

Watchstone.



Watchstone Group plc
Annual Report and Financial Statements
for the year ended 31 December 2021

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Key Summary

- Total loss after tax £3.6m (2020: Profit of £7.7m)
- Group operating loss of £3.7m (2020: £1.4m)
- Group net assets of £13.5m representing approximately 29 pence per share (2020: 37 pence per share)
- Group cash at 31 December 2021 of £13.0m (31 December 2020: £16.7m)

Chairman and CEO's Report

During the year the Group has significantly progressed the realisation of its litigation assets including the formal filing of its claim against its former auditors, KPMG LLP ("KPMG"). This is in addition to continued work in respect of the claim filed during 2020 against PricewaterhouseCoopers LLP ("PwC") and older claims against Aviva Canada Inc. ("Aviva Canada") and HMRC.

Now all trading businesses have been disposed our plan remains optimum resolution of legacy matters and then to return cash to shareholders.

The ongoing impact of COVID-19 in the UK during 2021 resulted in the target revenues of the disposed ingenie business falling short of the required target for additional consideration. However, the timing of the sales proved fortuitous and the Group was spared the financing requirement which would likely have been associated with ownership of this business through this difficult period.

On 30 April 2021, we listed on the Aquis Stock Exchange to continue to provide a trading facility on a regulated market. We subsequently delisted from AIM as required by the AIM Rules.

Notification from the Serious Fraud Office ("SFO") of their decision to cease its remaining investigation means we can confidently now draw a line under this part of the Company's history with no material outstanding litigation against the Group. We move forward in a strong position to realise maximum shareholder value from the four contingent assets we are pursuing.

During 2021, we were the target of a mandatory offer from one of the Company's major shareholders. The offer was not hostile but the board recommended the rejection of the offer and counteroffer, and this was overwhelmingly supported by our shareholders. We would like to thank our shareholders for their support and this endorsement of our approach to obtaining value from our remaining assets. We plan to make further returns to shareholders as, and when, the outcome to our litigation becomes clearer and final resolution more imminent.

Update on outstanding legacy matters

Our claim against PwC proceeds in the High Court with the trial expected to begin in January 2023. The claim against PwC is for damages or equitable compensation of £63m plus interest and costs. Our claim against our former auditor, KPMG, in respect of its audit of the Group's accounts for the year ended 31 December 2013 has been filed and KPMG's defence recently received. This matter is not expected to go to trial before 2024.

Our appeal for the recovery of historic VAT paid in the ingenie business was heard by the First Tier VAT Tribunal in December 2021 and we were notified in April 2022 of the Tribunal's judgement in favour of HMRC. This was, of course, disappointing but having taken advice, we are now appealing that decision to the Upper Tribunal. Finally, our Canadian subsidiary's claim against Aviva Canada is ongoing and is expected to go to trial in H2 2023.

2022 outlook

We will look to prosecute our remaining litigation assets for the optimal return for shareholders. Central costs will continue to be carefully managed at reduced levels consistent with the needs of the organisation.

Once again, we would like to thank our shareholders for their continuing patience whilst we work to realise optimal value from our remaining assets.

Richard Rose

Non-executive Chairman

Stefan Borson

Group Chief Executive Officer

Strategic Report

1. Business Review

The Company is now exclusively focused on managing the Group's litigation assets in order to achieve maximum shareholder value.

During the year, the Group continued to progress its claims against PwC and Aviva Canada in addition to filing a claim against its former auditors, KPMG in respect of its audit of the 2013 Financial Statements. We continue to pursue a historic VAT appeal against HMRC. Shares in the Company were admitted to trading on Aquis to provide shareholders with continued access to trading and the benefits of a regulated market as the Company was required to delist from AIM during 2021.

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 2021 were in respect of its litigation strategy, to consideration of a takeover offer for the Company from the Company's largest shareholder and to transition from AIM to Aquis. Where applicable, 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 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.

1.2.2 Listing on Aquis Stock Exchange

The Board consulted with a number of shareholders who were generally either agnostic regarding the Company maintaining a listing or expressed a preference to maintain a listing. The major considerations of the Board in the process were:

- Cost savings associated with de-listing;
- The preferences of shareholders;
- The regulatory and legal framework associated with a listing on the Aquis Stock Exchange; and
- Maintaining a market and liquidity for shareholders.

On balance of the above factors the Board considered a listing on the Aquis Stock Exchange to be the most appropriate course of actions considering all stakeholders.

1.2.3 Defence of a takeover offer

On 1 July 2021, Polygon Global Partners LLP ("Polygon") announced the terms of a mandatory cash offer (the "Offer") pursuant to which Polygon (through the Polygon Funds) offered to acquire the entire issued and to be issued share capital of the Company. The initial offer of 34 pence per share was increased to 38 pence per share on 31 August 2021. Having taken advice from external advisors the Board considered the level of the Offer to significantly undervalue the litigation assets of the Group and, therefore, recommended to shareholders that the Offer should be rejected.

In particular, the Board considered:

- the Offer provided only a minimal value to shareholders of the contingent assets of the Group over the cash (and escrow) holdings of the Group;
- having listed on the Aquis Stock Exchange, shareholders are able to freely trade their holdings and therefore did not require a specific exit event at this time, as provided by the Offer;
- that the majority of shareholders support the continued pursuit of value from the Group's contingent assets; and
- the Offer did not provide any other benefits to the Group such as funding (which was not required), material cost savings or the availability of additional expertise.

Strategic Report (continued)

1.2.4 Other stakeholders

The Group has no corporate head office 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 2021

1.3.1 Continuing business activities

Continuing business activities represent the small executive team of 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 £1.1m during 2021 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 cases against PwC, KPMG, Aviva Canada and in relation to the recovery of a historic overpayment of VAT within one of its subsidiaries from HMRC. Following the business disposals in 2020, the Group now has just one significant component being Watchstone Group plc as parent company.

1.3.2 Discontinued business activities

There were no disposals of businesses during 2021. The profit in the period from discontinued operations of £0.1m relates to the resolution and settlement of the outstanding assets and liabilities of the shell entities retained post disposal. As a result of the continued impact of COVID-19 during 2021 no further consideration payments in respect of the disposal of ingenie have fallen due. Further details are provided in section 4.4.

1.3.3 Resolving legacy matters

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.

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 28 to the Financial Statements.

1.4 Overview of Financial Statements

The Financial Statements are presented on pages 23 to 61. An overview of the main factors which have influenced the Financial Statements are the:

- **Pursuit of litigation in relation to the historic activities of the Group** is the major contributor to legal expenses of £1.1m. The Group has provided security of costs to a party to the action and holds £1.8m in escrow at 31 December 2021 (2020: £1.8m). This is included within other debtors in the Consolidated Statement of Financial Position. Legal expenses in 2020 of £1.6m were primarily driven litigation costs in respect of the PwC claim.
- **Capital reductions and returns of cash.** Since there were no settlements during 2021 resulting in material cash inflows to the Group there was no return of cash to shareholders during the year. This compares to £68.9m of cash has returned to shareholders during 2020, resulting in a Distribution Incentive Scheme payment in that year at a cost of £0.7m.
- **Resolution and settlement of historical matters.** The cessation of the SFO investigation into former management during 2021 reduced the burden to the Group of assisting the SFO with their enquiries. The remaining provision for such costs at 31 December 2020 of £0.2m was therefore released to the Consolidated Income Statement during 2021.

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.

2. Financial Review

2.1 KPIs and Alternative Performance Measures

Throughout 2021, the Board used a number of measures some of which are not statutory accounting measures to determine the performance of the Group. Total cash along with net assets have been reduced as a result of funding litigation assets and the ongoing operating costs of the business. 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 2021	Year ended 31 December 2020
	£000	£000
Cash returned to shareholders	–	68,916
EBITDA	(3,722)	(1,359)
Group net assets	13,525	17,138
Cash and term deposits	12,996	16,656
Basic loss (pence per share)	(8.1)	(2.6)

2.2 Business performance and results

2.2.1 Revenue and gross profit margin

The Group retains no trading businesses and therefore there is no continuing revenue or cost of sales in the Consolidated Income Statement.

2.2.2 Operating loss

The operating loss increased from £1.4m during 2020 to £3.7m during 2021. This is primarily as a result of net legal fee provision releases of £3.5m during 2020 compared to £0.1m during 2021 and legal settlements in 2020 of £0.6m which did not recur in 2021. This was partially offset by legal fees being £0.5m lower during 2021 and the Distribution Incentive Scheme payment during 2020 of £0.7m (including employers NIC) arising from the £68.9m returned to shareholders during 2020. There was also the full year impact in 2021 of cost savings made during 2020.

2.2.3 Loss before tax

The Group has incurred a continuing loss before tax of £3.7m for the year (2020: £1.2m). Finance income was lower due to the cash returned to shareholders during 2020 not being available to provide investment returns during 2021.

2.2.4 Cashflow

The Group had net cash outflows of £3.7m, broadly following the operating loss in the period (2020: cash outflows of £55.4m) resulting in a closing balance of cash of £13.0m (2020: £16.7m). The major change from the prior year relates to reduced operating cashflows now the trading businesses have been disposed of, and no corresponding inflows from disposals and subsequent return to shareholders.

	2021	2020
Year ended 31 December £m	£m	£m
Total cashflows from operating activities (including discontinued operations)	(3.7)	(6.3)
Non-operating cashflows relating to discontinued operations	–	(2.0)
Proceeds from disposals	–	21.6
Interest income	–	0.2
Total investing activities	–	21.8
Returned to shareholders	–	(68.9)
Overall net outflow	(3.7)	(55.4)
Opening cash (including term deposit investments at 1 January 2020)	16.7	72.1
Closing cash	13.0	16.7

2.2.5 Balance Sheet

The net assets shown in the Statement of Financial Position at 31 December 2021 were £13.5m (2020: £17.1m).

The movement in net assets during 2020 relates to the retained loss.

The closing net assets can be analysed by their proximity to cash as follows. As the Group has disposed of its trading businesses and rationalised the Group, the relative liquidity of its net assets has increased:

	2021	2020
At 31 December £m	£m	£m
Cash	13.0	16.7
Other net current assets	0.5	0.4
Non-current assets	–	–
Net Assets	13.5	17.1

At 31 December 2021, other net current assets include £1.8m held in escrow as security of costs in respect of legal claims and certain assets and liabilities relating to the day to day operations of the Group.

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 8.1 pence per share (2020: loss of 2.6 pence per share).

Strategic Report (continued)

2.3 Going concern

The Group holds appropriate 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. Staff and suppliers are treated fairly, and transactions concluded on an arms-length basis. Regulators 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 expenditure is 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:

Q4	Detailed business planning and budget setting with Board review and approval.
Monthly	Reporting of financial results and KPIs 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 2022

We intend to prepare a set of interim Financial Statements for the 6 months ending 30 June 2022.

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 2021, there was 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

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, any 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.

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

The continued impact of COVID-19 during 2021 upon the recovery of the young driver market in the UK had a negative impact upon the realisation of the contingent consideration of up to £2.5m from the disposal of ingenie since this was based upon the business performance during 2021. The disposed of business did not meet its requisite revenue targets and, therefore, the additional consideration did not become due.

We primarily work remotely and have experienced minimal disruption to the Group's central management. The court system in the UK has an increased backlog of cases which has extended the wait for our claims to be heard in court.

4.5 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.

4.6 Foreign exchange

The Group's Canadian subsidiary is currently engaged in a legal case in Canada and therefore the Group is exposed to volatility in exchange rates. This is in respect of foreign currency denominated transactions and the translation of income statements and net assets of foreign subsidiaries. The most significant foreign currency exposure was in relation to Canadian Dollars. 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 66)

Non-executive Chairman

Richard Rose is Non-Executive Chairman of XP Factory 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.

Stefan Borson (age 47)

Group Chief Executive Officer

Stefan Borson has over twenty years' experience working in and leading 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 Limited 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 80)

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 60)

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 Limited, 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 Limited and Seven Investment Management LLP.

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 2021 and the remuneration policy that applies in 2022.

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 2021

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 (also now ceased). 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 (2020: £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 2021, 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 remaining legacy matters, concluded during the year;
- completion of the move from AIM to Aquis; and
- further rationalisation of the legal structure of the group.

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

Directors' Remuneration Report (continued)

For 2022, 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 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
2021	£000	£000	£000	£000	£000
Executive					
S Borson	489	675	–	–	1,164
Non-executive					
R Rose	185	–	–	–	185
M Howard	75	–	–	–	75
D Young	75	–	–	–	75
Total	824	675	–	–	1,499

	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

This report was approved by the Board on 25 May 2022 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 2021, 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 9 and 10.

Corporate Governance Report (continued)

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 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 corporate 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 page 6.

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 2021.

Directors

The Directors who held office at 31 December 2021 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 9 and 10.

As at 31 December 2021, 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 22 to the Financial Statements summarises the rights of the ordinary shares.

Substantial shareholdings

As at 25 May 2022, 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	Number of shares	% holding
Polygon Global Partners LLP	13,811,500	30.00
Beach Point Capital Management LP	6,884,995	14.96
Sand Grove Capital Management LLP	5,395,790	11.72
M&G Plc	2,872,000	6.24
M Halsey	2,126,774	4.62
J Harvey	1,655,265	3.60
Subtotal	32,746,324	71.14

Dividends

The Directors do not recommend the payment of a final dividend (2020: 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 2021 are contained in the Corporate Governance section of this Annual Report and in the Directors' Remuneration Report on pages 9 to 12.

Corporate governance

The Group's report on Corporate Governance is on pages 11 and 12 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 41, 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.

Directors' Report (continued)

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 30 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.

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 26 to the Financial Statements.

Political donations

The Group has not made any political donations during the year ended 31 December 2021 (2020: £nil).

Employees

The Group has a policy of offering equal opportunities to employees at all levels in respect of the conditions of work. 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.

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. 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 2022 AGM will be held on 30 June 2022 in London. The Chairman of the Board and of each of its Committees will 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.

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 accounting for litigation to which the Group is a party. There were two formal meetings of the Committee.

Relationship with the Auditor

Shareholders approved the re-appointment of BDO at the 2021 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 2021, compared to other Big 7 firms.

2021 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:

- **Cash and term deposits**
Given the high percentage of the Group's net assets represented by cash 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 legal disputes as shown in note 20 to the Financial Statements. The overall level of net provisions has reduced to £0.1m 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 potential provisions. The Committee reviewed whether contingent liabilities and assets have been correctly treated.

■ Going Concern

The Committee considered whether adverse outcomes from litigation claims might impact the Going Concern basis of accounting and reviewed the assumptions made.

Risk management and internal control

The Committee reviewed the risks inherent in the now small financial management team and the availability of compensating controls.

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 2021 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company Financial Statements have been properly prepared in accordance with UK adopted international accounting standards 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 2021 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Cash Flow Statement, 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 UK adopted international accounting standards 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:

- Inspection of board minutes and enquiries of the Directors 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;
- Assessing 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
- Considering 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 Group's financial performance, forecasting and budgeting processes and the entity's risk assessment process.

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 Group and the Parent Company'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 (subject to full scope audit by the group engagement team)	100% (2020: 100%) of Group loss before tax 100% (2020: 100%) of Group total assets
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Key audit matters	2021	2020
Legal cases	✓	✓
Business disposals ¹	X	✓

Materiality Group Financial Statements as a whole £200,000 (2020: £250,000) based on 1.5% (2020: 1.5%) of net assets

1. There were no business disposals in 2021.

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 identified one Significant component being the Parent Company audited by the Group engagement team. Following the disposal of businesses in prior years all other subsidiaries are non-trading or dormant for the year.

Key audit matters

Key audit matters are those matters which, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and included 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. We identified one key audit matter which was 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 this matter.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Legal cases The accounting policy in respect of provisions is set out on page 30 – with the critical accounting judgement described on page 32. Further information in relation to significant balance sheet items is included in the Provisions note on page 40.</p> <p>The Group has a number of ongoing legal cases.</p> <p>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.</p> <p>As at 31 December 2021, Management was of the view that, due to the stage at which each of the legal cases were, there are no contingent liabilities while, in situations where the Group is litigating, there is not sufficient certainty to recognise a contingent asset.</p> <p>Due to the judgements involved we considered this to be a key audit matter.</p>	<p>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:</p> <ul style="list-style-type: none"> ■ 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. <p>We also gave further consideration to the completeness of the information presented through inspecting board minutes, correspondence and regulatory announcements.</p> <p>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.</p> <p>We evaluated the appropriateness of the disclosures against the requirements of relevant accounting standards.</p> <p>Key observations: We consider the judgements made by management in accounting for the ongoing legal cases and the related disclosures are appropriate.</p>

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	
	2021	2020	2021	2020
	£000	£000	£000	£000
Materiality	200	250	180	225
Basis for determining materiality	1.5% of net assets		90% of group materiality	
Rationale for the benchmark applied	Having disposed of its trading businesses, we consider net 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.		Calculated as a percentage of Group materiality for Group reporting purposes.	
Performance materiality	140	175	126	158
Basis for determining performance materiality	70% of materiality based on a low expected total value of known and likely misstatements.			

Component materiality

We set materiality for the significant component of the Group based on a percentage of 90% (2020: 90%) (2021 – £180k, 2020 – £225k) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. In the audit of the significant component, we further applied performance materiality levels of 90% (90%) (2021 – £126k, 2020 – £158k) 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 £6,000 (2020: £7,500). 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	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> ■ 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.
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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	<p>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:</p> <ul style="list-style-type: none"> ■ 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.
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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.

Based on our understanding of the Group, we identified that the principal risks of non-compliance with laws and regulations relate to Corporate and VAT legislation and Employment Taxes, and the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations which have a direct impact on the preparation of the Financial Statements

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

such as the Companies Act 2006 and the applicable accounting frameworks.

Further, we identified the principal risk where the accounts could be susceptible to misstatement due to fraud or irregularity related to bias in management override in accounting for legal cases that are currently ongoing (see key audit matters section).

We focused on laws and regulations 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. Our procedures included, but were not limited to:

- 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 the Companies Act 2006 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 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
 25 May 2022

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 2021		2021	2020
	Note	Total	Total
		£000	£000
Administrative expenses	8	(3,722)	(1,361)
Group operating loss		(3,722)	(1,361)
Finance income	10	–	169
Finance expense	10	(8)	(12)
Loss before taxation		(3,730)	(1,204)
Taxation	11	–	–
Loss after taxation for the year from continuing operations		(3,730)	(1,204)
Net gain on disposal of discontinued operations	29	–	10,268
Profit/(loss) for the year from discontinued operations, net of taxation	29	135	(1,381)
(Loss)/profit after taxation for the year		(3,595)	7,683
Attributable to:			
Equity holders of the parent		(3,592)	7,683
Non-controlling interests		(3)	–
		(3,595)	7,683
Earnings per share (pence):			
Basic	12	(7.8)	16.7
Diluted	12	(7.8)	16.7
Loss per share from continuing operations (pence):			
Basic	12	(8.1)	(2.6)
Diluted	12	(8.1)	(2.6)

The accompanying notes form part of the Financial Statements.

Financial Statements (continued)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021	2021	2020
	£000	£000
(Loss)/profit after taxation	(3,595)	7,683
Items that may be reclassified in the Consolidated Income Statement		
– Exchange differences on translation of foreign operations	(18)	(688)
Total comprehensive (loss)/income for the year	(3,613)	6,995
Attributable to:		
Equity holders of the parent	(3,610)	6,995
Non-controlling interest	(3)	–
	(3,613)	6,995

The accompanying notes form part of the Financial Statements.

Consolidated Statement of Financial Position

as at 31 December 2021		2021	2020
	Note	£000	£000
Non-current assets			
Goodwill	14	–	–
Other intangible assets	13	–	–
Property, plant and equipment	15	–	–
		–	–
Current assets			
Corporation tax	11	–	81
Trade and other receivables	17	1,910	2,468
Cash	18	12,996	16,656
Total current assets		14,906	19,205
Total assets		14,906	19,205
Current liabilities			
Trade and other payables	19	(1,251)	(1,808)
Provisions	20	(129)	(258)
Total current liabilities		(1,380)	(2,066)
Non-current liabilities			
Provisions	20	–	–
Deferred tax liabilities	21	(1)	(1)
		(1)	(1)
Total liabilities		(1,381)	(2,067)
Net assets		13,525	17,138
Equity			
Share capital	22	4,604	4,604
Other reserves	23	69,734	69,752
Retained earnings	23	(60,814)	(57,222)
Equity attributable to equity holders of the parent		13,524	17,134
Non-controlling interests		1	4
Total equity		13,525	17,138

The Financial Statements of Watchstone Group plc, registered number 05542221, on pages 23 to 61 were approved and authorised for issue by the Directors on 25 May 2022 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 2021	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 2021	4,604	58,335	(10,024)	22,988	(1,547)	69,752	(57,222)	17,134	4	17,138
Loss for the year	-	-	-	-	-	-	(3,592)	(3,592)	(3)	(3,595)
Other comprehensive loss	-	-	-	-	(18)	(18)	-	(18)	-	(18)
Total comprehensive income	-	-	-	-	(18)	(18)	(3,592)	(3,610)	(3)	(3,613)
Total transactions with owners, recognised directly in equity	-	-	-	-	-	-	-	-	-	-
At 31 December 2021	4,604	58,335	(10,024)	22,988	(1,565)	69,734	(60,814)	13,524	1	13,525

The accompanying notes form part of the Financial Statements.

Consolidated Statement of Changes in Equity (continued)

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.

Financial Statements (continued)

Consolidated Cash Flow Statement

for the year ended 31 December 2021		2021	2020
	Note	£000	£000
Cash flows from operating activities			
Cash used in operations, net finance expense and tax	24	(3,751)	(6,283)
Tax received		81	–
Net cash used by operating activities		(3,670)	(6,283)
Cash flows from investing activities			
Purchase of property, plant and equipment		–	(790)
Purchase of intangible fixed assets		–	(618)
Disposal of subsidiaries net of cash foregone		–	–
Investment in term deposits		–	(30,000)
Maturity of term deposits		–	45,000
Interest income		–	170
Disposal of subsidiaries		–	21,617
Net cash generated by investing activities		–	35,379
Cash flows from financing activities			
Finance expense paid		–	(451)
Finance income received		–	42
Return of capital		–	(68,916)
Dividends paid to non-controlling interests		–	(287)
Net cash used in financing activities		–	(69,612)
Net decrease in cash and cash equivalents		(3,670)	(40,516)
Cash and cash equivalents at the beginning of the year	18	16,656	57,176
Exchange gains/(losses) on cash and cash equivalents		10	(4)
Cash and cash equivalents at the end of the year	18	12,996	16,656

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 29.

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 3.

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 UK adopted 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.

Discontinued operations

Discontinued operations follow the same accounting policies as the rest of the Group, as set out as follows.

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.

Notes to the Financial Statements (continued)

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.

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.

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.

Provisions

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

Taxation including deferred tax

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

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which

deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

Share capital

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

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 2021.

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 2022 and is not expected to have a material impact upon the Financial Statements of the Company:

- Amendment to IFRS 1 and IAS 12, relating to deferred tax assets and liabilities arising from a single transaction.
- Amendment to IFRS 16 relating to COVID-19 rent concessions.
- Taxonomy changes to various standards and 2020 general improvements cycle.

- Amendments to IAS 1, "Disclosure of Accounting Policies".

- Amendment to IAS 8, "Definition of Accounting Estimates".

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.

Notes to the Financial Statements (continued)

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 liabilities arising under the Distribution Incentive Scheme

As discussed in the Directors' Remuneration Report on pages 9 and 10, the Group Chief Executive Officer is entitled to 5.43% of any distribution over and above a prescribed distribution hurdle ("DIS Hurdle") which was exceeded during 2020. 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

	2021	2020
Year ended 31 December	£000	£000
Cash returned to shareholders	–	(68,916)
EBITDA	(3,722)	(1,359)
Group net assets	13,525	17,138
Cash	12,996	16,656
Basic loss (pence per share)	(8.1)	(2.6)

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	2021	2020
	£000	£000
EBITDA	(3,722)	(1,359)
Depreciation and amortisation	–	(2)
Group operating loss	(3,722)	(1,361)

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.

7. Operating loss

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

	2021	2020
	£000	£000
Depreciation of property, plant and equipment	–	2
Net foreign exchange (gain)/loss	(13)	12
Auditor's remuneration	48	189
Unused provisions released	(234)	(3,533)
Additional provisions for legal fees	129	–
Staff costs, continuing business (note 9)	1,938	2,854

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

	2021	2020
	£000	£000
Fees payable to the Company's Auditor and its associates for the audit of the Parent Company and Consolidated Financial Statements	40	52
Fees payable to the Company's Auditor and its associates for other services:		
– (credits)/additional amounts in relation to the prior year audit	(17)	43
– The audit of the Company's subsidiaries	25	65
– Corporate finance services	–	29
– Other assurance services	–	–
– Taxation compliance services	–	–
	48	189

8. Administrative expenses

	2021	2020
Year ended 31 December	£000	£000
Administrative expenses include:		
– Legal expenses	1,059	1,578
– Net releases of provisions for legal expenses and tax related matters	(105)	(3,503)
– Legal settlements	–	(617)
– Restructuring	–	79
	954	(2,463)

Legal fees incurred during 2021 primarily relate to the litigation being undertaken by the Company against PwC and KPMG. Further details are provided in note 28.

For the year ended 31 December 2021, 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 2021 relates to the discontinued SFO investigation into former management of the Company. The release during 2020 relates to the discontinued SFO investigation into the Company and potential class action. Further details relating to the discontinued SFO investigation are included in note 20. This is partially offset by additional provisions in respect of the First Tier VAT Tribunal hearing, further details are included in note 31.

The legal settlement credits of £617,000 during 2020 relate to settlements with former management.

9. Employee numbers and staff costs

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

	2021	2020
	Number	Number
Front office technology, consulting and outsourcing	–	43
Back office management and administration	5	11
	5	54

Notes to the Financial Statements (continued)

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

	2021	2020
	£000	£000
Emoluments	1,499	2,124

The emoluments of the highest paid Director were £1,164,000 (2020: £1,796,000). No Director received contributions (2020: one Director received £3,000) to pension schemes. Further details are provided in the Directors' Remuneration Report and in particular the tables on page 10 form part of this note to the Financial Statements.

Total employee costs, including from discontinued operations, were as follows:

	2021	2020
	£000	£000
Wages and salaries	1,699	4,539
Social security costs	229	382
Pension costs	10	154
	1,938	5,075

Included in the total above are £nil (2020: £618,000) of salaries which were capitalised during the year in relation to software development.

10. Net finance income

Continuing operations:

	2021	2020
Year ended 31 December	£000	£000
Bank interest receivable	–	169
Total interest receivable	–	169
Foreign exchange loss on intercompany loans	(8)	(12)
Total interest payable	(8)	(12)
Net finance income	(8)	157

11. Taxation

Continuing operations:

	2021	2020
Year ended 31 December	£000	£000
The taxation credit comprises:		
Current tax:		
– Current year	–	–
Total current tax credit	–	–
Deferred tax expense:		
– Origination and reversal of temporary differences	–	–
Deferred tax credit	–	–
Total tax credit	–	–

Income tax for the UK is calculated at the standard rate of UK corporation tax of 19.0% (2020: 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:

	2021	2020
	£000	£000
(Loss)/profit before tax from continuing operations	(3,595)	7,683
Tax at 19.0% (2020: 19.0%) thereon	(683)	1,460
Effect of:		
Expenses not deductible for tax purposes	136	88
Losses eliminated on disposal	–	138
Unrecognised deferred tax on losses and fixed assets	–	–
Movement on provisions and movement on impairments	(101)	(664)
Movement on unrecognised deferred tax	511	675
Effect of lower tax rate overseas	–	–
Disposal of subsidiaries	137	(1,697)
Adjustments to tax charge in respect of prior periods	–	–
Total tax credit for the year	–	–

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 tax impact of the items included in the Consolidated Statement of Comprehensive Income is £nil (2020: £nil).

Deferred tax assets are recognised for tax losses available for carrying forward to the extent that the realisation of the related benefit through future taxable profits is probable. The total amount of intangibles that is expected to be deductible for tax for continuing business is £nil (2020: £nil). At the Statement of Financial Position date, there are unrecognised deferred tax assets of £13,040,000 (2020: £9,550,000).

Factors affecting future tax charges

In the budget on 3 March 2021, the UK Government announced an increase in the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The change in rate was substantively enacted on 24 May 2021. Unrecognised deferred tax assets and liabilities at 31 December 2021 have been measured using these newly enacted rates.

Notes to the Financial Statements (continued)

12. Earnings per share

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

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

The calculation of the basic and diluted earnings per share is based on the following data.

	2021	2020
	£000	£000
(Loss)/profit attributable to ordinary shareholders ^(a)	(3,592)	7,683
Less: Net loss from discontinued operations (including profit on disposal from discontinued operations) attributable to ordinary shareholders ^(c)	(135)	(8,887)
Loss attributable to ordinary shareholders from continuing activities ^(b)	(3,727)	(1,204)
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 2021 or 31 December 2020.

	2021	2020
	Pence	Pence
(a) Loss per share (pence):		
– Basic	(7.8)	16.7
– Diluted	(7.8)	16.7
(b) Loss per share from continuing operations (pence):		
– Basic	(8.1)	(2.6)
– Diluted	(8.1)	(2.6)
(c) Earnings per share from discontinued operations (pence):		
– Basic	0.3	19.3
– Diluted	0.3	19.3

13. Intangible assets

		2021	2020
	Note	£000	£000
Other intangible assets		–	–
Goodwill	14	–	–
		–	–

The movement in other intangible assets was as follows:

	Customer contracts, data, brands and relationships	IPR, software and licences	Total
	£000	£000	£000
Cost			
At 1 January 2020	2,800	2,854	5,654
Additions – internally generated	–	618	618
Disposals	(2,800)	(3,472)	(6,272)
At 1 January 2021	–	–	–
At 31 December 2021	–	–	–
Amortisation			
At 1 January 2020	2,800	2,035	4,835
Charge for the year	–	247	247
Disposals	(2,800)	(2,282)	(5,082)
At 1 January 2021	–	–	–
At 31 December 2021	–	–	–
Net book value			
At 31 December 2021	–	–	–
At 31 December 2020	–	–	–

All of these assets are recognised at fair value at acquisition or cost to purchase and are amortised over their estimated useful lives. Amortisation relating to discontinued activities during the year ended 31 December 2021 was £nil (2020: £247,000).

14. Goodwill

The movement in goodwill is as follows:

	Goodwill
	£000
Cost	
At 1 January 2020	59,150
Disposals	(59,150)
At 1 January 2021	–
At 31 December 2021	–
Impairment	
At 1 January 2020	59,150
Disposals	(59,150)
At 1 January 2021	–
At 31 December 2021	–
Net book value	
At 31 December 2021	–
At 31 December 2020	–

Notes to the Financial Statements (continued)

15. Property, plant and equipment

	Freehold land and buildings £000	Right of use assets £000	Leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost					
At 1 January 2020	–	1	343	1,809	2,153
Additions	–	–	–	790	790
Disposals	–	(1)	(343)	(2,599)	(2,943)
At 1 January 2021	–	–	–	–	–
At 31 December 2021	–	–	–	–	–
Depreciation					
At 1 January 2020	–	–	343	1,164	1,507
Charge for the year	–	1	–	611	612
Disposals	–	(1)	(343)	(1,775)	(2,119)
At 1 January 2020	–	–	–	–	–
At 31 December 2021	–	–	–	–	–
Net book value					
31 December 2021	–	–	–	–	–
31 December 2020	–	–	–	–	–

There were no material commitments for the acquisition of property, plant or equipment at either 31 December 2021 or 31 December 2020. During 2020, depreciation of £877,000 was charged on assets of the disposal groups prior to being classified as held for sale.

16. Investments

	Fair value degree observable	2021 £000	2020 £000
Investments carried at fair value	Level 3	–	–

In note 26, 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 36.

	Shares in investments £000
Cost	
At 1 January 2020	4,323
At 31 December 2020 and 31 December 2021	4,323
Impairment	
At 1 January 2020	4,323
At 31 December 2020 and 31 December 2021	4,323
Net book value	
At 31 December 2021	–
At 31 December 2020	–

Details of the fixed asset investment of the Group and of subsidiary undertakings are provided in note 36.

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. Trade and other receivables

	2021	2020
	£000	£000
Trade receivables (net of impairment provision)	–	81
Other receivables	1,880	2,352
Prepayments	30	35
	1,910	2,468

At both 31 December 2021 and 2020, 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 26.

18. Cash and cash equivalents

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

	2021	2020
	£000	£000
Cash	12,996	16,656
	12,996	16,656

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)

19. Trade and other payables

	2021	2020
	£000	£000
Current liabilities		
Trade payables	46	194
Payroll and other taxes including social security	47	70
Accruals	1,158	1,304
Other liabilities	–	240
	1,251	1,808

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
1 January 2020	1
Payments	(1)
1 January 2021	–
31 December 2021	–

20. Provisions

	Legal disputes	Onerous contracts	Other	Total
	£000	£000	£000	£000
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 1 January 2021	200	58	–	258
Unused amounts released	(187)	(47)	–	(234)
Used during the year	(13)	(11)	–	(24)
Additional provisions	129	–	–	129
At 31 December 2021	129	–	–	129
Split:				
Non-current	–	–	–	–
Current	129	–	–	129

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.

At 31 December 2020, the estimated costs of continuing to support the SFO with their enquiries in to individuals with which the Company is obliged to do were provided. During 2021 the SFO ceased their investigation into former management, therefore concluding all activity relating to the historic Group. The remaining provision for fees of £187,000 was therefore released to the income statement.

Additional provisions relate to the decision of the First Tier VAT Tribunal, further details are included in note 31.

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 related exclusively to the maximum exposure remaining under onerous property leases, the lease expired during 2021 and therefore no provision remains at 31 December 2021.

21. 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 2020	31	(30)	1
Credit to Income Statement	(31)	30	(1)
At 1 January 2021	-	-	-
At 31 December 2021	-	-	-
		2021	2020
		£000	£000
Deferred tax liabilities		-	-
		-	-

At the Statement of Financial Position date, there are unrecognised deferred tax assets of £13,035,000 (2020: £9,550,000).

22. Share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
	'000	£000	£000	£000
At 1 January 2021 and 31 December 2021	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)

23. Reserves

	2021	2020
	£000	£000
Share premium account	58,335	58,335
Reverse acquisition and merger reserve	(10,024)	(10,024)
Other equity reserves	22,988	22,988
Foreign currency translation reserve	(1,565)	(1,547)
Total other reserves	69,734	69,752
Retained earnings	(60,814)	(57,222)
Non-controlling interests	1	4

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

The 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.

Other equity reserves comprise:

	Equity reserve	Share consideration reserve	Total other equity reserves
	£000	£000	£000
At 1 January 2020	54	22,934	22,988
At 1 January 2020 and 31 December 2021	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.

24. Cash flow from operating activities

	2021	2020
	£000	£000
(Loss)/profit after tax	(3,595)	7,683
Tax	–	–
Net finance expense/(income)	(13)	239
Operating (loss)/profit	(3,608)	7,922
Adjustments for:		
– Depreciation of property, plant and equipment	–	612
– Amortisation of intangible assets	–	247
– Loss on disposal of plant, property and equipment	–	824
– Profit on disposal subsidiary undertakings and operations (note 32)	–	(10,268)
Operating cash flows before movements in working capital and provisions	(3,608)	(663)
Decrease in inventories	–	435
Decrease in trade and other receivables	540	5,702
Decrease in trade and other payables	(683)	(11,757)
Cash used by operations before exceptional costs	(3,751)	(6,283)

25. 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
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
2021					
Cash	16,656	–	(3,670)	10	12,996
Overdrafts and bank loans	–	–	–	–	–
Cash and cash equivalents	16,656	–	(3,670)	10	12,996
Net funds	16,656	–	(3,670)	10	12,996

Notes to the Financial Statements (continued)

26. 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 2021				
Trade and other receivables	1,880	–	1,880	1,880
Trade and other payables	–	(93)	(93)	(93)
Cash and cash equivalents	12,996	–	12,996	12,996
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

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

- 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
- 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.

(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:

- 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.

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.

	2021	2020
	£000	£000
Variable rate instruments	–	–

Liquidity risk

The Group holds significant cash reserves and no material debt. The Group has concluded that its cash reserves are adequate to ensure a sufficient level of liquidity to fund the ongoing litigation and operations of the Group's business together with any future investment needs. Liquidity risks are managed through regular forecasting, surplus funds are maintained in accessible deposits.

The following are the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
2021					
Trade and other payables	93	(93)	(93)	–	–
	93	(93)	(93)	–	–
2020					
Trade and other payables	264	(264)	(264)	–	–
	264	(264)	(264)	–	–

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 finance the development of its litigation assets 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.

Notes to the Financial Statements (continued)

Credit risk

Having disposed of its trading businesses the Group is not subject to any credit risk in respect of end customers and has no trade receivables. The remaining material receivable balances at 31 December 2021 relates to amounts held in escrow in support of ongoing litigation.

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:

	Note	2021 £000	2020 £000
Non-derivative financial assets			
Other receivables	18	1,880	2,352
Trade receivables	18	–	81
Cash and cash equivalents	20	12,996	16,656
		14,876	19,089

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

	2021 £000	2020 £000
UK	–	81
	–	81

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

	2021 £000	2020 £000
Sterling	–	81
	–	81

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

	2021 Gross £000	2021 Impairment £000	2021 Net £000	2020 Gross £000	2020 Impairment £000	2020 Net £000
Under 1 year	–	–	–	81	–	81
	–	–	–	81	–	81

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

	2021 £000	2020 £000
At 1 January	–	197
Provision for receivables impairment	–	480
Receivables written off	–	–
Unused amounts reversed	–	(588)
Transfer to assets held for sale	–	(89)
Exchange differences	–	–
At 31 December	–	–

27. 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 2021.

28. Contingent assets and liabilities

Litigation in relation to the historic activities of the Group is being pursued including claims against PricewaterhouseCoopers LLP, KPMG LLP and Aviva Canada Inc. 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.

29. Discontinued operations and disposals

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

	2021	2020
	£000	£000
Healthcare Services	–	(382)
Other Hubio	29	(29)
ingenie	106	(970)
Profit/(loss) for the year from discontinued operations net of tax	135	(1,381)

Net gain from discontinued operations:

	2021	2020
	£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 £3.0 million in cash payable on completion. In addition to the Initial Consideration, the Group was entitled to up to an aggregate of £2.5 million in cash payable conditional on the financial performance of the Ingenie Business during 2021. Due to the continuing impact of COVID-19 during 2021, in particular the reduction in driving tests, no further consideration became payable.

The results of the business have been included within Discontinued Operations within the Consolidated Income Statement.

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

Notes to the Financial Statements (continued)

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

	2021	2020
	£000	£000
Revenue	–	7,560
Expenses	106	(8,611)
Profit/(loss) before tax of discontinued operation	106	(1,051)
Tax	–	81
Profit/(loss) after tax of discontinued operation	106	(970)

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

	2021	2020
	£000	£000
Operating cash outflows	(110)	937
Investing cash flows	–	(1,408)
Financing cash flows	–	(451)
Total cash flows	(110)	(922)

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

Given the impact of COVID-19 upon the revenues of the disposed business in the year after disposal contingent consideration of up to a further CDN \$800,000 did not become payable.

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

	2021	2020
	£000	£000
Revenue	–	3,056
Expenses	–	(3,438)
Loss before tax of discontinued operation	–	(382)
Tax	–	–
Loss after tax of discontinued operation	–	(382)

The result for the year ended 31 December 2020 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:

	2021	2020
	£000	£000
Operating cash outflows	–	807
Investing cash flows	–	–
Financing cash flows	–	–
Total cash flows	–	807

30. 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.

	2021	2020
	£000	£000
Short-term employee benefits	1,499	2,121
Post-employment benefits	–	3
Termination benefits	–	–
	1,499	2,124

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 2021 were £nil (2020: £1,363,675) and the amount due to the Group at 31 December 2021 was £nil (31 December 2020: £nil).

Transactions with Directors and Key Management

There have been no transactions with Directors and Key Management during 2021 (2020: 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.

31. Post balance sheet events

Following a hearing held in December 2021, on 12 April 2022, Watchstone was informed of the decision of the First Tier Tribunal which found in favour of HMRC in respect of the appeal by Watchstone's subsidiary WTGIL Limited ("WTGIL"). The First Tier Tribunal found that WTGIL did not make any supplies of telematics devices or related services in the VAT periods 07/2014 to 07/2018. Accordingly, WTGIL's appeal was dismissed. WTGIL has consulted with its advisers and Counsel and intends to appeal to the Upper Tax Tribunal.

Company Financial Statements

Company Statement of Financial Position

as at 31 December 2021		2021	2020
	Note	£000	£000
Non-current assets			
Property, plant and equipment	35	–	–
Investments in subsidiaries	36	–	–
Investments	36	–	–
		–	–
Current assets			
Receivables	37	1,826	1,988
Cash and cash equivalents	38	12,762	16,400
Total current assets		14,588	18,388
Total assets		14,588	18,388
Current liabilities			
Trade and other payables	39	(2,452)	(2,525)
Provisions	39	(129)	(200)
Total current liabilities		(2,581)	(2,725)
Total liabilities		(2,581)	(2,725)
Net assets		12,007	15,663
Equity			
Share capital	41	4,604	4,604
Other reserves	42	59,207	59,207
Retained earnings	42	(51,804)	(48,148)
Total equity		12,007	15,663

The retained loss for the year ended 31 December 2021 was £3,656,000 (2020: profit of £21,169,000).

The Financial Statements of the Company, registered number 05542221, on pages 50 to 61 were approved by the Directors on 25 May 2022 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 2021		2021	2020
	Note	£000	£000
Cash flows from operating activities			
Cash used by operations before exceptional costs, net finance expense and tax	44	(3,722)	(6,413)
Net cash used by operating activities		(3,722)	(6,413)
Cash flows from investing activities			
Purchase of term deposit		–	(30,000)
Proceeds from maturing term deposits		–	45,000
Interest income		–	170
Loans that were made to group undertakings		84	20,226
Loans from group undertakings		–	–
Net cash generated from investing activities		84	35,396
Cash flows from financing activities			
Return of capital		–	(68,916)
Cash used by financing activities		–	(68,916)
Net decrease in cash and cash equivalents		(3,638)	(39,933)
Cash and cash equivalents at the beginning of the year		16,400	56,333
Cash and cash equivalents at the end of the year	38	12,762	16,400

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 2021	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 2021	4,604	58,335	818	54	–	59,207	(48,148)	15,663
Loss for the year	–	–	–	–	–	–	(3,656)	(3,656)
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	–
At 31 December 2021	4,604	58,335	818	54	–	59,207	(51,804)	12,007

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

32. 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.

33. 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 UK adopted 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 holds significant cash reserves and no material debt. The Company has concluded that its cash reserves together will be sufficient to fund the ongoing litigation and operations of the Company together with any future investment needs of the business.

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 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.

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.

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.

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 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.

34. Adoption of new and revised Standards

There are no new standards impacting the Company for the year ended 31 December 2021.

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 2022 and is not expected to have a material impact upon the Financial Statements of the Company:

- Amendment to IFRS 1 and IAS 12, relating to deferred tax assets and liabilities arising from a single transaction.
- Amendment to IFRS 16 relating to COVID-19 rent concessions.
- Taxonomy changes to various standards and 2020 general improvements cycle.
- Amendments to IAS 1, "Disclosure of Accounting Policies".
- Amendment to IAS 8, "Definition of Accounting Estimates".

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.

35. Property, plant and equipment

	Leasehold Land and Buildings – Right of use Assets	Total
	£000	£000
Cost		
At 1 January 2020	3	3
At 1 January 2021	3	3
At 31 December 2021	3	3
Depreciation		
At 1 January 2020	3	3
At 1 January 2021	3	3
At 31 December 2021	3	3
Net book value		
At 31 December 2021	–	–
At 31 December 2020	–	–

36. Investments

	Shares in investments	Shares in associates	Shares in group undertakings	Total
	£000	£000	£000	£000
Cost				
At 1 January 2020	1,500	–	109,683	111,183
Disposals	–	–	(9,026)	(9,026)
At 1 January 2020	1,500	–	100,657	102,157
At 31 December 2021	1,500	–	100,657	102,157
Impairment				
At 1 January 2020	1,500	–	103,386	104,886
Disposals	–	–	(2,729)	(2,729)
At 1 January 2021	1,500	–	100,657	102,157
At 31 December 2021	1,500	–	100,657	102,157
Net book value				
At 31 December 2021	–	–	–	–
At 31 December 2020	–	–	–	–

Notes to the Financial Statements (continued)

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

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
Investments incorporated in Canada		
<i>Registered Address: 100 King Street West, Suite 3400, One First Canadian Place, Toronto, Ontario, M5X 1A4</i>		
Hubio Solutions Inc	Indirect	
ingenie (Canada) Inc	Indirect	
Quindell Services Inc	Indirect	
Watchstone (Canada) Inc	Direct	
Investments incorporated in United Kingdom		
<i>Registered Address: Highfield Court, Tollgate, Chandlers Ford, Eastleigh, Hampshire SO53 3TY</i>		
Ingleby (1653) Limited~	Indirect	
Quindell Business Process Services Limited	Direct	98.40%
Watchstone Limited	Direct	
WTGIL Limited	Direct	
WTGISL Limited	Indirect	
<i>Registered Address: Quob Park, Titchfield Lane, Wickham, Fareham, Hampshire</i>		
OS3 Distribution Limited	Direct	5.29%
<i>Registered Address: 85 Great Portland Street, London, W1W 7LT</i>		
UPP Technologies Group Limited	Direct	0.70%
Investments incorporated in United States of America		
<i>Registered Address: 280 Madison Avenue, Room 912 – 9th Floor, New York 10016</i>		
SMI Telecoms LLC	Indirect	
<i>Registered Address: 925 N La Brea Avenue, 4th Floor, Los Angeles, CA 90038</i>		
WRDL3D Inc	Indirect	8.90%
<i>Registered Address: Corporation Service Company, 2711 Centerville Road, Ste 400, Wilmington, DE 19808</i>		
Iter8 (USA) Inc	Indirect	

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

The financial year ends of the Group's subsidiaries are 31 December. 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 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.

37. Receivables

	2021	2020
	£000	£000
Payroll and other taxes including social security	11	64
Other receivables	1,787	1,906
Prepayments	28	18
Amounts due from subsidiary undertakings	–	–
	1,826	1,988

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.

38. Cash and cash equivalents

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

	2021	2020
	£000	£000
Cash and cash equivalents	12,762	16,400

39. Liabilities

	2021	2020
	£000	£000
Current liabilities		
Payroll and other taxes including social security	47	–
Trade payables	46	116
Amounts owed to Group undertakings	1,258	1,279
Accruals	1,101	1,130
Provisions	–	200
	2,452	2,725

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 2020	1	1
Lease payments	(1)	(1)
At 1 January 2021	–	–
At 31 December 2021	–	–

Notes to the Financial Statements (continued)

The analysis of provisions is as follows:

	Legal disputes
	£000
At 1 January 2020	3,795
Unused amounts reversed	(3,495)
Used during the year	(100)
At 1 January 2021	200
Additional provisions	-
Unused amounts reversed	(187)
Used during the year	(13)
Additional provisions	129
At 31 December 2021	129
Split:	
Current	129

Details relating to legal provisions are included within note 20 under legal disputes and regulatory matters.

40. Financial instruments and financial risk management

(a) Financial instruments

The Company's financial instruments comprise:

- Loans and receivables comprising: trade and other receivables including amounts due from subsidiary undertakings £nil (2020: £nil);
- Other receivables of £1,787,000 (2020: £1,906,000), primarily representing amounts held in escrow.
- Cash and cash equivalents of £12,762,000 (2020: £16,400,000); and
- Other liabilities comprising: trade and other payables including amounts owed to Group undertakings of £1,267,000 (2020: £1,395,000).

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 26.

(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
2021					
Trade and other payables	46	(46)	(46)	-	-
Amounts owed to Group undertakings	1,258	(1,258)	(1,258)	-	-
	1,304	(1,304)	(1,304)	-	-
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)	-	-

Included within trade and other payables is an amount of CDN \$nil (2020: CDN \$nil); all other financial instruments are denominated in pounds sterling.

41. Called up share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
2021	'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
2020	'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.

42. Reserves

	2021	2020
	£000	£000
Share premium account	58,335	58,335
Merger reserve	818	818
Other equity reserve	54	54
Share-based payments reserve	–	–
Other reserves	59,207	59,207
Retained earnings	(51,804)	(48,148)

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

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

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

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

Further details relating to reserves are included in the Company Statement of Changes in Equity on page 52.

43. Income statement of the Company

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 to not disclose the Income Statement of the Company. The loss after taxation of the Company for the year ended 31 December 2021 was £3,496,000 (2020: Profit of £22,169,000).

Notes to the Financial Statements (continued)

44. Cash flow from operating activities

	2021	2020
	£000	£000
(Loss)/profit after tax	(3,656)	22,169
Tax	–	–
Finance income	(253)	(278)
Operating profit	(3,909)	21,891
Adjustments for:		
– Depreciation of property, plant and equipment	–	–
– Impairment of investments	–	–
– Reversal of impairment of intercompany	(720)	(392)
Operating cash flows before movements in working capital and provisions	(4,629)	21,499
Decrease in trade and other receivables	1,806	24,575
Decrease in trade and other payables	(899)	(52,487)
Cash used by operations before exceptional costs	(3,722)	(6,413)

Reconciliation of net cash flow to movement in net funds:

	1 January	Cash flow movements	31 December
	£000	£000	£000
2021			
Cash	16,400	(3,638)	12,762
Cash and cash equivalents	16,400	(3,638)	12,762
Net funds	16,400	(3,638)	12,762
	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

45. Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2021.

46. Contingent assets and liabilities

Litigation in relation to the historic activities of the Company is being pursued including a claim against PwC and its former auditor, KPMG, 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 28 where further details are provided.

47. 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 9 and 10 or as described in note 30.

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

	2021	2020
	£000	£000
Subsidiary undertakings:		
Purchases	(62)	(21)
Sales	626	828

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

	2021	2020
	£000	£000
Amounts due from subsidiary undertakings	110,183	110,904
Provisions for doubtful debts relating to amounts due from subsidiary undertakings	(110,183)	(110,904)
Net amounts due from subsidiary undertakings	–	–
Amounts due to subsidiary undertakings	(1,258)	(1,279)

48. Post balance sheet events

Following a hearing held in December 2021, on 12 April 2022, Watchstone was informed of the decision of the First Tier Tribunal which found in favour of HMRC in respect of the appeal by Watchstone's subsidiary WTGIL Limited ("WTGIL"). The First Tier Tribunal found that WTGIL did not make any supplies of telematics devices or related services in the VAT periods 07/2014 to 07/2018. Accordingly, WTGIL's appeal was dismissed. WTGIL has consulted with its advisers and Counsel and intends to appeal to the Upper Tax Tribunal.

49. 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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Company Registration No. 05542221

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