events

In April 2021, the Company applied for admission of its Ordinary Shares to trading on the Access segment of the AQSE Growth Market operated by the Aquis Stock Exchange. Trading commenced on 30 April 2021. In accordance with AIM Rule 40, the Company's Ordinary Shares were suspended from trading on AIM on 4 May 2021 (six months after the Company was classified as a cash shell pursuant to AIM Rule 15).

Company Financial Statements

Company Statement of Financial Position

as at 31 December 2020	Note	**2020** £000	2019 £000
Non-current assets			
Property, plant and equipment	38	**–**	1
Investments in subsidiaries	39	**–**	6,297
Interests in associates	39	**–**	–
Investments	39	**–**	–
		–	6,298
Current assets			
Receivables	40	**1,988**	19,210
Term deposits	41	**–**	15,000
Cash and cash equivalents	42	**16,400**	56,333
Total current assets		**18,388**	90,543
Total assets		**18,388**	96,841
Current liabilities			
Trade and other payables	43	**(2,525)**	(30,636)
Provisions	43	**(200)**	(3,795)
Total current liabilities		**(2,725)**	(34,431)
Total liabilities		**(2,725)**	(34,431)
Net assets		**15,663**	62,410
Equity			
Share capital	45	**4,604**	4,604
Other reserves	46	**59,207**	128,123
Retained earnings	46	**(48,148)**	(70,317)
Total equity		**15,663**	62,410

The retained profit for the year ended 31 December 2020 was £22,169,000 (2019: 24,980,000).

The Financial Statements of the Company, registered number 05542221, on pages 62 to 74 were approved by the Directors on 5 May 2021 and signed on its behalf by:

Stefan Borson
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 2020	Note	2020 £000	2019 £000
Cash flows from operating activities			
Cash used by operations before exceptional costs, net finance expense and tax	48	**(6,413)**	27,751
Net cash (used by)/generated from operating activities		**(6,413)**	27,751
Cash flows from investing activities			
Purchase of term deposit		**(30,000)**	(75,000)
Proceeds from maturing term deposits		**45,000**	100,000
Interest income		**170**	333
Loans that were made to group undertakings		**20,226**	(6,048)
Loans from group undertakings		**–**	500
Net cash generated from investing activities		**35,396**	19,785
Cash flows from financing activities			
Return of capital		**(68,916)**	–
Cash used by financing activities		**(68,916)**	–
Net (decrease)/increase in cash and cash equivalents		**(39,933)**	47,536
Cash and cash equivalents at the beginning of the year		**56,333**	8,797
Cash and cash equivalents at the end of the year	42	**16,400**	56,333

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 2020	**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 2020	**4,604**	**127,251**	**818**	**54**	**–**	**128,123**	**(70,317)**	**62,410**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**22,169**	**22,169**
Capital reduction	**–**	**(68,916)**	**–**	**–**	**–**	**(68,916)**	**68,916**	**–**
Return of capital	**–**	**–**	**–**	**–**	**–**	**–**	**(68,916)**	**(68,916)**
Total transactions with owners, recognised directly in equity	**–**	**(68,916)**	**–**	**–**	**–**	**(68,916)**	**–**	**(68,916)**
At 31 December 2020	**4,604**	**58,335**	**818**	**54**	**–**	**59,207**	**(48,148)**	**15,663**

for the year ended 31 December 2019	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 2019	4,604	127,251	818	54	328	128,451	(95,625)	37,430
Profit for the year	–	–	–	–	–	–	24,980	24,980
Expiration of share options	–	–	–	–	(328)	(328)	328	–
Total transactions with owners, recognised directly in equity	–	–	–	–	(328)	(328)	328	–
At 31 December 2019	4,604	127,251	818	54	–	128,123	(70,317)	62,410

35. 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.

36. 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. Other than the estimate and judgement in respect of the recognition and valuation of contingent consideration due on disposals the critical accounting estimates of the Company are the same as the Group, as disclosed in note 4.

Basis of preparation

These Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 running costs of the Company together with any future investment needs, and the settlement of legacy matters.

On this basis, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Company to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements.

Income Statement and Statement of Comprehensive Income

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings are held at cost less any provisions for impairment. The recoverable value of these investments are assessed at least annually.

Trade receivables and intercompany debt

Trade receivables are held at amortised cost less any impairment provisions and this equates to their recoverable value. Impairment provisions for intercompany receivables are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve-month expected credit losses are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses are recognised. For those that are determined to be credit impaired, lifetime expected credit losses are recognised. 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.

Notes to the Financial Statements (continued)

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. Term deposits do not qualify as cash since it is not intended they be used to meet the short term funding requirements of the Company.

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.

37. Adoption of new and revised Standards

There are no new standards impacting the Company for the year ended 31 December 2020.

Standards, amendments and interpretations not yet adopted

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the company has decided not to adopt early. The following is effective for the period beginning 1 January 2021 and is not expected to have a material impact upon the Financial Statements of the Company:

- IFRS 17 ‘Insurance Contracts’

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that ‘settlement’ includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The Company does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities.

38. Property, plant and equipment

	Leasehold Land and Buildings – Right of use Assets	Total
	£000	£000
Cost		
At 1 January 2019	74	74
Disposals	(71)	(71)
At 1 January 2020	**3**	**3**
At 31 December 2020	**3**	**3**
Depreciation		
At 1 January 2019	–	–
Charge for the year	73	73
Disposals	(71)	(71)
At 1 January 2020	**2**	**2**
Charge for the year	**1**	**1**
At 31 December 2019	**3**	**3**
Net book value		
31 December 2020	**–**	**–**
31 December 2019	1	1

39. Investments

	Shares in investments	Shares in associates	Shares in group undertakings	Total
	£000	£000	£000	£000
Cost				
At 1 January 2019	1,500	–	228,060	229,560
Disposals	–	–	(118,377)	(118,377)
At 1 January 2020	**1,500**	**–**	**109,683**	**111,183**
Disposals	**–**	**–**	**(9,026)**	**(9,026)**
At 31 December 2020	**1,500**	**–**	**100,657**	**102,157**
Impairment				
At 1 January 2019	1,500	–	221,844	223,344
Charge for the year	–	–	(81)	(81)
Disposals	–	–	(118,377)	(118,377)
At 1 January 2020	**1,500**	**–**	**103,386**	**104,886**
Disposals	**–**	**–**	**(2,729)**	**(2,729)**
At 31 December 2020	**1,500**	**–**	**100,657**	**102,157**
Net book value				
31 December 2020	**–**	**–**	**–**	**–**
31 December 2019	–	–	6,297	6,297

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.

Notes to the Financial Statements (continued)

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
Investments incorporated in Canada		
Registered Address: 100 King Street West, Suite 3400, One First Canadian Place, Toronto, Ontario, M5X 1A4		
Hubio Solutions Inc	Indirect	
ingenie (Canada) Inc	Indirect	
Quindell Services Inc	Indirect	
Watchstone (Canada) Inc	Direct	
Registered Address: 70 Frid Street, Unit 2, Hamilton, Ontario, L8P 4M4		
pt Healthcare Solutions Corp +	Indirect	
7211589 Canada Inc +	Indirect	
Registered Address: 67 Yonge Street, Suite # 1101, Toronto, Ontario, M5E 1J8		
pt Health Aspen Limited Partnership +	Indirect	51%
Registered Address: c/o Actus Law Droit, 900 Main Street, Moncton, New Brunswick, E1C 1G4		
pt Health NB 2016 Professional Corporation Inc +	Indirect	25% Common shares, 100% preference shares
Investments incorporated in United Kingdom		
Registered Address: Highfield Court, Tollgate, Chandlers Ford, Eastleigh, Hampshire SO53 3TY		
Ingleby (1653) Limited	Indirect	
Ingleby Sub Limited	Indirect	
Morpheous Holdings Limited~	Indirect	
Quindell Business Process Services Limited	Direct	98.40%
Watchstone Limited	Direct	
WTGIL Limited (formerly ingenie Limited)	Direct	
WTGISL (formerly ingenie Services Limited)	Indirect	
Registered Address: Mcgills, Oakley House, Tetbury Road, Cirencester, Gloucestershire, United Kingdom, GL7 1US		
BestPriceHotDeals Limited +	Indirect	50%
Registered Address: Quob Park, Titchfield Lane, Wickham, Fareham, Hampshire		
OS3 Digital Platform Limited	Indirect	5.29%
OS3 Distribution Limited	Direct	5.29%
Registered Address: 85 Great Portland Street, London, W1W 7LT		
UPP Technologies Limited	Direct	0.70%
Investments incorporated in United States of America		
Registered Address: 280 Madison Avenue, Room 912 – 9th Floor, New York 10016		
SMI Telecoms LLC	Indirect	
Registered Address: 3800 N Central Ave, Ste 460, Phoenix, AZ 85012		
Navseeker Inc	Indirect	
Registered Address: 925 N La Brea Avenue, 4th Floor, Los Angeles, CA 90038		
WRDL3D Inc	Indirect	8.90%
Registered Address: Corporation Service Company, 2711 Centerville Road, Ste 400, Wilmington, DE 19808		
Iter8 (USA) Inc	Indirect	

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

+ disposed of during the year – see note 32.

The financial year ends of the Group's subsidiaries are 31 December 2020. 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 (8.9%)	USA	Indirect
OS3 Digital Platform Limited (5.3%)	UK	Indirect
OS3 Distribution Limited (5.3%)	UK	Direct
UPP Technologies Limited (0.7%)	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.

40. Receivables

	2020	2019
	£000	£000
Payroll and other taxes including social security	64	604
Other receivables	1,906	–
Prepayments	18	25
Amounts due from subsidiary undertakings	–	18,581
	1,988	19,210

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.

41. Term deposits

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

	2020	2019
	£000	£000
Term deposits	–	15,000

42. Cash and cash equivalents

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

	2020	2019
	£000	£000
Cash and cash equivalents	16,400	56,333

Notes to the Financial Statements (continued)

43. Liabilities

	2020	2019
	£000	£000
Current liabilities		
Trade payables	**116**	168
Amounts owed to Group undertakings	**1,279**	29,332
Accruals	**1,130**	1,135
Provisions	**200**	3,795
Lease liabilities	**–**	1
	2,725	34,431

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

The analysis of lease liabilities is as follows:

	Leasehold Land and Buildings	Total
	£000	£000
At 1 January 2019	–	–
Adoption of IFRS 16	74	74
Interest expense	2	2
Lease payments	(75)	(75)
At 1 January 2020	**1**	**1**
Lease payments	**(1)**	**(1)**
At 31 December 2020	**–**	**–**

The analysis of provisions is as follows:

	Tax related matters	Legal disputes	Other	Total
	£000	£000	£000	£000
At 1 January 2019	1,700	8,207	684	10,591
Additional provisions	–	3,701	–	3,701
Unused amounts reversed	(1,700)	(127)	(612)	(2,439)
Used during the year	–	(7,986)	(72)	(8,058)
At 1 January 2020	**–**	**3,795**	**–**	**3,795**
Additional provisions	**–**	**–**	**–**	**–**
Unused amounts reversed	**–**	**(3,495)**	**–**	**(3,495)**
Used during the year	**–**	**(100)**	**–**	**(100)**
At 31 December 2020	**–**	**200**	**–**	**200**
Split:				
Current	**–**	**200**	**–**	**200**

Details relating to legal provisions are included within note 32 under legal disputes and regulatory matters.

44. 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 £nil (2019: £18,581,000);
2. Other receivables of £1,906,000, representing amounts held in escrow;
3. Term deposits of £nil (2019: £15,000,000);
4. Cash and cash equivalents of £16,400,000 (2019: £56,333,000); and
5. Other liabilities comprising: trade and other payables including amounts owed to Group undertakings of £1,395,000 (2019: £29,500,000).

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 29.

(b) Financial risk management

The Company manages its exposure to capital, liquidity and credit risk as set out in note 29.

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
2020					
Trade and other payables	**116**	**(116)**	**(116)**	**–**	**–**
Amounts owed to Group undertakings	**1,279**	**(1,279)**	**(1,279)**	**–**	**–**
	1,395	**(1,395)**	**(1,395)**	**–**	**–**
2019					
Trade and other payables	168	(168)	(168)	–	–
Amounts owed to Group undertakings	29,332	(29,332)	(29,332)	–	–
	29,500	(29,500)	(29,500)	–	–

Included within trade and other payables is an amount of CDN $nil (2019: CDN $132,000); all other financial instruments are denominated in pounds sterling.

45. Called up share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
2020	**'000**	**£000**	**£000**	**£000**
At start and end of year	**46,038**	**4,593**	**11**	**4,604**

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
2019	'000	£000	£000	£000
At start and end of 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.

Notes to the Financial Statements (continued)

46. Reserves

	2020	2019
	£000	£000
Share premium account	58,335	127,251
Merger reserve	818	818
Other equity reserve	54	54
Share-based payments reserve	–	–
Other reserves	59,207	128,123
Retained earnings	(48,148)	(70,317)

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. During 2020, the Company undertook two separate capital reductions to enable a return of capital to shareholders. The effect of this was to reduce share premium by £68,916,000.

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 64.

At the Statement of Financial Position date, the Company had negative distributable reserves of £49,405,000 and unrealised profit amounts totalling £929,000 in retained earnings.

47. 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 profit after taxation of the Company for the year ended 31 December 2020 was £22,169,000 (2019: £24,980,000).

48. Cash flow from operating activities

	2020	2019
	£000	£000
Profit after tax	**22,169**	24,980
Tax	**–**	–
Finance expense	**–**	593
Finance income	**(278)**	2,607
Operating profit	**21,891**	28,180
Adjustments for:		
– Depreciation of property, plant and equipment	**–**	73
– Impairment of investments	**–**	(81)
– (Reversal of impairment)/Impairment of intercompany	**(392)**	7,258
Operating cash flows before movements in working capital and provisions	**21,499**	35,397
– (Increase)/decrease in trade and other receivables	**24,575**	(6)
– Decrease in trade and other payables	**(52,487)**	(7,673)
Cash used by operations before exceptional costs	**(6,413)**	27,751

Reconciliation of net cash flow to movement in net funds:

	1 January	**Cash flow movements**	**31 December**
	£000	**£000**	**£000**
2020			
Cash	**56,333**	**(39,933)**	**16,400**
Cash and cash equivalents	**56,333**	**(39,933)**	**16,400**
Net funds	**56,333**	**(39,933)**	**16,400**

	1 January	Cash flow movements	31 December
	£000	£000	£000
2019			
Cash	**8,797**	**47,536**	**56,333**
Cash and cash equivalents	**8,797**	**47,536**	**56,333**
Net funds	**8,797**	**47,536**	**56,333**

49. Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2020.

Notes to the Financial Statements (continued)

50. Contingent assets and liabilities

Litigation in relation to the historic activities of the Company is being pursued including a claim against PricewaterhouseCoopers LLP. The Company expects to initiate a claim against its former auditor, KPMG LLP, in respect of its audit of the Group's accounts for the year ended 31 December 2013. These give rise to contingent assets, which are not recognised within the Financial Statements, due to lack of certainty as to the outcome, despite an inflow of economic benefit being considered probable.

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 31 where further details are provided.

51. 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 12 and 13 or as described in note 32.

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

	2020	2019
	£000	£000
Subsidiary undertakings:		
Purchases	**(21)**	(34)
Sales	**828**	1,046

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

	2020	2019
	£000	£000
Amounts due from subsidiary undertakings	**110,904**	133,986
Provisions for doubtful debts relating to amounts due from subsidiary undertakings	**(110,904)**	(115,405)
Net amounts due from subsidiary undertakings	**–**	18,581
Amounts due to subsidiary undertakings	**(1,279)**	(29,332)

52. Post balance sheet events

In April 2021, the Company applied for admission of its Ordinary Shares to trading on the Access segment of the AQSE Growth Market operated by the Aquis Stock Exchange. Trading commenced on 30 April 2021. In accordance with AIM Rule 40, the Company's Ordinary Shares were suspended from trading on AIM on 4 May 2021 (six months after the Company was classified as a cash shell pursuant to AIM Rule 15).

53. 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

Company Secretary

Mr S Borson

Registered Office

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Tollgate, Chandler's Ford
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