Watchstone Group plc

Interim Report for the 6 months

ended 30 June 2017

CHAIRMAN'S STATEMENT

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

With the stabilisation and improvement of our operating businesses, there is no undue pressure to dispose of any assets unless fair value is achieved.

Since 30 June 2017, we have disposed of Business Advisory Service Limited ("BAS") which was loss making, and presented no opportunity for additional shareholder value.

ptHealth and ingenie remain profitable and are growing with further opportunities for profit improvement from organic growth and margin enhancement.

Plans are well advanced to move to a smaller and significantly reduced Group cost structure by the end of 2017. To that end, as previously announced, two of our non-executive directors, David Currie and Tony Illsley will stand down from the Board on 30 September 2017. On behalf of the whole Board, I would like to thank them both for their contributions and commitment over the last few years in the challenging and complex situation faced by the Group.

We will continue to address the legal and regulatory matters that face the Group with focus and determination. We will continue to defend the litigation against the Group vigorously and will file our robust defence in respect of the Slater and Gordon litigation imminently.

There is still work to be done, both at the Group level and within our businesses, and I would like to thank our employees for their commitment and our shareholders for their support.

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

Richard Rose
Non-executive Chairman

GROUP CHIEF EXECUTIVE'S UPDATE

A full summary of actions and issues was presented in my update in our Annual Report published in May 2017 and the focus remains on dealing with legacy matters as well as improving the underlying results and ensuring our businesses are positioned in the best possible way for growth or future divesture.

We continue to make good progress in all areas and, with focus and energy, have continued to significantly reduce losses in both our underlying businesses and at Group level overall. Comparing H1 2017 with H1 2016, underlying Group revenue was up 4.6% and underlying EBITDA loss reduced by approximately 33%. In summary, positive momentum continues in all areas within our control.

Business review

Taking each of our operating businesses in turn:

Healthcare Services

Healthcare Services consists of our ptHealth clinics business and InnoCare. This business is growing, with revenue of £14.8m in H1 2017 an increase of 9% vs. 2016. H1 2017 EBITDA of £0.5m before central cost allocation is broadly flat compared to last year representing the continued investment we are making in the InnoCare software and services platforms. Investment in InnoCare's products and associated marketing will impact the overall Healthcare Services' profitability for the immediate future. However, we still expect Healthcare Services to be profitable in 2017.

ptHealth is focussed on clinic capacity utilisation and boosting sales of products to assist in patient recovery and/or treatments. During H1 2017, ptHealth clinics treated approximately 34,000 unique patients and have implemented action plans on selected under-performing clinics to boost margins.

InnoCare has recently enhanced its website, product suite and pricing and is showing some good early signs of momentum. The brand is now gaining good traction in its target market with strong PR being done earlier this year to drive this. The pipeline and conversion rates are both increasing.

ingenie

ingenie has delivered growth during the first 6 months of 2017. Revenue has increased to £7.7m in H1 2017 which is 10% higher than H1 2016. EBITDA before central cost allocation is flat as a result of continued investment in its technology platform and new product development costs. Live policies at the end of H1 2017 were up 7.5% vs. the end of 2016, with Gross Written Premium up 11% H1 2017 vs. H1 2016.

This revenue growth has been achieved in an environment of challenging market conditions following the announcement and implementation of the revised Ogden Discount rate in Q1 2017. The revised rate has given rise to industry-wide pricing volatility, which has not abated. This has management focus and is something which our team continues to work on with its underwriting panel.

ingenie remains able and committed to delivering a long term, sustainable loss ratio advantage to its underwriting panel and real benefits to its customers. Further enhancements have also been made within the Driver Behaviour Unit, re-enforcing ingenie's commitment to keeping young drivers safe on the roads through targeted interventions based on individual driving behaviour. In addition, new products are being developed to serve both its core and new markets.

ingenie's technology development has been focused on the continued evolution of the predictive nature of its scoring algorithms as well as providing identification of losses in real time. We are successfully building our data science and analytics experience across different types of telematics, so that we are not exclusively dependent on black boxes. A Try Before You Buy app was launched in conjunction with ANWB in the Netherlands. The partnership with ANWB continues to deliver to plan, demonstrating the ability to successfully translate the ingenie methodology into the mass market. The scheme celebrated its first anniversary and customer renewals in June. The technology division retains a clear focus on helping its partners to realise the commercial benefits of safer driving using its proprietary technology, telematics process blueprints and insight into behavioural change.

Hubio

As I said in my update in our Annual Report, Hubio has been the business which has most polarised shareholder opinion and has most needed reshaping and rationalising, for reasons which have been well documented.

Throughout 2017, we have therefore continued to make difficult decisions to further rationalise the businesses. As previously disclosed we have closed the Dundee development office and in addition our US office will also be closed by the end of this year with most employees having already left the business. In 2016, the business consumed £15.6 million of cash (including telematics). In H1 2017, this had reduced to £3.2 million (£1.9 million excluding telematics).

In Hubio Fleet, we recently launched a significantly updated, third party supplied, solution which includes an integrated camera option. We now have approximately 3,700 active subscriptions and a growing pipeline of sales opportunities. Through our sales and marketing teams we are focussed on expanding this customer base quickly.

After a determined and planned marketing program, Hubio Enterprise has started to win new business.

Hubio Exchange, our Canadian insurance portals business has been successfully re-focussed on its original "iter8" capabilities and is showing a healthy pipeline of opportunities, having recently relaunched some of its core platforms to be SaaS ready.

Non-underlying and exceptional items

During the period, we have closed Hubio's Dundee operation and also commenced the wind down of Hubio's US operations, which will be concluded by the end of the year with both of these operations now classified as non-underlying. Their exceptional closure costs are categorised and included within non-underlying administrative expenses.

Significant progress has been made towards resolution of the historic taxation matters allowing the release of over £7m of the existing provision. We have strengthened the provision for legal costs in relation to the Slater & Gordon claim by increasing it from £1m to £3.5m, to reflect our determination to robustly defend the action.

Cash

Cash and term deposits of our continuing businesses totalled £67.2m as at 30 June 2017. The reduction from £81.2m on 31 December 2016 is as a result of: a) £5.4m settlement of exceptional and other non-underlying liabilities from 2016; b) £3.9m outflow of central costs; c) £0.6m inflow from underlying business trading; and d) £3.3m outflow for non-underlying business.

As at 15 September 2017, the Group had cash and term deposits of £65.8m.

Update on legacy matters and divestures

In July 2017, we disposed of BAS, a loss-making business, for an enterprise value of £2.5m (satisfied as cash consideration of £1.5m and assumption of debt £1m) which, having run a sales process and taken advice, the Board considered to be fair value. The profit arising on sale of £2.5m, which is shown in note 10, will be in our full year accounts for 2017. BAS was operating in a highly competitive market and the business was not one in which we believed would ultimately deliver additional shareholder value.

As announced and anticipated, in June 2017, the Group was served with High Court proceedings issued by Slater & Gordon in respect of the disposal of the PSD in 2015. We are confident in our legal position and maintain that this claim is both groundless and without any merit.

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

There have been no further developments at this stage on the threatened class action litigation first announced in September 2015.

Outlook

I remain confident in the strategy we are pursuing and firmly believe that the Group is significantly stronger than the one I joined in September 2015. Second half trading in our underlying businesses is expected to be consistent with that experienced in the first half.

With the transition work well on track based on the plan I have already communicated, and the reduction in Board size and central activities, Watchstone is well placed to move to a simpler central structure with a significantly reduced cost base.

My successor Stefan Borson, currently Group General Counsel and Company Secretary and I continue to work closely together and I have every confidence that as Watchstone embarks on its next chapter, Stefan has the right credentials and experience to lead this business in the future. Stefan will take over as Group CEO and join the Board at the end of 2017.

There is still work to be done, both at the Group level and within our businesses, and I would like to thank our employees for their commitment and our shareholders for their support.

Indro Mukerjee
Group Chief Executive Officer

INDEPENDENT REVIEW REPORT TO WATCHSTONE GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2017 which comprises the Condensed Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and the AIM Rules

Emphasis of matter – uncertain outcome of a lawsuit

We draw attention to note 11.1 to the financial statements concerning the uncertain outcome of a lawsuit, alleging breach of warranty and/or fraudulent misrepresentation where the company is the defendant. The ultimate outcome of the matter cannot currently be determined, and no provision for any liability that may result has been made in the financial statements. Our opinion is not modified in respect of this matter.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

The annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Tudor Aw
for and on behalf of KPMG LLP
Chartered Accountants

15 Canada Square
London, E14 5GL
19 September 2017

Condensed Consolidated Income Statement

for the period ended 30 June 2017

	Note	Six months ended 30 June 2017			Six months ended 30 June 2016		
		2017 Underlying	**2017 Non-underlying**	**2017 Total**	2016 Underlying	2016 Non-underlying	2016 Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	4	**26,322**	**1,949**	**28,271**	25,167	5,075	30,242
Cost of sales		**(13,298)**	**(1,323)**	**(14,621)**	(12,862)	(3,247)	(16,109)
Gross Profit		**13,024**	**626**	**13,650**	12,305	1,828	14,133
Administrative expenses	5	**(16,308)**	**876**	**(15,432)**	(17,001)	(5,993)	(22,994)
Other income		**-**	**-**	**-**	-	186	186
Group operating (loss)/profit		**(3,284)**	**1,502**	**(1,782)**	(4,696)	(3,979)	(8,675)
Finance income		**259**	**-**	**259**	915	65	980
Finance expense		**(310)**	**(234)**	**(544)**	(380)	(36)	(416)
(Loss)/profit before taxation		**(3,335)**	**1,268**	**(2,067)**	(4,161)	(3,950)	(8,111)
Taxation		**486**	**125**	**611**	217	(24)	193
(Loss)/profit after taxation for the period from continuing operations		**(2,849)**	**1,393**	**(1,456)**	(3,944)	(3,974)	(7,918)
Net gain on disposal of discontinued operations	10	**-**	**-**	**-**	-	323	323
Loss for the period from discontinued operations	10	**-**	**(105)**	**(105)**	-	(124)	(124)
(Loss)/profit after taxation for the period		**(2,849)**	**1,288**	**(1,561)**	(3,944)	(3,775)	(7,719)
Attributable to:							
Equity holders of the parent		**(2,847)**	**1,288**	**(1,559)**	(3,895)	(3,775)	(7,670)
Non-controlling interests		**(2)**	**-**	**(2)**	(49)	-	(49)
		(2,849)	**1,288**	**(1,561)**	(3,944)	(3,775)	(7,719)
Loss per share (pence):							
Basic		**(6.2)**		**(3.4)**	(8.5)		(16.7)
Diluted		**(6.2)**		**(3.4)**	(8.5)		(16.7)
Loss per share from continuing activities (pence):							
Basic				**(3.2)**			(17.1)
Diluted				**(3.2)**			(17.1)

Consolidated Statement of Comprehensive Income

for the period ended 30 June 2017

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000
Loss after taxation	**(1,561)**	(7,719)
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**(490)**	764
Total comprehensive loss for the period	**(2,051)**	(6,955)
Attributable to:		
Equity holders of the parent	**(2,036)**	(6,906)
Non-controlling interests	**(15)**	(49)
From loss for the period	**(2,051)**	(6,955)

Condensed Consolidated Statement of Financial Position

as at 30 June 2017

	Note	**At 30 June 2017 £'000**	At 31 December 2016 £'000
Non-current assets			
Goodwill		**23,057**	23,221
Other intangible assets		**5,866**	6,259
Property, plant and equipment		**6,011**	6,293
		34,934	35,773
Current assets			
Inventories		**1,242**	941
Trade and other receivables	7	**8,693**	10,228
Corporation tax assets		**3**	355
Term deposits		**30,000**	37,500
Cash		**37,193**	43,714
		77,131	92,738
Assets of disposal group classified as held for sale	10	**2,234**	1,300
Total current assets		**79,365**	94,038
Total assets		**114,299**	129,811
Current liabilities			
Borrowings		**-**	(163)
Trade and other payables	8	**(20,547)**	(25,895)
Obligations under finance leases		**(47)**	(102)
Provisions	9	**(18,062)**	(27,816)
		(38,656)	(53,976)
Liabilities of disposal group classified as held for sale	10	**(2,402)**	-
Total current liabilities		**(41,058)**	(53,976)
Non-current liabilities			
Cumulative redeemable preference shares		**(6,013)**	(6,131)
Provisions	9	**(410)**	(425)
Deferred tax liabilities		**(291)**	(741)
		(6,714)	(7,297)
Total liabilities		**(47,772)**	(61,273)
Net assets		**66,527**	68,538
Equity			
Share capital	12	**4,604**	4,604
Other reserves		**142,742**	143,179
Retained earnings		**(81,777)**	(80,218)
Equity attributable to equity holders of the parent		**65,569**	67,565
Non-controlling interests		**958**	973
Total equity		**66,527**	68,538

Company Registration Number: 05542221

Condensed Consolidated Cash Flow Statement

for the period ended 30 June 2017

	Note	**Six months ended 30 June 2017 £'000**	Six months ended 30 June 2016 £'000
Cash flows from operating activities			
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	13	**(2,164)**	(4,486)
Non-underlying cash outflows excluding discontinued operations		**(7,432)**	(14,359)
Cash used in operations before net finance expense and tax		**(9,596)**	(18,845)
Corporation tax received		**514**	6,847
Net cash used by operating activities		**(9,082)**	(11,998)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,659)**	(2,661)
Purchase of intangible fixed assets		**(1,070)**	(188)
Disposal of subsidiaries net of cash foregone		**-**	4,013
Investment in term deposits		**(30,000)**	(45,000)
Maturity of term deposits		**37,500**	-
Interest income		**91**	42
Disposal of associated undertakings		**-**	86
Net cash generated from/(used by) investing activities		**3,862**	(43,708)
Cash flows from financing activities			
Net finance (expense)/income		**(378)**	765
Issue of share capital		**-**	8
Other		**8**	-
Finance lease repayments		**(61)**	(58)
Repayment of unsecured loans		**(163)**	-
Net cash generated from/(used by) financing activities		**(594)**	715
Net decrease in cash and cash equivalents		**(5,814)**	(54,991)
Cash and cash equivalents at the beginning of the period		**43,714**	103,839
Exchange losses on cash and cash equivalents		**(297)**	-
Cash and cash equivalents at the end of the period		**37,603**	48,848

Reconciliation of cash to net funds	
Term deposits	**30,000**
Cash	**37,193**
Cash included within amounts classified as held for sale	**410**
Net funds	**67,603**

Notes to the Interim Statements

1. Preparation of the condensed consolidated financial information

Basis of preparation

The interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with the AIM Rules and the recognition and measurement requirements of IFRSs as adopted by the EU. The interim financial information should be read in conjunction with the Group's Annual Report and Financial Statements for the year ended 31 December 2016, which has been prepared in accordance with IFRSs as adopted by the EU.

The comparative figures for the financial year ended 31 December 2016 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies.

The Group's business activities together with the factors that are likely to affect its future developments, performance and position are set out in the Chairman's Statement and Group Chief Executive's Update. The interim financial statements were approved by the Board of Directors on 19 September 2017.

Going Concern

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

On this basis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Group to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements. In forming this judgement, the Directors have taken into account the existence of a legal claim set out in note 11.1. Having taken legal advice on this claim, the Directors consider that the risk of this matter giving rise to a level of liability which would impact the ability of the company to remain a going concern is remote.

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge, this condensed set of consolidated financial statements have been prepared in accordance with the AIM Rules.

Significant Accounting Policies

The accounting policies applied by the Group in these interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations as of 1 January 2017, which did not have any impact on the accounting policies, financial position or performance of the Group, as noted below:

• Annual Improvements to IFRSs – 2010-2012 Cycle
• Annual Improvements to IFRSs – 2011-2013 Cycle

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made a number of judgements, and the preparation of financial statements 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 period. 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 30 June 2017 that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the current financial year are discussed below.

Recognition of revenue

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

Intangible assets

The Directors last reviewed the carrying value of intangible assets, comprising goodwill and other intangible assets, as at 31 December 2016 and the key elements of this review are contained in notes 14 and 15 to the Group's Annual Report and Financial Statements for the year ended 31 December 2016. No indications of possible additional impairment have been identified as at 30 June 2017. The Company capitalises internally generated development costs where these can be clearly and fully assessed against IAS 38 as per the policy laid out in note 2 to the Group's Annual Report and Financial Statements for the year ended 31 December 2016.

Identification of discontinued operations

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

Consideration receivable for and claim in respect of the Professional Services Division ("PSD")

£50,000,000 (plus interest) of the PSD sale consideration is retained in a joint escrow account until settlement or withdrawal of a claim. On 14 June 2017, the Group was served with High Court proceedings issued by Slater and Gordon (UK) 1 Limited ("S&G") for breach of warranty and/or fraudulent misrepresentation for a total amount of up to £637,000,000 plus interest in damages in respect of the disposal of the PSD in 2015.

In November 2016, a claim for fraudulent misrepresentation was dismissed by the independent barrister in respect of the warranty escrow process relating to the sale of the PSD. This opinion, which was formed on the basis of evidence provided by both S&G and Watchstone, stated that a misrepresentation claim was not a bona fide claim with a better than 50 per cent prospect of success.

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

The outcome of the claim is highly uncertain and therefore the carrying amount of the Group's receivable in respect of the consideration held in escrow is highly judgmental. At 31 December 2016, the Group had impaired in full its receivable in respect of this consideration and continues to do so at 30 June 2017. No provision has been made in respect of the claim.

Consideration for the sale of the PSD also included deferred, cash consideration and the Company has had to determine the fair value of this financial asset. At 30 June 2017 and 31 December 2016 the fair value has been assessed as £nil.

Provisions

The Group is aware of a number of legal and regulatory matters which, by their nature, are subject to significant judgement and uncertainty. All such matters are periodically assessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability and to evaluate the extent to which a reliable estimate of any liability can be made. However, the likely cost to the Group of the Serious Fraud Office ("SFO") investigation and any group litigation which may potentially be brought against the Group is subject to a number of significant uncertainties and these cannot currently be estimated reliably. Accordingly, no provision has been made in respect of these matters.

Deferred tax in connection with the continuing business operations

Other taxable losses have arisen during the year ended 31 December 2016 and the six months ended 30 June 2017 which have the potential to give rise to a deferred tax asset. This asset has not been recognised due to the extent of the continuing business losses incurred in the six months ended 30 June 2017 including head office costs, and the developing nature of the continuing businesses such that the expectation of profitability at sufficient quantum was not sufficiently certain within a reasonable timeframe.

Classification of underlying and non-underlying results

Management is required to exercise its judgement in the classification of certain items as exceptional and outside of the Group's underlying results. The determination of whether an item should be separately disclosed as an exceptional item or other adjustments requires judgement on its nature and incidence, as well as whether it provides clarity on the Group's underlying trading performance. In exercising this judgement, Management take appropriate regard of IAS 1 "Presentation of financial statements" as well as guidance issued by the European Securities and Markets Authority on the reporting of exceptional items and Alternative Performance Measures. To ensure the results are presented consistently between periods, where a business becomes non-underlying within the current period, the prior period results are represented on the same basis.

3. Key performance indicators

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000
Revenue:		
Hubio	**3,810**	4,589
ingenie	**7,738**	7,025
Healthcare Services	**14,774**	13,553
Total underlying revenue	**26,322**	25,167
Underlying gross profit margin	**49.5%**	48.9%
Underlying EBITDA (note 4)	**(2,362)**	(3,541)
Underlying group operating loss (note 4)	**(3,284)**	(4,696)

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000
Underlying revenue	**26,322**	25,167
Non underlying revenue	**1,949**	5,075
Total revenue	**28,271**	30,242
Underlying EBITDA	**(2,362)**	(3,541)
Underlying depreciation and amortisation*	**(922)**	(1,155)
Underlying group operating loss	**(3,284)**	(4,696)
Non-underlying group operating profit/(loss)	**1,502**	(3,979)
Group operating loss	**(1,782)**	(8,675)

	30 June 2017 £'000	31 December 2016 £'000
Cash and term deposits (continuing businesses)	**67,193**	93,848

*excludes depreciation of telematics devices of £1,611,000 (2016: £1,258,000) which is included within cost of sales and is therefore also included within underlying EBITDA.

Further detail regarding non-underlying results is provided in note 5.

4. Segmental reporting

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

During the period Metaskil Limited was disposed of and the decision was taken to wind down the non-fleet management telematics businesses of Hubio. Accordingly, the results of these businesses have been reclassified to non-underlying and the amounts for 2016 have been restated to be presented on a comparable basis.

Within the results of the discontinued operation are Business Advisory Services which was disposed of in July 2017 and therefore a separate segment for this is no longer presented. In 2016 discontinued operations additionally included Quintica Holdings Limited ("Quintica") and property services both of which were disposed of in 2016.

Segment information about these businesses is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. A reconciliation of alternative performance measure to nearest GAAP equivalents is presented in note 3.

	Hubio	ingenie	Healthcare Services	Central	Total
	£'000	£'000	£'000	£'000	£'000
Six months ended 30 June 2017					
Underlying revenue	**3,810**	**7,738**	**14,774**	**-**	**26,322**
Underlying cost of sales	**(1,388)**	**(4,081)**	**(7,829)**	**-**	**(13,298)**
Underlying gross profit	**2,422**	**3,657**	**6,945**	**-**	**13,024**
Underlying administrative expenses excluding depreciation and amortisation*	**(3,099)**	**(2,791)**	**(6,433)**	**(3,063)**	**(15,386)**
Underlying EBITDA before allocation of central costs	**(677)**	**866**	**512**	**(3,063)**	**(2,362)**
Allocation of central costs	**(559)**	**(358)**	**(340)**	**1,257**	**-**
Underlying EBITDA after allocation of central costs	**(1,236)**	**508**	**172**	**(1,806)**	**(2,362)**
Depreciation and amortisation*					**(922)**
Underlying group operating loss					**(3,284)**
Net finance expense					**(285)**
Underlying group loss before tax					**(3,569)**
Non-underlying adjustments					**1,502**
Total group loss before tax from continuing operations					**(2,067)**

	Hubio	**ingenie**	**Healthcare Services**	**Central**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Six months ended 30 June 2016					
Underlying revenue	4,589	7,025	13,553	-	25,167
Underlying cost of sales	(1,848)	(3,788)	(7,226)	-	(12,862)
Underlying gross profit	2,741	3,237	6,327	-	12,305
Administrative expenses excluding depreciation and amortisation*	(3,695)	(2,379)	(5,772)	(4,000)	(15,846)
Underlying EBITDA before allocation of central costs	(954)	858	555	(4,000)	(3,541)
Allocation of central costs	(436)	(291)	(189)	916	-
Underlying EBITDA after allocation of central costs	(1,390)	567	366	(3,084)	(3,541)
Depreciation and amortisation*					(1,155)
Underlying group operating loss					(4,696)
Net finance income					564
Underlying group loss before tax					(4,132)
Non-underlying adjustments					(3,979)
Total group loss before tax from continuing operations					(8,111)

* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £1,661,000 (2016: £1,258,000) which is included within cost of sales.

5. Non-underlying administrative expenses

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000
Exceptional items:		
- Corporate restructuring	**176**	-
- Business restructuring	**702**	(333)
- Legal and regulatory	**(4,532)**	(1,594)
- Impairment of non-cash assets	**100**	-
Total exceptional items	**(3,554)**	(1,927)
Other adjustments:		
- Share based payments	**43**	487
- Amortisation of acquired intangibles	**761**	1,321
- Other non-underlying administrative expenses	**1,874**	6,112
Total other adjustments	**2,678**	7,920
Total non-underlying administrative expenses	**(876)**	5,993

Corporate restructuring includes the costs of business disposals which cannot be taken to profit or loss on disposal. Business restructuring includes costs in relation to the restructuring of the Hubio telematics business (now included within non-underlying) and the closure of certain related locations.

The legal and regulatory credit of £4,532,000 for the period ended 30 June 2017 includes the release of unused tax related provisions of £7,050,000 which were created in previous periods, further details are provided in note 9. This was partially offset by the provision of £2,500,000 in respect of legal defence costs.

Other non-underlying administrative expenses relate principally to the central costs associated with discontinued operations and costs associated with the Hubio Telematics business and closure of Ingenie's Canadian operations.

6. Other income

	Six months ended 30 June 2017 £'000	Six months ended 30 June 2016 £'000
Rental Income	**-**	186
	-	186

7. Trade and other receivables

	30 June 2017 £'000	31 December 2016 £'000
Trade receivables (net of impairment provision)	**5,200**	7,247
Monies held in Escrow (net of impairment provision)	**-**	-
Other receivables	**1,754**	1,641
Prepayments	**1,475**	1,231
Accrued income	**264**	109
	8,693	10,228

8. Trade and other payables

	30 June 2017 £'000	31 December 2016 £'000
Current liabilities		
Trade payables	**2,291**	2,547
Payroll and other taxes including social security	**1,111**	1,641
Accruals	**9,019**	10,919
Deferred income	**7,336**	9,118
Other liabilities	**790**	1,670
	20,547	25,895

9. Provisions

	Tax related matters £'000	Legal disputes £'000	Onerous contracts £'000	Other £'000	Total £'000
At 1 January 2016	23,543	6,400	3,643	3,425	37,011
Additional provisions	-	13	-	1,003	1,016
Used during the year	-	(235)	(853)	(1,193)	(2,281)
Exchange movements	-	-	-	(7)	(7)
At 30 June 2016	23,543	6,178	2,790	3,228	35,739
At 1 January 2017	**15,093**	**6,114**	**2,719**	**4,315**	**28,241**
Additional provisions	**-**	**2,727**	**-**	**375**	**3,102**
Unused amounts released	**(7,050)**	**(46)**	**-**	**(386)**	**(7,482)**
Used during the year	**(2,413)**	**(881)**	**(625)**	**(1,442)**	**(5,361)**
Exchange movements	**-**	**-**	**(16)**	**(12)**	**(28)**
At 30 June 2017	**5,630**	**7,914**	**2,078**	**2,850**	**18,472**
Split:					
Non-current	-	-	410	-	410
Current	5,630	7,914	1,668	2,850	18,062

Tax related matters

A provision for tax-related matters had historically been established with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues.

Certain elements of the provisions held at 31 December 2016, mainly in respect of historic PAYE matters, have been settled during the period at amounts less than management's estimate of the expected outflow at the time of the preparation of the 31 December 2016 Financial Statements. Any provision held over and above any specific settlement amount has been released as unused.

Key judgements exist around the classification of certain transactions and therefore the related tax treatment. The amount provided represents the Directors' estimate of the likely outcome based upon the information available; however the ultimate settlement may be different. The Group is taking steps to resolve this and believe the majority will be settled within twelve months from the balance sheet date.

Legal disputes

Note 11 sets out details of three legal disputes in which the group is involved. The amount provided in respect of these legal cases is in respect of defence costs and is considered to be in the mid-range of possible outcomes given the uncertainty in relation to these outcomes. If successful in defending these disputes then the final costs may be lower than the total provision recognised above. Additional provisions in the table above relate to additional expected legal costs to defend these cases although no amounts have been provided for the costs of any actual settlement.

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

Onerous contracts

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. The timing and amount of these items can be reasonably determined. The majority of the amount provided at 31 December 2016 relates to three onerous property leases and therefore amounts used during the year relate to the ongoing costs of these obligations. Management are looking to sublet or settle these obligations within twelve months. The non-current amount is in respect of non-property related contracts.

Other

Provisions have been established for expected costs where a commitment has been made at the balance sheet date and for which no future benefit is anticipated. This primarily relates to three areas, commission clawback relating to non-underlying businesses, warranties provided by the Group and outstanding restructuring payments. £1,442,000 of the amount provided at 31 December 2016 has been utilised during the period and primarily relates to restructuring payments and commission clawbacks. With the exception of the restructuring payments, the exact timing and quantum of the amounts is uncertain and the provision is based upon historic trends in these businesses. The amounts of the restructuring provision can be reasonably estimated and are time bound within an upper limit of one year.

10. Disposals

Metaskil Limited ("Metaskil")

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

Business Advisory Services Limited ("BAS")

The sale of BAS and its subsidiary Watchstone Business Process Outsourcing (Pty) Limited ("WBPO") completed in July 2017. Following the completion of the disposal the Group ceased to operate in the energy broking sector. Accordingly, the results of these business have been classified as discontinued in the Condensed Income Statement for the period to 30 June 2017 and represented on the same basis for the period to 30 June 2016. The assets and liabilities of these businesses are classified as held for sale in the Condensed Statement of Financial Position at 30 June 2017.

IFRS 5 requires the disposal group to be measured at the lower of its carrying value and its fair value less costs to sell. Accordingly, an impairment reversal of £135,000 was recognised in the discontinued activities in the period ended 30 June 2017.

	£'000
Enterprise value	**2,500**
Satisfied by:	
Cash consideration	**(1,500)**
Assumption of debt	**(1,000)**

The profit arising on sale in July 2017 is as follows and has accordingly not been recognised in the Condensed Income Statement in the period to 30 June 2017:

	£'000
Sales proceeds	**1,500**
Net liabilities at disposal	**1,391**
Expenses and other costs of sale	**(293)**
Profit arising on sale	**2,598**

11. Contingent liabilities

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

11.1 On 14 June 2017, the Group was served with High Court proceedings issued by S&G for breach of warranty and/or fraudulent misrepresentation for a total amount of up to £637,000,000 plus interest in damages in respect of the disposal of the PSD in 2015, further details of which are provided in note 2. Having taken external advice, no liability has been recognised at the balance sheet date as, in management's opinion, it is more likely than not that the Group will successfully defend these claims.

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

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

12. Share capital

	30 June 2017		31 December 2016	
	Number 000's	**Nominal value £'000**	Number 000's	Nominal value £'000
Issued and fully paid shares:	**45,963**	**4,596**	45,963	4,596
Issued and not fully paid	**75**	**8**	75	8
At the end of the period	**46,038**	**4,604**	46,038	4,604

13. Cash flow from operating activities

	Six months ended 30 June 2017	Six months ended 30 June 2016
Loss after tax	**(1,561)**	(7,719)
Tax	**(611)**	(193)
Finance expense	**544**	421
Finance income	**(259)**	(960)
Operating loss	**(1,887)**	(8,451)
Adjustments for:		
Non underlying cash out flows excluding discontinued operations	**7,432**	14,359
Share-based payments	**43**	463
Depreciation of property, plant and equipment	**2,197**	2,038
Amortisation of intangible assets	**1,410**	2,235
Impairment of goodwill	**(135)**	-
Loss on disposal of plant, property and equipment	**584**	643
Profit on disposal of interests in subsidiary undertakings and operations (note 9)	**-**	(323)
Operating cash flows before movements in working capital and provisions	**9,644**	10,964
(Increase)/decrease in inventories	**(301)**	13
Increase/(decrease) in trade and other receivables	**1,205**	(2,060)
Decrease in trade and other payables	**(12,712)**	(13,403)
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	**(2,164)**	(4,486)

14. Post balance sheet events

In July 2017, the Group disposed of its interest in BAS and its subsidiary, WBPO. Further details are provided in note 10.

Officers and Advisors

Directors

Richard Rose – Non-Executive Chairman
Indro Mukerjee – Chief Executive Officer
Mark Williams – Chief Financial Officer
David Currie – Non Executive
Tony Illsley – Non Executive
The Rt Hon Lord Howard of Lympne – Senior Non Executive
David Young – Non Executive

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