Watchstone.

Watchstone Group plc

Annual Report and Financial Statements for the year ended 31 December 2017

In this year's Report

Key Summary

- Underlying* business revenues increase to £44.9m (2016: £42.7m). Total revenues of £44.9m (2016: £43.6m)
- Underlying EBITDA** loss of £3.6m (2016: £4.9m)
- Group operating loss of £7.4m (2016: £4.5m)
- Total loss after tax £2.6m (2016: £69.1m)
- Group net assets of £66.1m representing approximately 144 pence per share
- Group cash and term deposits at 31 December 2017 of £62.8m
- Continued reduction in Group complexity through closure of the majority of loss making, cash consumptive businesses
- Successful resolution of a number of legacy tax matters and other obligations resulting in the release of provisions of £10.3m (2016: £10.7m)

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

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

Chairman's Report

2017 was another year of change for the Group but much has been achieved and we entered 2018 with a clear direction of travel in respect of the outstanding legacy issues and our two remaining operating businesses.

During 2017, we substantially completed the work to simplify and rationalise the Group involving the closure or disposal of loss making businesses and significantly reducing the size and cost of the central overhead. The succession to Stefan Borson as Group Chief Executive Officer has been smooth and the central team now comprises just three full time staff to assist Stefan and Mark Williams, and the Board has been reduced in size. The full benefit of these changes will only be seen in 2018 but are expected to reduce the central costs by approximately half.

We remain on track with the 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 focus of strengthened management teams in ingenie and ptHealth including a new CEO in ingenie, new Chairmen in both and other senior hires, the businesses will be given the time to develop and grow.

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

We will continue to address the legal and regulatory matters that face the Group with focus and determination. In 2017, and to date in 2018, we have resolved multiple matters but the largest of our litigation and threatened litigation remain outstanding.

Slater & Gordon (UK) 1 Limited's ("Slater & Gordon") claim in respect of the disposal of the Professional Services Division ("PSD") is ongoing and we filed a robust and detailed defence in October 2017. Our position resolutely remains that Slater & Gordon's allegations are wholly without merit and should never have been advanced. During the year, we increased the provision for legal costs in relation to this claim, reflecting our determination to robustly defend the action to trial.

There is still much work to be done, both at the Group level and within our businesses, and I would like to thank our colleagues for their commitment. On behalf of the whole Board, I would also like to thank each of the directors who left the Board in 2017 for their contributions and commitment over the last few years in the challenging and complex situation faced by the Group.

I would also like to thank our shareholders who have been patient and maintained support for the Company as the intense work to deliver the best 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

I am pleased to present my first update as Group Chief Executive Officer and to lead the Group in this next phase. Our focus remains on resolving all of our legacy matters as efficiently as possible and generating as much value as we can from our remaining businesses, ingenie and ptHealth.

Each business has a clear strategy as well as high quality and ambitious management teams and we are confident that in time they will reward our shareholders' patience.

The Group losses are now stemmed and the central team efficiently run. Until we resolve the Slater & Gordon litigation we will not be able to distribute capital to shareholders but that remains our ultimate aim. We are determined to fight off what we consider an unmeritorious claim. Further, we remain in active dialogue with Slater & Gordon regarding any deferred consideration due from Noise Induced Hearing Loss ("NIHL") cases.

For the year ended 31 December 2017, we were able to show underlying sales growth of approximately 5% and reducing underlying EBITDA loss to £3.6m in 2017 vs. £4.9m in 2016. The full year benefits of the continued restructuring during 2017 are not fully reflected in the numbers and we would anticipate continued improvement in EBITDA in 2018. Total revenues of £44.8m grew by 3%, reflecting the lack of revenues from non-underlying businesses in 2017 and total loss after tax for the year was £2.6m (2016: £69.1m).

Business Review

Taking each of the operating businesses in turn:

1. Healthcare Services

Our Healthcare Services activities consist of our ptHealth clinics business as well as InnoCare, which sells software and services to independent clinics in Canada. Healthcare Services performed satisfactorily in 2017, with revenue increasing by 6% and an EBITDA of £0.7m.

Healthcare Services in 2017 at a glance

- In 2017, ptHealth and InnoCare treated an average of 3,095 patients a day with over 750,000 visits for the year
- Of the 4,588 patients surveyed (up from 2,958 from 2016) 97% said they would recommend us (up by 1% vs 2016)
- Over 1,300 Practitioners use InnoCare software, an increase of 8% over 2016

2. ingenie

Whilst revenue for the year increased to £14.4m, ingenie had a challenging end to the year. The impact of changes to the Ogden discount rate created instability in motor policy pricing, which particularly affects ingenie's young driver market. Reflecting this and continued investment in its technology platform, profitability was below 2016. The impact of these factors has extended into 2018 and volumes continue to be affected. The team has a detailed plan to address these challenges and to broaden its product range as well as targeting more new B2B business. These market challenges and the consequential impact on volumes and its revenues in the year has been reflected in a reduction of the long-term growth forecast for the business and resulted in an impairment charge of £5.6m in the year ended 31 December 2017. The programme supporting our external customer in the Netherlands, ANWB, continues to perform well, endorsing our technology and market leading approach to road safety and motor insurance pricing.

In December 2017, Selim Cavanagh joined ingenie as Chief Executive Officer from LexisNexis Risk Solutions, where he held various senior roles including VP Telematics, VP Motor Insurance and MD of its Wunelli telematics business unit, after a background in consumer insurance at AXA UK. ingenie will benefit from Selim's 20 years of experience in delivering data, IT and research-based motor insurance solutions.

The ingenie Board has also been strengthened by David Young, one of our Group Non-executive Directors taking the Chair at ingenie. The new Board is working well with multiple new initiatives to drive the future value of ingenie and we have a pipeline of exciting new product offerings, features and technologies to launch over the coming months.

Group Chief Executive's Update (continued)

ingenie in 2017 at a glance

- Driving and safety improvements achieved by the combination of technology and psychology:
  - 99% ingenie drivers activate their feedback account
  - ingenie drivers engages 9x per month via feedback app
  - 12% reduction in highly dangerous driving messages generated by customers from 2016 to 2017
  - 92% drivers proven to improve after ingenie coaching on driving speed
- Facebook and Twitter followers exceed 50,000
- ingenie B2B managed over 170,000 policies in 2017
- ingenie B2B revenue growth of 107%

Update on legacy matters

Whilst we successfully resolved a number of historic matters in the year (and since the year-end), the Slater & Gordon claim is ongoing and we filed our defence in October 2017. Our position remains that Slater & Gordon's allegations of deceit and the associated breach of warranty claim are wholly without merit and should never have been advanced.

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 (but not commenced) class action litigation first announced in September 2015.

2018 outlook

The Group enters 2018 a far simpler business and we expect this year will be a period of re-focus and development for ptHealth and ingenie. Both will be encouraged to invest ambitiously but prudently.

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

ingenie's current volumes are being addressed in partnership with its underwriting panel and by the development of new product offerings that will launch during 2018.

Central costs will be carefully managed at greatly reduced levels consistent with the unresolved legacy matters and the needs of the organisation.

Stefan Borson
Group Chief Executive Officer

Strategic Report

1. Business Review

1.1 About Watchstone

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

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

Healthcare Services

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

ingenie

- is an insurance broker focused on helping young drivers use the road safely and affordably. Using telematics technology, ingenie gives its community discounts, feedback and bespoke advice via its Driver Behaviour Unit to help them improve their driving skills whilst staying safe. It provides its telematics technology to certain third parties as a technology solutions provider.

1.2 Overview of 2017

1.2.1 Reducing Group complexity

During the year, we took action to reduce the breadth of the Group's operations to retain only profitable and cash generative businesses. This allowed us to reduce the central operation and overhead, whilst continuing our efforts to resolve the historical and legacy matters.

We resolved the future of a number of businesses that were (and were likely to continue to be) loss making and cash consumptive, including disposing of:

- Metaskil Limited ("Metaskil"), a recruitment and agency provider in March;
- Business Advisory Services Limited ("BAS"), the Group's energy broking business in July; and
- the trade and assets of Hubio Technologies Limited ("HTL") in October.

Full details of the disposals are shown in 1.5 below.

Actions were also taken to dispose of two further businesses during the year, although these did not complete until after the year end. Consequently, the assets and liabilities are classified as held for sale in the Consolidated Statement of Financial Position at 31 December 2017. These included:

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

The remaining businesses within the Hubio operating segment were all closed or substantially wound down during the year; including the North American telematics operation and Hubio's IT development operation in Dundee.

1.2.2 Continuing business activities

ptHealth has continued to develop its software and services offering, branded InnoCare. In addition, it has focussed on improving its operational efficiency and productivity in its core clinic operation.

ingenie's focus has been on working with a panel of insurers, with expert marketing skills to attract the new drivers and utilising technology to reduce driver risk and, therefore, the likelihood of claims.

As has been widely reported, the impact of the Ogden rate uncertainty and industry-wide reductions in personal injury frequency resulted in competitive pricing pressure in the final months of 2017 and this has continued into 2018. This was particularly so in the young driver market which is highly sensitive to price. Whilst ingenie has been working with its panel to take actions to address these challenges, its volumes have been hit by the pricing, market volatility and uncertainty. Steps have been, and are being, taken to broaden our panel of underwriters and our pricing methodologies, to achieve better rates and to mitigate the reduced volume through higher margin channels. ingenie B2B has continued to provide an operational and technology platform service to ANWB with its own distribution and customer base.

Strategic Report (continued)

1.2.3 Resolving legacy matters

At Group level, continued progress has been made in addressing the historical issues, liabilities and assets with a number of resolutions in 2017 and since the year-end.

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

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

Conduct of taxation matters

During the year, settlement took place in relation to the majority of outstanding legacy taxation matters with HMRC allowing the release of £9.1m of the historic provision.

Litigation

We have further increased the provision for legal costs in relation to the Slater & Gordon claim by increasing it from £1.0m to £3.2m, to reflect our determination to robustly defend the action.

Property

The Group vacated its former head office in Fareham during 2016 and the property was disposed of during 2017 for £1.3m. Other onerous property leases have also been resolved during 2017 allowing small provision releases to be made.

1.3 Overview of Financial Statements

The Financial Statements are presented on pages 29 to 95.

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

- **Disposal and closure of loss making businesses** has resulted in the reclassification of these businesses into discontinued operations. This includes all Hubio businesses, BAS and Metaskil. Revenues up to the date of sale or closure, which have not been included in continuing operations are £10.5m and some £15.0m has been restated to be excluded from 2016;
- **Resolution and settlement of historical issues** has progressed such that total provisions now stand at £13.1m representing a net reduction of £15.1m, being settlements of £8.8m and a net release of provisions no longer required of £10.3m with a partial offset of an additional provision of £4.0m (primarily relating to legal fees);
- **Impairment of ingenie goodwill**. As detailed above, market challenges and the consequential impact on volumes and its revenues in the year has been reflected in a reduction of the long-term growth forecast for the business and resulted in an impairment charge of £5.6m in the year ended 31 December 2017;
- **Release of amounts accrued in respect of outstanding preference shares**. As a consequence of the expiration of a redemption option at 31 December 2017, there is no present obligation that requires the Group to accrue interest relating to undeclared dividends on the ptHealth Series 'A' preference shares ("pt Preference Shares") owned by third parties. Accrued interest as at 31 December 2016 of £2.4m has, therefore, been released to finance expense within non-underlying results; and
- **Escrow relating to the disposal of the PSD**. Included in current assets is the escrow amount of £50.1m ("Warranty Escrow") which was fully impaired during the year ended 31 December 2016 to a carrying value of nil.

1.4 Acquisitions and Investments

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

1.5 Disposals

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

1.5.1 Business Advisory Services Limited

In July 2017, the Group disposed of the entire issued share capital of BAS, a UK based energy broking business with its call centre operating through a subsidiary in South Africa.

For the year ended 31 December 2017, up to the point of its sale, BAS recorded a loss of £0.6m (full year ended 31 December 2016: £0.4m loss).

Total consideration was approximately £2.5m; being £1.5m cash and assumption of debt by the buyer of £1.0m. When BAS was acquired, the consideration was largely satisfied in ordinary shares, giving rise to goodwill of £7.3m. The Group recognised an impairment of goodwill in the results to 31 December 2014 of £3.6m and a further £3.1m in the year ended 31 December 2016. The other intangible assets of the business were also written down at the same time. These impairments reflected the forecast results of the business at the prevailing market conditions at each year end date. The disposal gave rise to a profit of £2.6m, immediately prior to which, the fair value of the assets and liabilities held for sale were reassessed and an impairment reversal of other intangibles of £0.1m was recognised within the results of discontinued operations.

1.5.2 Disposal of the trade and assets of Hubio Technologies Limited

During 2017, the Group transferred the trade and assets of HTL, to ICE Insuretech Limited (“ICE”), a wholly owned subsidiary of HTL. Subsequently, the entire share capital of ICE was sold to Acturis International Limited for cash consideration of £3.5m.

For the year ended 31 December 2017, up to the point of sale, HTL recorded a loss of £0.4m (full year ended 31 December 2016: £0.5m loss).

The Group had previously impaired the carrying value of goodwill of £1.4m. The profit arising on disposal was £2.3m.

1.5.3 Disposal of Metaskil Limited

In March 2017, the Group sold the resourcing and recruitment business, Metaskil for a total consideration of £1, at no profit or loss on disposal.

1.6 Claim relating to the disposal of the PSD

Notwithstanding the Group’s view as to the lack of merits of the Slater & Gordon claim, as set out in the results for the year ended 31 December 2016, the Group established an impairment provision for the full amount of the Warranty Escrow and net this against the balance resulting in a £nil carrying amount as at 31 December 2016. There has been no change to this impairment as at 31 December 2017 (save that relating to the interest on the Warranty Escrow).

The disposal of the PSD contained an element of deferred consideration in relation to future receipts arising on NIHL cases which were current at completion. The sale and purchase agreement provides that the Group will receive 50% of the net after tax receipts (after allowing for administrative costs) collected on the NIHL cases outstanding at completion. Approximately 53,000 NIHL cases were active and transferred at completion. Any amounts due are determined on a six-monthly basis and the process was due to continue until 30 June 2017 when a terminal value projection of expected receipts was due to be agreed. No agreement has been reached and the process will, therefore, continue every six months until the earlier of the date when a terminal value is agreed or 31 December 2018. If a terminal value cannot be agreed by the parties, then the provisions of the sale and purchase agreement shall apply and an independent firm of chartered accountants shall determine such terminal value to be paid.

To date, based on the information supplied by Slater & Gordon (which is subject to dispute by the Group) and the uncertainty of the outcome of the NIHL cases, the deferred consideration has been determined as £nil (2016: £nil) on the Group’s balance sheet.

1.7 Business closures

As part of the strategic restructuring of the Group, two business operations within the then Hubio business segment were closed during the year, namely the North American telematics operation and Hubio’s IT development operation in Dundee.

Strategic Report (continued)

1.8 Retained earnings

The Company has negative distributable reserves of £77.5m and unrealised profit amounts totalling £0.5m in retained earnings as at 31 December 2017.

1.9 Impairments of goodwill

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

£m	Goodwill
Net at 31 December 2017 before impairment	23.0
Impairments	
ingenie	(5.6)
As at 31 December 2017	
ingenie	9.1
Healthcare Services	8.3
Total	**17.4**

1.10 Discontinued operations and assets available for sale

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

1.11 Post balance sheet events

In January 2018 and in March 2018, the Company reached settlements with former management and former vendors of businesses in relation to a number of disputed issues. Further details are provided in Note 35 to the Financial Statements.

Also, in January 2018, as noted in section 1.9 above, the Group disposed of the non-telematics assets of its Canadian subsidiary including the iter8 suite of products. In February 2018, the Group disposed of its Hubio Fleet business.

2. Financial Review

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

2.1 KPIs and Alternative Performance Measures

Throughout 2017, the Board used a number of measures some of which are not statutory accounting measures to determine the performance of the Group. The principal KPIs are as set out in Note 5 to the Financial Statements, which provides a breakdown of underlying EBITDA and underlying Group operating loss. The KPIs are summarised in the following table:

Underlying business

	Year ended 31 December 2017	Year ended 31 December 2016
KPI	**£000**	£000
Revenue	**44,880**	42,684
Gross profit margin	**45.2%**	45.9%
EBITDA	**(3,610)**	(4,902)
Group operating loss	**(4,681)**	(6,044)
Loss before tax	**(4,433)**	(5,807)
Basic earnings (pence per share)	**(8.0)**	(7.4)

2.2 Business performance and results

2.2.1 Revenue

Underlying revenue for 2017 was £44.9m (2016: £42.7m).

ingenie's revenues, which comprise income relating to insurance and from the provision of its technology and platform, rose to £14.4m in 2017 (2016: £13.9m). Broking revenues were under pressure in the second half of the year, particularly as its panel of insurers to which customers are referred adversely revised their pricing due to the disruption caused by the Ogden review.

Healthcare Services' (being ptHealth including InnoCare) major source of revenues is from the provision of physiotherapy and similar services and this business showed an increase in the year to £30.5m (2016: £28.8m).

2.2.2 Underlying EBITDA and Operating result

EBITDA on an underlying basis, was a loss of £3.6m, (2016: £4.9m) and is considered as follows:

- ingenie in the UK generated an underlying profit of £1.3m (2016: £1.4m), reflecting the difficult insurance conditions in the second half of the year.
- Healthcare Services reported an underlying profit of £0.7m (2016: £1.2m). The reported profit was after making the necessary investment required to develop and grow the InnoCare software and services and reflecting a heightened focus on cost control and elimination of loss making clinics.

- Underlying central expenses totalled £5.6m in 2017 (2016: £7.5m). Some £3.9m was spent on Board and other staff costs (2016: £4.3m) with legal, financial and other professional adviser and consultancy costs totalling £1.1m (2016: £2.0m). The central team has been significantly restructured during 2017 and has started 2018 with a greatly reduced cost base and scale. The reduction in professional advisory and consultancy costs reflects the stabilisation and the reduced complexity, risk and reporting requirements following the closure and disposal programme.
- Central costs have been identified as underlying and non-underlying and treated accordingly. In previous years, underlying costs were further split and allocated to the business units where a link to that business unit has been established. Given the strategic decision to increasingly run the businesses separately this allocation is no longer performed.
- Group operating loss totalled £7.4m (2016: £4.5m) with £4.7m (2016: £6.0m) reflecting the profits from underlying business operations less underlying central costs.

2.2.3 Non-underlying including exceptional items

Non-underlying items are adjustments to Group results which are considered to either be exceptional in size, nature or incidence, relate to businesses which do not form part of the continuing business of the Group, or have potential significant variability year on year in non-cash items which might mask underlying trading performance. Further details are provided in Note 1.

Excluding businesses classified as discontinued there were no revenues from non-underlying businesses in 2017 (2016: £1.0m).

The Group has reported a net expense of £0.2m in respect of exceptional items (2016: net credit of £7.1m). Impairment of non-cash assets totalled £5.6m (2016: £nil, within continuing operations), being impairment of ingenie goodwill. A credit of £9.0m (2016: £5.8m) arises from the successful resolution of legacy tax issues with unutilised provisions being reversed. The legal and regulatory expense of £3.5m primarily relates to the increase in the provision for legal fees in respect of the defence of the Slater & Gordon claim (2016: credit of £1.1m).

2.2.4 Loss before tax

The Group has incurred a continuing loss before tax of £5.0m for the year (2016: loss of £3.4m), of which some £4.4m (2016: loss of £5.8m) derived from the underlying business activities.

2.2.5 Cashflow

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

The Group has experienced net cash outflows, excluding the impact of movements in term deposits, of £18.4m for the year (2016: cash outflows £22.0m) resulting in a closing balance of cash and term deposits of £62.8m (2016: £81.2m). A summary of flows by business is shown below:

	2017	2016
Year ended 31 December £m	**£m**	£m
Underlying business cash flows:		
ingenie	**(0.3)**	1.8
Healthcare Services	**(0.8)**	0.8
Central	**(7.3)**	(9.5)
Total underlying	**(8.4)**	**(6.9)**
Non –underlying trading (inc. discontinued)	**(7.6)**	(9.5)
Other non-underlying	**(2.4)**	(5.6)
Total non-underlying	**(10.0)**	**(15.1)**
Overall cash flow	**(18.4)**	(22.0)
Opening cash including term deposit investments	**81.2**	103.2
Closing cash including term deposits investments	**62.8**	**81.2**
Analysed as:		
Term deposits	**40.0**	37.5
Cash	**22.8**	43.7

2.2.6 Balance Sheet

The net assets shown in the Statement of Financial Position at 31 December 2017 were £66.1m (2016: £68.5m).

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

Strategic Report (continued)

Balance sheet movement summary

	Central	Healthcare Services	ingenie	Discontinued and non-underlying	Total Group
	£m	£m	£m	£m	£m
At 31 December 2016	**49.1**	**7.8**	**18.2**	**(6.6)**	**68.5**
Underlying EBITDA	(5.6)	0.7	1.3	–	(3.6)
Discontinued and NUL EBITDA	(1.3)	–	–	(2.3)	(3.6)
Exceptional items	5.0	–	(5.6)	5.4	4.8
Net preference share credit	–	2.4	–	–	2.4
Other income statement items	0.8	(1.5)	(0.9)	(1.0)	(2.6)
Other balance sheet and reserves movements including foreign exchange	(3.5)	(0.5)	0.2	4.0	0.2
At 31 December 2017	**44.5**	**8.9**	**13.2**	**(0.5)**	**66.1**

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

	2017	2016
As at 31 December	**£m**	£m
Cash including term deposits	**62.8**	81.2
Escrow balances (Gross £50.1m less impairment £50.1m)	**–**	–
Other net current liabilities/assets	**(19.5)**	(41.2)
Creditors, loans and provisions over one year	**(4.0)**	(7.3)
Non-cash assets	**26.8**	35.8
Net Assets	**66.1**	68.5

2.2.7 Earnings per share

The underlying basic and diluted EPS, as defined in Note 12 to the Financial Statements, was a loss of 8.0 pence per share (2016: loss of 7.4 pence per share).

2.3 Going Concern

The Group has significantly reduced its working capital requirements through the disposal of a number of non-core and/or loss making businesses. The Group holds significant cash reserves and no material debt (other than the pt Preference Shares which are classified as debt in accordance with IAS 32). The Group has concluded that its cash reserves together with ongoing operating cash flows will be sufficient to fund the ongoing operations of the Group's businesses together with any future development needs of those businesses, and the settlement of legacy matters.

On this basis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Group to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements. In forming this judgement, the Directors have taken into account the existence of a legal claim set out in Note 33. Having taken legal advice on this claim, the Directors consider that the risk of this matter giving rise to a level of liability which would impact the ability of the Company to remain a going concern is remote. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements.

2.4 Internal financial discipline

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

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

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

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

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

2.5 Interim Financial Statements for the period ending 30 June 2018

We intend to prepare a set of interim Financial Statements for the 6 months ending 30 June 2018 which will be subject to review by the Auditor.

3. Capital management

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

There is little or no external debt finance in the business (other than the pt Preference Shares which are classified as debt in accordance with IAS 32) and the Group maintains sufficient liquid funds to be able to fund the growth aspirations of its operating businesses.

4. Principal risks and uncertainties

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

4.1 Claim from Slater & Gordon

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

4.2 Market and technological change

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

Strategic Report (continued)

4.3 Key personnel and resources

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

4.4 Other legal, regulatory and reputational risks

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

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

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

4.5 Liquidity risk

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

4.6 Management of growth

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

4.7 Market conditions

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

Within our ingenie business, the impact of the Ogden rate uncertainty and industry-wide reductions in personal injury frequency resulted in competitive pricing pressure in the final months of 2017 and this has continued into 2018. This was particularly so in the young driver segment which is highly sensitive to price. Whilst ingenie has been working with its panel to take pricing actions, there uncertainty as the future discount rate to be used, the timing of any changes, the costs of re-insurance and the consequential impact on ingenie's ability to trade competitively.

4.8 Foreign exchange

The international nature of some of the Group's operations mean that it is exposed to volatility in exchange rates. This is in respect of foreign currency denominated transactions and the translation of income statements and net assets of foreign subsidiaries. The Group has its most significant presence in Canada and therefore its most significant foreign currency exposure is in relation to Canadian Dollars. Foreign currency exposure is mitigated where possible by matching the purchasing and sales of revenue and cost transactions. The Company has not sought to mitigate its exposure to the translation of net assets.

Mark P Williams
Group Finance Director
By order of the Board

Board of Directors

Richard Rose (62)

Non-Executive Chairman

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

Stefan Borson (43)

Group Chief Executive Officer from 1 January 2018

Stefan Borson succeeded Indro Mukerjee as Group Chief Executive Officer on 1 January 2018 and has twenty years' experience working in and advising both listed and high growth private companies. He has held Board positions in a broad range of roles from Chief Executive Officer to Corporate Development & Investment Director.

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

Mark Williams (53)

Group Finance Director

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

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

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

The Rt. Hon. Lord Howard of Lympne, CH, QC (76)

Senior Non-executive Director

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

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

David Young (56)

Non-executive Director

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

David has held numerous Non-executive positions and audit committee chairs with insurance and financial services businesses. He is currently a Non-executive Director of Premium Credit Limited, the British Gas Insurance Group, Key Retirement Group. During the year, he became Non-executive Chairman of ingenie.

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 2017 and the remuneration policy that applies in 2018.

Remuneration Committee

Lord Howard was appointed chairman of the Committee in October 2017 following the changes made to the size of the Board and the resignation of Tony Illsley. The additional members are David Young and Richard Rose each of whom are independent. The Committee is actively involved in consultation with major shareholders on key matters of remuneration.

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

No Director or other executive is involved in any decisions about his/her own specific remuneration.

Remuneration policy

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

The Board's intention is to combine appropriate levels of fixed pay with incentive schemes that provide executives with the ability to earn above median levels for true out-performance. In determining the remuneration policy, the Committee is conscious of both the unusual and challenging circumstances of the Company and the Board's strategy to simplify and focus the Company on delivering shareholder value as well the importance of the retention of key executives.

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

- basic annual salary – Basic salaries are reviewed by the committee annually to take effect on 1 January. In setting basic salaries the Committee assesses individual responsibilities, experience and performance and considers external market data;
- annual bonus payments in respect of the performance of the individual, achievement of performance criteria and the individual's contribution to that performance and the Group calculated as a percentage of salary; and
- the Distribution Incentive Scheme and the MIRP (as detailed below) together focused on delivering growth in the value of the Company's operating businesses going forward and the ultimate distribution of capital to shareholders.

Remuneration of the executive Directors in 2017

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

Indro Mukerjee (Group Chief Executive Officer until 31 December 2017)

Indro Mukerjee had a base salary of £475,000 per annum (2016: £475,000 per annum) and an entitlement to an annual discretionary bonus of up to 175% of salary. In addition, Mr Mukerjee was entitled to a maximum of £47,000 per annum in cash in respect of pension contributions or other purposes and typical executive benefits including life assurance and health and medical insurance. His notice period on his rolling service contract was 3 months. Mr Mukerjee received a sum of £30,000 as compensation for termination of employment.

Mark Williams (Group Finance Director)

Mark Williams has a base salary of £250,000 per annum (2016: £250,000 per annum) (this has not been increased for 2018) and an entitlement to an annual discretionary bonus of up to 150% of salary. In addition, Mr Williams is entitled to typical executive benefits including a pension contribution of 10% of base salary, life assurance and health and medical insurance. His notice period on his rolling service contract is 6 months.

Annual bonuses of the executive management team

In deciding on the annual cash bonuses awarded to the executive management team for 2017, the Remuneration Committee took into account the work of the team in respect of, inter alia, the:

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

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

For 2018, annual discretionary bonuses for the executive Directors will be closely aligned to the interests of the Company and its shareholders. Executive management will be rewarded based on the achievement of outcomes consistent with the optimisation of shareholder value. The discretionary bonus plan will reward, inter alia, a combination of:

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

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

Long term incentive plans for the executive Directors

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

The Distribution Incentive Scheme

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

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

The MIRP

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

Directors' Remuneration Report (continued)

Following his resignation on 31 December 2017, Mr Mukerjee's rights and entitlements under the MIRP shall cease on 31 May 2018, following which Mr Williams shall be the sole remaining participant of the MIRP. To date, no payments have been made under the MIRP to any participant and it is not expected that disposals triggering payments will be made prior to 31 May 2018.

Mr Williams is entitled to a share of up to a total of 2.25% of any growth in value of each division of the Group above the MIRP Hurdle (as adjusted for cash invested or generated from 1 January 2016).

Non-executive Directors

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

Directors' emoluments

The remuneration of the Directors, including the highest paid Director who was Mr Mukerjee, was as follows (see Note 9):

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

Notes

1. Resigned 31 December 2017.

2. Resigned 30 September 2017.

2016	Salary and fees £000	Bonus £000	Contributions to personal pension schemes £000	**Total 2016 £000**
Executive				
I Mukerjee [3]	522	623	–	**1,145**
M Williams [4]	258	331	17	**606**
	780	**954**	**17**	**1,751**
Non-executive				
R Rose	185	–	–	**185**
D Currie	50	–	–	**50**
A Illsley	75	–	–	**75**
M Howard	75	–	–	**75**
D Young	75	–	–	**75**
Total	**1,240**	**954**	**17**	**2,211**

Notes

3. Appointed 7 September 2015. As part of the negotiations relating to his appointment, in light of the regulatory uncertainty at the time of the appointment and to compensate for cash bonuses forfeited in respect of previous posts, the Remuneration Committee agreed to pay a total payment of £500,000 in cash ("Deferred Compensation Payment") to Mr Mukerjee. The Deferred Compensation Payment accrued on a daily basis for one year from 7 September 2015 and was not be subject to any exercise of discretion by the Remuneration Committee. £161,417 of the Deferred Compensation Payment was accrued and paid in respect of the period up to 31 December 2015. The remaining £338,582 of the Deferred Compensation Payment was accrued and paid in respect of the year ended 31 December 2016 and offset Mr Mukerjee's annual discretionary bonus such that his aggregate cash bonus of £623,438.

4. M Williams bonus includes £50,000 retention payment paid in December 2016 and his annual cash bonus of £281,250.

This report was approved by the Board on 26 April 2018 and signed on its behalf by:

Lord Howard of Lympne
Chairman of the Remuneration Committee

Corporate Governance Report

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

The Board

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

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

Each Director has access to the advice and services of the Group Company Secretary as well as 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. Tony Illsley was a member until 30 September 2017. 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. Tony Illsley was a member and chair until 30 September 2017. It meets at least twice a year and is responsible for reviewing the performance of the executive Directors and other senior executives and for determining appropriate levels of remuneration. The Committee's report is set out on pages 14 to 16.

Nomination committee

The Nomination Committee is chaired by Richard Rose and also consists of Lord Howard and David Young. Tony Illsley was a member and chair until 30 September 2017. It meets at least once a year and reviews the size, structure and composition of the Board and makes recommendations on changes, as appropriate. It also gives consideration to succession planning in the light of developments in the business.

Corporate Governance Report (continued)

Disclosure committee

The Disclosure Committee consists is chaired by Mark Williams and also consists of Stefan Borson and Richard Rose. David Currie was a member until 30 September 2017 and David Young a member until 31 March 2018. The role of the Disclosure Committee is to assist and inform the Board in making decisions concerning the identification of information that requires announcement pursuant to the AIM Rules for Companies and other relevant rules. The Disclosure Committee meets as necessary to consider all relevant matters following and incorporating advice from the Company's nominated adviser. It will, in particular, meet in advance of the release of all trading statements and other announcements of price sensitive information to ensure that they are true, accurate and complete and to consider if they are fair, balanced and understandable.

Shareholder relations

The Company meets with institutional shareholders and analysts as appropriate and uses its website to encourage communication with private, existing and prospective shareholders. The Company also maintains regular contact with private investors via meetings, email correspondence and via investor forums. The Company welcomes feedback from investors about its published reports and website. Please address your feedback to our investor relations team by e-mail to **investor.relations@watchstonegroup.com** 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 11.

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

Going concern

The Board of Directors' consideration of the adequacy of the Group's resources to enable it to continue in operational existence for the foreseeable future is set out on page 10.

Directors' Report

The Directors present their report and the audited Financial Statements for the year ended 31 December 2017.

Directors

The Directors who held office at 31 December 2017 were Richard Rose, Indro Mukerjee, Mark Williams, Lord Howard and David Young.

On 30 September 2017, Tony Illsley and David Currie resigned from the Board. On 31 December 2017, Indro Mukerjee resigned from the Board and as Group Chief Executive Officer.

The remuneration of the Directors including their respective shareholdings in the Company is set out in the Directors' Remuneration Report on pages 14 to 16.

As at 31 December 2017, the following Directors held shares in the Company: Richard Rose (100,000); Mark Williams (50,550); Indro Mukerjee (50,550) and Lord Howard (12,608). Stefan Borson who was appointed as Group Chief Executive Officer on 1 January 2018 holds 300,000 shares in the Company.

Directors' and Officers' liability insurance and indemnification of Directors

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

Share capital

The Company has only ordinary shares of 10 pence nominal value in issue. Note 26 to the consolidated Financial Statements summarises the rights of the ordinary shares.

Substantial shareholdings

As at 26 April 2018, the Company had been advised under the Disclosure and Transparency Regime, or had ascertained from its own analysis, that the following held interests of 3% or more of the voting rights of its issued share capital:

Shareholder	No. of shares	% holding
Polygon Global Partners LLP	9,671,762	21.01
Beach Point Capital Management LP	7,888,718	17.14
Sand Grove Capital Management LLP	4,611,519	10.01
M&G Investments (Prudential)	2,916,666	6.34
BlueMountain Capital Management, LLC	2,248,093	4.88
Subtotal	**27,336,758**	**59.38**

Dividends

The Directors do not recommend the payment of a final dividend (2016: 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 2017 are contained in the Corporate Governance section of this Annual Report and in the Remuneration Report on pages 14 to 18.

Corporate governance

The Group's report on Corporate Governance is on pages 17 to 18 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 62, 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;

Directors' Report (continued)

- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- There exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Articles of Association

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

Conflicts of interest

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

Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Financial instruments

The Group does not generally have complex financial instruments. The financial instruments comprise borrowings (primarily the pt Preference Shares), cash and liquid resources and various items such as trade debtors and trade creditors that arise from its operations. Further information in relation to the financial risk management objectives of the Group, the financial risk factors noted and a detailed analysis of the Group's exposure to interest risk, liquidity risk, capital risk and credit risk is included in Note 31 to these Financial Statements.

Transactions in which one or more of the Directors had a material interest in and to which the Company, or its subsidiaries, was a party during the financial year are described in Note 35, Related Parties. Other than as described in that note, there were no contractual relationships between the Directors and companies with which they are connected and the Watchstone Group plc Group of companies during the year.

Employees

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

Regular consultation and meetings, formal or otherwise, are held with all levels of employees to discuss problems and opportunities.

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

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

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

Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;

- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Disclosure of information to the Auditor

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

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

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

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

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

Annual General Meeting ("AGM")

The 2018 AGM will be held at 10.30am on 27 June 2018 at Vauxhall and Lambeth Suite – 2nd Floor, Park Plaza, County Hall, 1 Addington St, Lambeth, London, SE1 7RY. The Chairmen of the Board and of each of its Committees will be in attendance at the AGM to answer questions from shareholders. The Company will be making use of the electronic voting facility provided by its registrars, Link Asset Services. The facility includes CREST voting for members holding their shares in uncertificated form. For further information, please refer to the section on on-line services and electronic voting set out in the notes to the Notice of Meeting. The Notice of Meeting and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report. The Board fully supports all the resolutions and encourages shareholders to vote in favour of each of them.

By order of the Board

Stefan Borson
Group Chief Executive Officer and Company Secretary

Audit Committee Report

The Audit Committee is chaired by David Young and consists of David Young who sits alongside Lord Howard. Tony Illsley was a member until 30 September 2017. It meets at least twice a year with attendance from the external Auditors and internal personnel as required. The Committee is responsible for:

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

Summary of meetings during the year

The focus of the Committee has again been on the integrity of the Group's financial accounting and ensuring that shareholders can have confidence in the Group's accounting systems and policies and, as a result, in its reported results. Reporting appropriately the financial effects of the simplification of the Group through the sale or closure of some businesses and the further resolution of legacy issues has been the focus of meetings. There were two formal meetings of the Committee as well as briefing discussions with individual committee members.

2017 Audit and Financial Reporting

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

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

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

The Committee paid particular consideration to the scope of the audit and the risks with the greatest impact to financial reporting and on the audit. A number of the issues below are also referenced in the enhanced audit report and shareholders may wish to refer to that report. The Committee reviewed and considered the significant issues in relation to the Financial Statements and how these have been addressed, including:

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

- **Income statement presentation and non-underlying items**
  The accounts and strategic report make a number of references to exceptional costs and other non-underlying items in order to provide a better understanding of the Group's underlying trading performance. The Committee has reviewed the judgements made by management in determining the presentation of these items in the light of applicable accounting standards and guidance issued by the European Securities and Markets Authority and the FRC.

- **Valuation of goodwill and intangible assets**
  The Consolidated Statement of Financial Position includes goodwill arising on acquisitions as well as other intangible assets such as software development costs. Goodwill and other intangible assets arising on all acquisitions was reviewed in the light of developments in their businesses in 2017 and, in particular the recoverability of ingenie goodwill. The Committee concurred with the estimated recoverable whilst noting that it is subjective and is based on inherently uncertain forecasts, limited market visibility and judgemental discount rates. Details of the assumptions used are given in Note 14.

- **Carrying amount of the Parent Company's investments in and receivables due from subsidiaries**
  The Committee noted the materiality and recoverability of and the Auditor's procedures in relation to the Parent Company's balances with subsidiaries within the Parent Company Statement of Financial Position.

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

- **Estimates of provisions required at the year end**
  The Group has significant provisions for tax related matters, legal and regulatory investigations and disputes, onerous contracts and reorganisation costs as shown in Note 24. The overall level of net provisions has reduced significantly during the year as issues have been settled, whilst the provision for the legal actions and regulatory matters referred to in Note 33 have been increased as a result of the Board's determination robustly to defend the action to trial.

  Nevertheless, provisions can involve significant judgement and therefore the Committee have reviewed the assumptions made by management of the accuracy and valuation of the outstanding provisions.

Relationship with the Auditor

Shareholders approved the re-appointment of KPMG at the 2017 AGM. The Committee believes that the independence of the Auditor is one of the primary safeguards for shareholders. The Committee reviewed audit independence and the scope of non-audit services and independence safeguards with KPMG. As part of this review, the Committee has received and reviewed written confirmation that, in KPMG's professional judgement, KPMG is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

During 2017, KPMG and financial management, including the Committee Chairman took part in an audit planning day with the aim of ensuring the most effective and efficient audit.

The Committee is satisfied that there has been appropriate focus and challenge on the primary areas of audit risk, assess the quality of the audit process to be good and believe that a high quality audit can be performed for the fees agreed and therefore has recommended to the Board the reappointment of KPMG as Auditor.

Risk management and internal control

In the light of the reduction in the size of the Group, the Committee has reviewed with the Group Finance Director the structure of the financial management team which is appropriate for the size and strategy of the Group going forward, taking into account the need still to manage legacy issues. The Committee discussed with the Group Finance Director his plans to mitigate potential loss of finance expertise and the key person risk in what is now a small central team and continues to keep this under review.

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

1. Our opinion is unmodified

We have audited the financial statements of Watchstone Group plc ("the Company") for the year ended 31 December 2017 ("Financial Statements") which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Statement of Financial Position, Company Cash Flow Statement, Company Statement of Changes in Equity, and the related notes, including the accounting policies in Notes 2 and 40.

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 2017 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

2. Emphasis of matter – uncertain outcome of Slater & Gordon (UK) 1 Limited ("Slater & Gordon") claim

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

The risk – Accounting treatment:

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

Our response – Our procedures included:

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

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

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

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

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

Group: Recoverability of ingenie goodwill

(£9.1m; 2016: £14.7m)

Risk versus 2016 ▲

Refer to Note 14 of the Consolidated Financial Statements.

The risk – Forecast-based valuation:

Goodwill relating to the ingenie cash generating unit (“ingenie”) is significant and at risk of impairment should the business not generate sufficient future economic benefits. During the year there has been underperformance, due to economic and industry factors, and there is a risk that ingenie will not achieve its forecast revenue. The estimated recoverable amount is subjective, due to the inherent uncertainty involved in forecasting, particularly over assumptions used such as cost inflation, discount rates and future cash flows, and the judgement necessary when discounting forecast future cash flows, which form the basis for the assessment of whether the goodwill is impaired.

Our response – our procedures included:

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

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

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

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

Comparing valuations: Comparing the sum of the discounted cash flows to the Group’s market capitalisation to assess the reasonableness of those cashflows.

Assessing transparency: Assessing whether the Group’s disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflects the risks inherent in the valuation of the ingenie goodwill.

Group: Income statement presentation of non-underlying items

Risk versus 2016 ◀▶

Refer to Notes 1 and 8 of the Consolidated Financial Statements.

The risk – Presentation Appropriateness:

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

Our response – our procedures included:

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

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

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

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

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

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

(Investments – £19.2m; 2016: £24.0m;
Amounts due – £24.9m; 2016: £24.6m)

Risk versus 2016 ◀▶

Refer to Notes 41 and 42 of the Parent Company Financial Statements.

The risk – Forecast-based valuation:

The carrying amount of the Parent Company's investments in, and amounts due from, subsidiaries represents 18.7% (2016: 19.2%) and 24.2% (2016: 19.7%) of the Parent Company's total assets respectively. Due to the underperformance of its significant subsidiary and difficult economic and industry factors, there is a significant risk that the Parent Company's investments in, and amounts due from, subsidiaries might be impaired and the assessment of recoverability requires significant judgement.

Our response – our procedures included:

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

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

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

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

Materiality for the Group Financial Statements as a whole was set at £330,000 (2016: £450,000), determined with reference to a benchmark of revenue, normalised to exclude this year's non-underlying results as disclosed in the Consolidated Income Statement, of £44.9m, of which it represents 0.7% (2016: 0.7%). We consider revenue, excluding non-underlying results, to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Materiality for the Parent Company Financial Statements as a whole was set at £100,000 (2016: £100,000), determined with reference to a benchmark of total assets and chosen to be lower than materiality for the Group Financial Statements as a whole. It represents 0.1% (2016: 0.1%) of the stated benchmark.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £16,500, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 8 (2016: 43) reporting components, we subjected 5 (2016: 13) to full scope audits for Group purposes and nil (2016: 6) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

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

2017 (2016)	Number of components	Group revenue	Group profit before tax	Total assets
Audits for group reporting purposes	5 (13)	100% (82%)	99% (81%)	99% (88%)
Specified risk-focused audit procedures	0 (6)	0% (12%)	0% (14%)	0% (6%)
Total	**5 (19)**	**100% (94%)**	**99% (95%)**	**99% (94%)**

The remaining 1% of Group profit before tax and Group total assets is represented by 3 of reporting components, none of which individually represented more than 1% of any of total Group revenue, Group profit before tax or total Group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £100,000 to £100,000, having regard to the mix of size and risk profile of the Group across the components. The work on 3 of the 8 components (2016: 15 of the 43 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised revenue.

The Group team visited 1 (2016: 1) component location in Canada (2016: Canada) to assess the audit risk and strategy. Telephone conference meetings were also held with the component auditor. At this visit and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

5. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

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

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

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 20, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

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

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

Tudor Aw (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
26 April 2018

Financial Statements

Consolidated Income Statement

for the year ended 31 December 2017	Note	2017 Underlying £000	2017 Non-underlying* £000	2017 Total £000	2016 Underlying £000	2016 Non-underlying* £000	2016 Total* £000
Revenue		**44,880**	**–**	**44,880**	42,684	961	43,645
Cost of sales		**(24,582)**	**–**	**(24,582)**	(23,096)	(981)	(24,077)
Gross profit		**20,298**	**–**	**20,298**	19,588	(20)	19,568
Administrative expenses	8	**(24,979)**	**(2,737)**	**(27,716)**	(25,632)	1,591	(24,041)
Group operating (loss)/profit		**(4,681)**	**(2,737)**	**(7,418)**	(6,044)	1,571	(4,473)
Finance income	10	**270**	**–**	**270**	508	833	1,341
Finance expense	10	**(22)**	**2,220**	**2,198**	(271)	–	(271)
(Loss)/profit before taxation		**(4,433)**	**(517)**	**(4,950)**	(5,807)	2,404	(3,403)
Taxation	11	**754**	**–**	**754**	(753)	165	(588)
(Loss)/profit after taxation for the year from continuing operations		**(3,679)**	**(517)**	**(4,196)**	(6,560)	2,569	(3,991)
Provision against escrow receivable		**–**	**–**	**–**	–	(50,120)	(50,120)
Net gain on disposal of discontinued operations	34	**–**	**4,930**	**4,930**	–	323	323
Loss for the year from discontinued operations, net of taxation	34	**–**	**(3,378)**	**(3,378)**	–	(15,282)	(15,282)
(Loss)/profit after taxation for the year		**(3,679)**	**1,035**	**(2,644)**	(6,560)	(62,510)	(69,070)
Attributable to:							
Equity holders of the parent		**(3,679)**	**1,047**	**(2,632)**	(6,560)	(62,502)	(69,062)
Non-controlling interests		**–**	**(12)**	**(12)**	–	(8)	(8)
		(3,679)	**1,035**	**(2,644)**	(6,560)	(62,510)	(69,070)
Loss per share (pence):							
Basic	12	**(8.0)**		**(5.7)**	(7.4)		(150.0)
Diluted	12	**(8.0)**		**(5.7)**	(7.4)		(150.0)
Loss per share from continuing operations (pence):							
Basic	12			**(9.1)**			(8.7)
Diluted	12			**(9.1)**			(8.7)

* Non-underlying results have been presented separately to give a better guide to underlying business performance (see Notes 1 and 8). Where items have become non-underlying in 2017 the comparable amounts in 2016 have been revised to also be classified on the same basis. This does not impact the total 2016 results. 2016 Revenue and Cost of Sales have been revised to reflect amounts that should have been presented gross rather than net. This has no impact upon gross margin (see Note 6).

The accompanying notes form part of the Financial Statements.

Financial Statements (continued)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017	2017	2016
	£000	£000
Loss after taxation	**(2,644)**	(69,070)
Items that may be reclassified in the Consolidated Income Statement		
– Exchange differences on translation of foreign operations	**136**	50
Total comprehensive loss for the year	**(2,508)**	(69,020)
Attributable to:		
Equity holders of the parent	**(2,481)**	(69,012)
Non-controlling interest	**(27)**	(8)
	(2,508)	(69,020)

The accompanying notes form part of the Financial Statements.

Consolidated Statement of Financial Position

as at 31 December 2017	Note	2017 £000	2016 £000
Non-current assets			
Goodwill	14	**17,443**	23,221
Other intangible assets	13	**4,825**	6,259
Property, plant and equipment	15	**3,819**	6,293
Other receivables	34	**759**	–
		26,846	35,773
Current assets			
Inventories	17	**1,283**	941
Trade and other receivables	18	**6,144**	10,228
Corporation tax assets		**–**	355
Term deposits	19	**40,000**	37,500
Cash	20	**22,808**	43,714
		70,235	92,738
Assets of disposal group classified as held for sale	34	**833**	1,300
Total current assets		**71,068**	94,038
Total assets		**97,914**	129,811
Current liabilities			
Cumulative redeemable preference shares	22	**(2,203)**	–
Other secured and unsecured loans	22	**–**	(163)
Trade and other payables	21	**(11,710)**	(25,895)
Obligations under finance leases	23	**(4)**	(102)
Provisions	24	**(13,024)**	(27,816)
		(26,941)	(53,976)
Liabilities of disposal group classified as held for sale		**(851)**	–
Total current liabilities		**(27,792)**	(53,976)
Non-current liabilities			
Cumulative redeemable preference shares	22	**(3,795)**	(6,131)
Provisions	24	**(87)**	(425)
Deferred tax liabilities	25	**(167)**	(741)
		(4,049)	(7,297)
Total liabilities		**(31,841)**	(61,273)
Net assets		**66,073**	68,538
Equity			
Share capital	26	**4,604**	4,604
Other reserves	27	**136,618**	143,179
Retained earnings	27	**(76,095)**	(80,218)
Equity attributable to equity holders of the parent		**65,127**	67,565
Non-controlling interests		**946**	973
Total equity		**66,073**	68,538

The Financial Statements of Watchstone Group plc, registered number 05542221, on pages 29 to 78 were approved and authorised for issue by the Directors on 26 April 2018 and signed on its behalf by:

Mark P Williams
Director

Richard Rose
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 2017	Share capital	Share premium account	Reverse acquisition and merger reserve	Other equity reserves	Foreign currency translation reserve	Total other reserves	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2017	4,604	127,251	(3,312)	23,316	(4,076)	143,179	(80,218)	67,565	973	68,538
Loss for the year	–	–	–	–	–	–	(2,632)	(2,632)	(12)	(2,644)
Other comprehensive income	–	–	–	–	151	151	–	151	(15)	136
Total comprehensive income	–	–	–	–	151	151	(2,632)	(2,481)	(27)	(2,508)
Issue of share capital (Note 26, 27)	–	–	–	–	–	–	–	–	–	–
Share-based payments (Note 26)	–	–	–	43	–	43	–	43	–	43
Transfer of realised profits to retained earnings (Note 27)	–	–	(6,712)	(43)	–	(6,755)	6,755	–	–	–
Total transactions with owners, recognised directly in equity	–	–	(6,712)	–	–	(6,712)	6,755	43	–	43
At 31 December 2017	4,604	127,251	(10,024)	23,316	(3,925)	136,618	(76,095)	65,127	946	66,073

The accompanying notes form part of the Financial Statements.

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2016	Share capital	Share premium account	Reverse acquisition and merger reserve	Other equity reserves	Foreign currency translation reserve	Total other reserves	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2016	4,596	127,251	(3,312)	26,647	(3,960)	146,626	(14,722)	136,500	609	137,109
Loss for the year	–	–	–	–	–	–	(69,062)	(69,062)	(8)	(69,070)
Other comprehensive income	–	–	–	–	50	50	–	50	–	50
Total comprehensive income	–	–	–	–	50	50	(69,062)	(69,012)	(8)	(69,020)
Issue of share capital (Note 26, 27)	8	–	–	–	–	–	–	8	–	8
Share-based payments (Note 26)	–	–	–	441	–	441	–	441	–	441
Other reserves movements, including transfer of realised profits to retained earnings (Note 27)	–	–	–	(3,772)	–	(3,772)	3,772	–	–	–
Acquisition of non-controlling interests without a change in control	–	–	–	–	–	–	(206)	(206)	206	–
Exchange differences on non-controlling interests	–	–	–	–	(166)	(166)	–	(166)	166	–
Total transactions with owners, recognised directly in equity	8	–	–	(3,331)	(166)	(3,497)	3,566	77	372	449
At 31 December 2016	4,604	127,251	(3,312)	23,316	(4,076)	143,179	(80,218)	67,565	973	68,538

The accompanying notes form part of the Financial Statements.

Financial Statements (continued)

Consolidated Cash Flow Statement

for the year ended 31 December 2017	Note	2017 £000	2016 £000
Cash flows from operating activities			
Cash used in operations before exceptional costs, net finance expense and tax	29	**(11,289)**	(16,411)
Non underlying cash out flows excluding discontinued operations		**(5,266)**	(10,422)
Cash used in operations before net finance expense and tax		**(16,555)**	(26,833)
Corporation tax received		**622**	6,990
Net cash used by operating activities		**(15,933)**	(19,843)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,417)**	(5,469)
Purchase of intangible fixed assets		**(1,816)**	(1,400)
Proceeds on disposal of property, plant and equipment		**1,260**	–
Disposal of subsidiaries net of cash foregone		**2,560**	4,013
Investment in term deposits		**(70,000)**	(82,500)
Maturity of term deposits		**67,500**	45,000
Interest income		**178**	97
Disposal of associated undertakings		**–**	86
Repayment of financing loan		**–**	(1,255)
Net cash used in investing activities		**(4,735)**	(41,428)
Cash flows from financing activities			
Issue of share capital		**–**	8
Finance expense paid		**(20)**	(932)
Finance income received		**–**	1,609
Finance lease repayments		**(94)**	(103)
Net cash (used in)/generated by financing activities		**(114)**	582
Net decrease in cash and cash equivalents		**(20,782)**	(60,689)
Cash and cash equivalents at the beginning of the year	20	**43,714**	103,839
Exchange gains on cash and cash equivalents		**(124)**	564
Cash and cash equivalents at the end of the year	20	**22,808**	43,714
Cash and cash equivalents			
Cash		**22,808**	43,714
	20	**22,808**	43,714

The above Consolidated Cash Flow Statement includes cash flows from both continuing and discontinued operations. Further details of the cash flows relating to discontinued operations are shown in Note 34.

As at 31 December 2017, the Group had cash and cash equivalents of £22,808,000 (2016: £43,714,000) and term deposits of £40,000,000 (2016: £37,500,000).

The accompanying notes form part of the Financial Statements.

Notes to the Financial Statements

1. General information

Watchstone Group plc is a company registered and domiciled in the United Kingdom. The Financial Statements are presented in pounds sterling, to the nearest thousand, as this is the currency of the primary economic environment in which the Company operates. The address of the registered office is Highfield Court, Tollgate, Chandler's Ford, Eastleigh, Hampshire, England, SO53 3TY. The nature of the Group's operations and its principal activities are set out on page 5.

Consolidated Income Statement presentation

The Income Statement is presented in three columns. This presentation is intended to give a better guide to underlying business performance by separately identifying adjustments to Group results which are considered to either be exceptional in size, nature or incidence, relate to businesses which do not form part of the continuing business of the Group, or have potential significant variability year on year in non-cash items which might mask underlying trading performance (see Notes 7 and 8). The columns extend down the Income Statement to allow the tax and earnings per share impacts of these transactions to be disclosed. Equivalent elements of the Group results arising in different years, including increases in or reversals of items recorded, are disclosed in a consistent manner.

2. Significant accounting policies

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

Basis of preparation

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

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

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 the Slater & Gordon (UK) 1 Limited ("Slater & Gordon") legal claim set out in Note 33. Having taken legal advice on this claim, the Directors consider that the risk of this matter giving rise to a level of liability which would impact the ability of the Company to remain a going concern is remote. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements.

Basis of Consolidation

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

Notes to the Financial Statements (continued)

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

Business Combinations

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

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

Assets and disposal groups held for sale

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

Revenue recognition

Revenue earned by continuing operations

The Group receives income through physiotherapy services, broking commissions, ILF (Initial Licence Fee) and SaaS (Software as a Service). Licence fees in respect of delivery of IPR are recognised over the term of the license.

When selling software, new solution sales typically involve software licences being sold together with Post Customer Support (PCS) services and/or implementation services. Where the commercial substance of such a combination is that the individual components operate independently of each other and fair values can be attributed to each of the components, each are then recognised in accordance with their respective policies described below.

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

Physiotherapy services

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

Telematics services and devices

Revenues are recognised evenly over the period of the contract they relate to, including upfront payments, commencing when the end user takes up the telematics service. All elements of the service are treated as an integrated part of the overall offering and are not unbundled or fair valued because they are not separately usable to the end user. Costs excluding telematics boxes are recognised in the period as incurred. Where telematics devices are included as part of the services to end users they are capitalised and depreciated over their useful economic life. Where telematics devices are sold separately to intermediaries in the telematics revenue chain a sale is recognized for these items when their legal title has passed.

Broking commissions

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

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

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

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

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

Operating segments

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

Marketing expenses

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

Operating loss

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

Exceptional items

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

Retirement benefit costs

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

Share-based payments

Options

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

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

Post combination vendor remuneration

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

Foreign currency translation

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

Notes to the Financial Statements (continued)

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

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

Goodwill

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

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

Other intangible assets

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

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

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

Impairment of tangible fixed assets and intangible assets including goodwill

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

Research and development expenditure – internally generated

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

- Freehold buildings: 2%-5% per annum straight line;
- Improvements to freehold land and buildings: 5%-10% per annum straight line;
- Improvements to leasehold land and buildings: Over the term of the lease; and
- Plant and equipment: Telematics devices are depreciated over the average life of the related insurance policy (including renewal). All other plant and equipment is depreciated at 20%-33⅓% per annum reducing balance.

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

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

Investments

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

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

Leases

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

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

Inventories

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

Notes to the Financial Statements (continued)

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Term deposits

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

Provisions

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

Taxation including deferred tax

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

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

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

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

Share capital

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

Deferred consideration

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

3. Adoption of new and revised Standards

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

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

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

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

Annual Improvements to IFRSs	2014-2016 cycle
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 (which in some cases have not yet been adopted by the European Union), and have not been applied in preparing these Consolidated Financial Statements. None of these are expected to have a significant effect on the Consolidated Financial Statements of the Company, as follows:

Amendments to IAS 40	Transfers of Investment Property
IFRS 9	Financial Instruments; IFRS 9 is effective from 1 January 201 8. The Group has assessed the impact of this standard and it is not expected to be material
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 10 and 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayments features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRS 17	Insurance Contracts

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

IFRS 15	'Revenue from contracts with customers'. This standard deals with revenue recognition and establishes principles for reporting useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018. The Group has assessed it revenue recognition policies and whilst there are several minor changes required it is not expected that the new standard will have a material impact upon the results of the Group.
IFRS 16	'Leases' This standard removes the concept of operating leases and recognises all such agreements on the balance sheet. The Group is currently assessing the impact of this standard.

Notes to the Financial Statements (continued)

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Estimate: Measurement and impairment of goodwill

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

Judgement: Consideration receivable for the Professional Services Division (''PSD'') and legal claim

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

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

The outcome of the claim is highly uncertain and therefore the carrying amount of the Group's receivable in respect of the Warranty Escrow is highly judgmental. At 31 December 2016, the Group had impaired in full its receivable in respect of this consideration and continues to do so at 31 December 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 31 December 2017 and 31 December 2016 the fair value has been assessed as £nil.

Estimate and judgement: Provisions

The Group is aware of a number of legal and regulatory matters which, by their nature, are subject to significant judgement and uncertainty. This includes judgements around both the quantum of any related cash outflows and also the timing. The judgements are specific to the facts surrounding each case and often involve historic transactions. All such matters are periodically assessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability and to evaluate the extent to which a reliable estimate of any liability can be made. However, the likely cost to the Group of the Serious Fraud Office ("SFO") investigation and any group litigation which may potentially be brought against the Group is subject to a number of significant uncertainties and these cannot currently be estimated reliably. Accordingly, no provision has been made in respect of these matters. Further detail is provided in Note 33.

Judgement: Classification of underlying and non-underlying results

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

5. Key performance indicators

	2017 £000	2016 £000
Revenue:		
ingenie	**14,429**	13,926
Healthcare Services	**30,451**	28,758
Total underlying revenue	**44,880**	42,684
Underlying gross profit margin	**45.2%**	45.9%
Underlying EBITDA (Note 6)	**(3,610)**	(4,902)
Underlying group operating loss (Note 6)	**(4,681)**	(6,044)
Cash and term deposits (continuing businesses)	**62,808**	81,214
Total average number of employees (continuing operations)	**709**	749

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	2017 £000	2016 £000
Underlying revenue	**44,880**	42,684
Non underlying revenue	**–**	961
Total revenue	**44,880**	43,645
Underlying EBITDA	**(3,610)**	(4,902)
Underlying depreciation and amortisation*	**(1,071)**	(1,142)
Underlying group operating loss	**(4,681)**	(6,044)
Non-underlying group operating (loss)/profit	**(2,737)**	1,571
Group operating loss	**(7,418)**	(4,473)

* excludes depreciation of telematics devices of £3,090,000 (2016: £2,998,000) 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 8.

6. Business and geographical segments

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

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

During 2017, Business Advisory Service Limited ("BAS"), an energy brokerage and Hubio were reclassified as discontinued operations. Accordingly, the amounts for 2016 have been restated to be presented on a comparable basis.

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

Notes to the Financial Statements (continued)

In previous years, an allocation of central costs to the businesses within the Group has been applied. During 2017, the direction of the Group changed such that the individual businesses move towards operating on an increasingly stand-alone basis. As a consequence of this change an allocation has not been applied within the segmental reporting.

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

	ingenie	Healthcare Services	Central	Total
Year ended 31 December 2016	£000	£000	£000	£000
Underlying revenue (restated)	13,927	28,757	–	42,684
Underlying cost of sales (restated)	(7,565)	(15,531)	–	(23,096)
Underlying gross profit	6,362	13,226	–	19,588
Administrative expenses excluding depreciation and amortisation*	(4,949)	(12,067)	(7,474)	(24,490)
Underlying EBITDA	1,413	1,159	(7,474)	(4,902)
Depreciation and amortisation*				(1,142)
Underlying Group operating loss				(6,044)
Net finance income				237
Underlying Group loss before tax				(5,807)
Non-underlying adjustments				2,404
Total Group loss before tax from continuing operations				(3,403)

* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £3,090,000 (2016: £2,998,000) which is included within cost of sales.

In the preparation of these Financial Statements, certain contracts were identified within the Healthcare Services segment which should have been presented gross, rather than as an agent for the year ended 31 December 2016. Accordingly, the revenue and cost of sales for Healthcare Services for the year ended 31 December 2016 have been restated. This has also resulted in a difference in revenues to those announced as part of the trading statement released on 26 January 2018. The impact of this change is £830,000 (2016: £674,000) to revenue and cost of sales. There is no impact upon gross margin.

	United Kingdom	Canada	Rest of World	Total
	£000	£000	£000	£000
Year ended 31 December 2017				
Revenue (underlying)	**14,429**	**30,451**	**–**	**44,880**
Other segment information				
Total non-current assets	**12,804**	**14,042**	**–**	**26,846**
Capital expenditure				
Tangible assets	**3,918**	**500**	**–**	**4,418**
Intangible assets	**615**	**1,200**	**–**	**1,815**
Year ended 31 December 2016				
Revenue (underlying)	13,927	28,757	–	42,684
Other segment information				
Total non-current assets	21,224	13,972	577	35,773
Capital expenditure				
Tangible assets	4,349	517	603	5,469
Intangible assets	368	1,032	–	1,400

7. Operating loss

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

	2017	2016
	£000	£000
Depreciation of property, plant and equipment	**4,778**	4,327
Amortisation of intangible assets	**2,517**	3,440
Operating lease rentals	**282**	549
Net foreign exchange gains	**(43)**	(339)
Auditor's remuneration	**376**	588
Unused provisions released:		
– Underlying business	**–**	(291)
– Non-underlying	**(10,195)**	(10,434)
Staff costs (Note 9)	**30,196**	42,627

Depreciation of £3,090,000 (2016: £2,998,000) relates to telematics devices which is included within cost of sales.

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

	2017	2016
	£000	£000
Fees payable to the Company's Auditor and its associates for the audit of the Parent Company and Consolidated Financial Statements	**175**	250
Fees payable to the Company's Auditor and its associates for other services:		
– Additional amounts in relation to the prior year audit	**10**	55
– The audit of the Company's subsidiaries	**119**	235
– Audit-related services	**20**	25
– Taxation compliance services	**52**	16
– Taxation advisory services	**–**	7
	376	588

Notes to the Financial Statements (continued)

8. Non-underlying results

The non-underlying results of the business include the income and expenses of businesses classified as non-underlying by virtue of these not forming part of the long term plans for the Group and as such are being wound down or disposed of. This includes Maine Finance and ingenie Canada. Businesses meeting this criterion which also meet the definition of a discontinued operation under IFRS 5 have been further classified as discontinued operations within the non-underlying results. This includes Hubio, BAS, and additionally in 2016, Quintica, BEI and CRC. The comparative amounts have been presented to be on a consistent basis.

Items which are considered to be exceptional in size, nature or incidence, or have potential significant variability year on year in non-cash items which might mask underlying trading performance are also included within non-underlying. In 2017, this primarily relates to movements in provisions for legal fees and historic tax matters along with an impairment charge on goodwill. In 2016, this included providing for the Warranty Escrow receivable which was included alongside the discontinued operations to which it relates. The classification of provision releases as underlying or non-underlying are consistent with their initial establishment.

Non-underlying administrative expenses are analysed as follows:

	2017	2016
Year ended 31 December	**£000**	£000
Exceptional items:		
– Legal and regulatory	**3,517**	(1,107)
– Tax related matters (credit)	**(9,036)**	(5,795)
– Impairments of non-cash assets	**5,633**	–
– Restructuring	**67**	(247)
Total exceptional items	**181**	(7,149)
Other adjustments:		
– Share based payments	**43**	145
– Amortisation of acquired intangibles	**1,434**	1,684
– Other non-underlying administrative expenses	**1,079**	3,729
Total other adjustments	**2,556**	5,558
Total non-underlying administrative expenses	**2,737**	(1,591)

2016 has been restated to remove exceptional items and other adjustments that relate to businesses which are now classified as discontinued.

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

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

The legal and regulatory expense includes £2,940,000 of additional legal fee provisions in respect of recovery of the Warranty Escrow; and £605,000, being a contribution to costs in relation to the judgement on OS3 Distribution Limited litigation. In 2016, the credit of £1,107,000 included the release of provisions of £2,186,000 relating to legal disputes in the UK and the settlement of the Navseeker claim in the US. This was partially offset by additional legal fees in relation to PSD.

Within the tax related matters credit of £9,036,000, £7,536,000 arises from the release of unused provisions upon resolution of historic tax matters with HMRC. The remainder of £1,500,000 relates to revisions to estimates of the liability for the remaining, unresolved matters in response to the latest information available to the Group. The equivalent amount stated in 2016 is a net amount including £5,419,000 in respect of the release of unused provisions upon resolution of historic tax matters with HMRC.

The restructuring expense of £67,000 is stated after taking into account the release of unused provisions of £353,000. In 2016, this amount included costs in relation to the wind down of ingenie Canada, the closure of Maine Finance and the RAG B2C business and was net of the release of provisions of £1,584,000.

Impairments of non-cash assets above relates to:

	2017	2016
Year ended 31 December	£000	£000
Goodwill	**5,593**	6,814
Other intangible assets	**–**	179
Tangible fixed assets	**40**	–
	5,633	6,993

9. Employee numbers and staff costs

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

	2017	2016
	Number	Number
Front office technology, consulting and outsourcing	**697**	711
Back office management and administration	**12**	38
	709	749

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

	2017	2016
	£000	£000
Emoluments	**1,886**	2,211
Compensation for loss of office	**30**	–

The emoluments of the highest paid Director were £872,000 (2016: £1,145,000). One Director received a total of £10,000 (2016: two Directors a total of £17,000) in connection with contributions to pension schemes. Further details are provided in the Directors' Remuneration Report and in particular the tables on page 16 form part of this note to the Financial Statements.

Total employee costs for continuing operations were as follows:

	2017	2016
	£000	£000
Wages and salaries	**29,417**	39,398
Social security costs	**1,318**	3,006
Pension costs	**289**	293
Share-based payment charges	**43**	441
	31,067	43,138

Included in the total above are £871,000 (2016: £511,000) of salaries which were capitalised during the year in relation to software development.

Notes to the Financial Statements (continued)

10. Net finance income/expense

Continuing operations:

	2017	2016
Year ended 31 December	£000	£000
Bank interest receivable	**270**	654
Foreign exchange gain on intercompany loans	**–**	687
Total interest receivable	**270**	1,341
Interest payable on bank loans and overdrafts	**(71)**	(24)
Interest on obligations under finance leases	**–**	(8)
Foreign exchange loss on intercompany loans	**(105)**	–
Other interest payable	**(16)**	(239)
Exceptional net preference share credit	**2,390**	–
Total interest payable	**2,198**	(271)
Net finance income	**2,468**	1,070

As a consequence of the expiration of a redemption option at 31 December 2017 relating to the ptHealth Series 'A' preference shares ("pt Preference Shares"), there is no present obligation that requires the Group to accrue interest in the Group Report & Accounts. Accrued interest as at 31 December 2016 of £2,390,000 has been released to finance expense within non-underlying results.

11. Taxation

Continuing operations:

	2017	2016
Year ended 31 December	£000	£000
The taxation (credit)/charge comprises:		
Current tax:		
– Adjustments in respect of prior year	**(194)**	39
Total current tax (credit)/expense	**(194)**	39
Deferred tax expense:		
– Origination and reversal of temporary differences	**–**	534
– Adjustments in respect of changes in tax rates	**–**	5
– Adjustments in respect of prior year	**(560)**	10
Deferred tax (credit)/charge	**(560)**	549
Total tax (credit)/expense	**(754)**	588

Income tax for the UK is calculated at the standard rate of UK corporation tax of 19.25% (2016: 20%) on the estimated assessable profit for the year. The total charge for the year can be reconciled to the accounting profit as follows:

	2017	2016
	£000	£000
Loss on before tax from continuing operations	(4,950)	(3,403)
Tax at 19.25% (2016: 20%) thereon	(953)	(680)
Effect of:		
Expenses not deductible for tax purposes	3,135	1,204
Unrecognised deferred tax on losses	730	1,472
Income not taxable	–	(1,141)
Movement on provisions and movement on impairments	(3,586)	–
Other short term timing differences	–	(322)
Taxable degrouping charge	674	–
Reduction in rate of deferred tax	–	5
Adjustments to tax charge in respect of prior periods	(754)	50
Total tax (credit)/charge for the year	**(754)**	588

The tax impact of the items included in the Consolidated Statement of Comprehensive Income is £nil (2016: £nil).

Deferred tax assets are recognised for tax losses available for carrying forward to the extent that the realisation of the related benefit through future taxable profits is probable. The continuing business have recognised deferred tax assets of £nil (2016: £265,000) in respect of losses amounting to £nil (2016: £1,559,000) that can be carried forward against future taxable income.

The total amount of goodwill that is expected to be deductible for tax for continuing business is £1,250,000 (2016: £10,000).

At the Statement of Financial Position date, there are unrecognised deferred tax assets of £9,700,000 (2016: £17,377,000).

Factors affecting future tax charges

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

Notes to the Financial Statements (continued)

12. Earnings per share

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

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

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

	2017	2016
	£000	£000
Loss attributable to ordinary shareholders[a]	**(2,632)**	(69,062)
Net (gain)/loss from discontinued operations (including profit on disposal from discontinued operations)[d]	**(1,552)**	65,079
Loss attributable to ordinary shareholders from continuing activities[b]:	**(4,184)**	(3,983)
Other adjustments in respect of non-underlying results:		
– Gross profit	**–**	(20)
– Non-recurring administrative expenses	**2,737**	1,591
– Other income	**–**	–
– Finance (income)/expense	**(2,220)**	(833)
– Tax effect on the above	**–**	(165)
Underlying loss attributable to ordinary shareholders[c]	**(3,667)**	(3,410)
Basic weighted average number of shares	**46,038,333**	46,037,718
Dilutive potential ordinary shares	**–**	–
Diluted weighted average number of shares	**46,038,333**	46,037,718

Due to their anti-dilutive effect in 2017 and in 2016, options which could potentially be exercised after the balance sheet date have not been included in the calculation of diluted earnings per share and underlying diluted earnings per share in 2016.

	2017	**2016**
	Pence	**Pence**
(a) (Loss)/earnings per share (pence):		
– Basic	**(5.7)**	(150.0)
– Diluted	**(5.7)**	(150.0)
(b) Loss per share from continuing operations (pence):		
– Basic	**(9.1)**	(8.7)
– Diluted	**(9.1)**	(8.7)
(c) Underlying loss per share (pence):		
– Basic	**(8.0)**	(7.4)
– Diluted	**(8.0)**	(7.4)
(d) (Loss)/earnings per share from discontinued operations (pence):		
– Basic	**3.4**	(141.4)
– Diluted	**3.4**	(141.4)

13. Intangible assets

	Note	**2017**	2016
		£000	£000
Other intangible assets		**4,825**	6,259
Goodwill	14	**17,443**	23,221
		22,268	29,480

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 2016	69,548	28,834	98,382
Additions – internally generated*	–	2,155	2,155
Disposals	(2,600)	–	(2,600)
Exchange differences	92	1,046	1,138
At 1 January 2017	**67,040**	**32,035**	**99,075**
Transfers	**706**	**(706)**	**–**
Additions – purchased	**–**	**944**	**944**
Additions – internally generated	**–**	**871**	**871**
Disposals	**(61,306)**	**(25,099)**	**(86,405)**
Exchange differences	**(51)**	**(111)**	**(162)**
At 31 December 2017	**6,389**	**7,934**	**14,323**
Amortisation			
At 1 January 2016	64,428	26,415	90,843
Charge for the year	2,405	1,035	3,440
Impairments	178	–	178
Disposals	(2,407)	–	(2,407)
Exchange differences	1	761	762
At 1 January 2017	**64,605**	**28,211**	**92,816**
Transfers	**417**	**(417)**	**–**
Charge for the year	**1,315**	**1,202**	**2,517**
Disposals	**(61,305)**	**(24,434)**	**(85,739)**
Exchange differences	**(33)**	**(63)**	**(96)**
At 31 December 2017	**4,999**	**4,499**	**9,498**
Net book value			
31 December 2017	**1,390**	**3,435**	**4,825**
31 December 2016	2,435	3,824	6,259

* additions in 2016 include £755,000 reclassified from prepayments.

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

Amortisation relating to discontinued activities during the year ended 31 December 2017 was £616,000 (2016: £1,914,000). An impairment credit of £135,000 (2016: £nil) was recognised in the Consolidated Income Statement in the year in respect of discontinued activities. During the year ended 31 December 2017, £825,000 of research and development was taken directly to profit and loss within discontinued activities (2016: £913,000).

Notes to the Financial Statements (continued)

Brands are included within customer contracts, data, brands and relationships. The carrying value of brands at 1 January 2017 was £1,225,000 (2016: £2,638,000) with amortisation charged in the year of £700,000 (2016: £1,220,000). Brands with a carrying value of £nil (2016: £193,000) were disposed of in the year. The carrying value at 31 December 2017 was £525,000 (2016: £1,225,000).

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

At 31 December 2016, the Group conducted a review of all intangible assets and identified further assets previously valued at £178,000 which are or will become obsolete, either because they are unused and are expected to remain so or will be replaced by other similar and existing assets held by the Group.

In Note 31 an explanation is given to show the degree to which fair values are observable. These are grouped into three levels: Level 1, Level 2 and Level 3.

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

	Fair value degree observable	**2017**	2016
		£000	£000
Non-current assets:			
Other intangible assets	Level 3	–	–

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

14. Goodwill

The movement in goodwill is as follows:

	Goodwill
	£000
Cost	
At 1 January 2016	185,916
Exchange differences	7,978
At 1 January 2017	**193,894**
Disposals	**(96,071)**
Exchange differences	**(834)**
At 31 December 2017	**96,989**
Impairment	
At 1 January 2016	157,539
Charge	6,814
Exchange differences	6,320
At 1 January 2017	**170,673**
Disposals	**(96,071)**
Charge	**5,593**
Exchange differences	**(649)**
At 31 December 2017	**79,546**
Net book value	
31 December 2017	**17,443**
31 December 2016	23,221

Impairments recognised during 2016 resulted in only two CGUs retaining goodwill at 1 January 2017.

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

	2017	2016
	£000	£000
ingenie	**9,081**	14,674
Healthcare Services	**8,362**	8,547
	17,443	23,221

Notes to the Financial Statements (continued)

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

The recoverable amount of goodwill for businesses at the year-end is determined on the basis of Value in Use, using a discounted cash flow ("DCF") appraisal based on explicit forecast periods of 3 to 4 years (2016: 2 to 3 years) to reflect the maturity of the businesses and/or markets they operate in. External market data has been used where possible and the Group has also drawn upon data used in its annual planning cycle, with reference to other market participants. In particular changes in revenues and pre-tax discount rate are key assumptions.

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

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

2016	Hubio Fleet	Hubio UK	ingenie	Healthcare Services	BAS
Long term growth rate	2%	2%	2%	2%	2%
DCF appraisal period	4 years	3 years	3 years	3 years	3 years
Annualised revenue growth over DCF appraisal period	11%	7%	8%	5%	5%
Pre-tax discount rate	19%	13%	13%	15%	11%

Annualised revenue growth rates vary by operating division depending on the current development to maturity of the CGU. In determining the applicable discount rate, management has applied judgement in respect of several factors, including, inter alia, assessing the risk attached to future cash flows. Pre-tax discount rates have been assessed for each CGU.

Movement in Goodwill by CGU

The movement in goodwill by CGU is as follows:

	2016	Foreign exchange movements	Impairment	2017
	£000	£000	£000	£000
ingenie	14,674	–	(5,593)	9,081
Healthcare Services	8,547	(185)	–	8,362
Total	**23,221**	**(185)**	**(5,593)**	**17,443**

For ingenie, if there was an increase in the pre-tax discount rate of 1 percentage point there would be an additional impairment of £1,000,000 to the amounts above. Similarly, if there was a decrease of 1 percentage point in the long term growth rate there would be an additional impairment of £800,000.

No reasonably possible changes to assumptions would lead to an impairment of the goodwill for the Healthcare Services CGU.

15. Property, plant and equipment

	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2016	2,319	1,890	10,545	14,754
Additions	27	223	5,219	5,469
Disposals	(44)	(506)	(6,720)	(7,270)
Reclassification	40	1,315	8,216	9,571
Transfer to assets of disposal group classified as held for sale	(1,816)	–	–	(1,816)
Exchange differences	214	539	1,851	2,604
At 1 January 2017	**740**	**3,461**	**19,111**	**23,312**
Additions	**–**	**370**	**4,047**	**4,417**
Disposals	**(251)**	**(478)**	**(6,718)**	**(7,447)**
Transfer to assets classified as held for sale	**–**	**(175)**	**(1,828)**	**(2,003)**
Exchange differences	**(10)**	**(71)**	**(532)**	**(613)**
At 31 December 2017	**479**	**3,107**	**14,080**	**17,666**
Depreciation				
At 1 January 2016	793	224	6,297	7,314
Charge for the year	178	300	3,849	4,327
Disposals	(44)	(225)	(5,098)	(5,367)
Reclassification	40	1,315	8,216	9,571
Transfer to assets of disposal group classified as held for sale	(516)	–	–	(516)
Exchange differences	2	572	1,116	1,690
At 1 January 2017	**453**	**2,186**	**14,380**	**17,019**
Charge for the year	**10**	**360**	**4,408**	**4,778**
Disposals	**(226)**	**(381)**	**(5,440)**	**(6,047)**
Transfer to assets classified as held for sale	**–**	**(149)**	**(1,240)**	**(1,389)**
Exchange differences	**(8)**	**(45)**	**(461)**	**(514)**
At 31 December 2017	**229**	**1,971**	**11,647**	**13,847**
Net book value				
31 December 2017	**250**	**1,136**	**2,433**	**3,819**
31 December 2016	287	1,275	4,731	6,293

There were no material commitments for the acquisition of property, plant or equipment at either 31 December 2017 or 31 December 2016. Depreciation of £34,000 (2016: £157,000) was charged in the year on assets of the disposal groups classified as held for sale.

Telematics devices which are included as part of the services to end users were held with a net book value of £1,548,000 (2016: £3,903,000) on which depreciation of £3,090,000 (2016: £2,998,000) was charged in the year. The depreciation on these devices is included within Cost of Sales.

Notes to the Financial Statements (continued)

16. Investments

	Fair value degree observable	2017	2016
		£000	£000
Investments carried at fair value	Level 3	–	–

In Note 31, a definition is given to record the degree to which fair values are observable. These are grouped into three levels: Level 1, Level 2 and Level 3. Where fair value calculations have been performed for investments, the level is disclosed above under "fair value degree observable". The fair value degree represents unobservable inputs as they are based on unquoted entities – as listed in Note 41.

	Shares in investments
	£000
Cost	
At 1 January 2016	4,191
Exchange differences	552
At 1 January 2017	**4,743**
Exchange differences	**(395)**
At 31 December 2017	**4,348**
Impairment	
At 1 January 2016	4,191
Movement for the year	552
At 1 January 2017	**4,743**
Movement for the year	**(395)**
At 31 December 2017	**4,348**
Net book value	
31 December 2017	**–**
31 December 2016	–

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

Investment name	Country of incorporation	Percentage holding
eeGeo Inc.	USA	8.90%
OS3 Digital Platform Limited	England and Wales	5.30%
OS3 Distribution Limited	England and Wales	5.30%
Glanty Limited	England and Wales	0.40%

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

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 they will continue to be held at £nil net book value unless greater certainty is evident.

Details of subsidiary undertakings are provided in Note 41.

17. Inventories

	2017	2016
	£000	£000
Finished goods for resale	292	214
Telematics devices held pending fitting	991	727
	1,283	941

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

Telematics devices are taken to tangible fixed assets upon fitting to end user vehicles.

18. Trade and other receivables

	2017	2016
	£000	£000
Trade receivables (net of impairment provision)	4,416	7,247
Monies held in escrow (net of impairment provision)	–	–
Other receivables	1,088	1,641
Prepayments	630	1,231
Accrued income	10	109
	6,144	10,228

As discussed in Notes 4 and 33 an amount of £50,138,000 is held in the Warranty Escrow. No provisions have been made in respect of the Slater & Gordon claim and it is considered that the Warranty Escrow, which was fully impaired at 31 December 2017 (having been originally fully impaired at 31 December 2016), will be sufficient should the Group fail to defend the claim.

The Directors consider that the net carrying amount of trade receivables approximates to their fair value. Further disclosures concerning trade receivables are given in Note 31.

19. Term deposits

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

	2017	2016
	£000	£000
Term deposits	40,000	37,500
	40,000	37,500

20. Cash and cash equivalents

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

	2017	2016
	£000	£000
Cash	22,808	43,714
	22,808	43,714
Amounts classified as held for sale		
Cash	81	–
	22,889	43,714

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

Notes to the Financial Statements (continued)

21. Trade and other payables

	2017	2016
	£000	£000
Current liabilities		
Trade payables	**1,571**	2,547
Payroll and other taxes including social security	**482**	1,641
Accruals	**5,801**	10,919
Deferred income	**3,793**	9,118
Other liabilities	**63**	1,670
	11,710	25,895

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.

22. Borrowings

	2017	2016
	£000	£000
Current		
Cumulative redeemable preference shares	**2,203**	–
Other secured loans	**–**	163
Finance leases (Note 23)	**4**	102
	2,207	265
Non-current liabilities		
Cumulative redeemable preference shares	**3,795**	6,131
Finance leases (Note 23)	**–**	–
	3,795	6,131
Total	**6,002**	6,396

	2017	2016
	£000	£000
The borrowings are repayable as follows:		
– On demand or within one year	**2,207**	265
– In the second to fifth years inclusive	**3,795**	6,131
	6,002	6,396
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2,207)**	(265)
Amount due for settlement after 12 months	**3,795**	6,131

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

Holders of these shares may require ptHealth to redeem them 10 years from the date of issuance at par of £6,479,000 (CDN $10,971,000 when converted at the prevailing exchange rate, in aggregate). In the event of any liquidation, dissolution or winding up of ptHealth, holders of the pt Preference Shares shall be entitled to receive, from the assets of ptHealth, a sum equal to the redemption amount before any amount is paid or assets of ptHealth are distributed to common shares or any shares ranking junior to the pt Preference Shares. The pt Preference Shares shall not otherwise be entitled to any other amount or assets of ptHealth.

In Note 31 an explanation is given to show the degree to which fair values are observable. These are grouped into three levels: Level 1, Level 2 and Level 3.

	Fair value degree observable	2017	2016
		£000	£000
Liabilities:			
Cumulative redeemable preference shares	Level 3	**5,998**	6,131

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

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

	2017	2016
	%	%
Cumulative redeemable preference shares	–	8.00

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

	2017	2016
	£000	£000
Cumulative redeemable preference shares	**5,998**	6,131
Finance leases	**4**	102
	6,002	6,233

Due to the cash holding of the Group and its forecast working capital requirements the committed undrawn borrowing facilities were not renewed in the year.

23. Obligations under finance leases

	2017	2016
	£000	£000
Minimum lease payments		
Within one year	**4**	103
In the second to fifth year inclusive	–	–
	4	103
Less future finance charges	–	(1)
Present value of lease obligations	**4**	102
Present value of minimum lease payments		
Within one year	**4**	102
In the second to fifth years inclusive	–	–
Present value of lease obligations	**4**	102
Analysed as:		
Amounts due for settlement within one year	**4**	94
Amounts due for settlement after more than one year	–	8
	4	102

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling or Canadian dollars. The fair value of the Group's lease obligations is approximately equal to their carrying amount. The Group's obligations under finance leases are secured by the lessor's rights over the leased assets disclosed in Note 15.

Notes to the Financial Statements (continued)

24. Provisions

	Tax related matters	Legal disputes	Onerous contracts	Other	Total
	£000	£000	£000	£000	£000
At 1 January 2016	23,543	6,400	3,643	3,424	37,010
Additional provisions	3,231	1,814	525	3,315	8,885
Unused amounts released	(9,181)	(1,300)	(100)	(144)	(10,725)
Used during the year	(2,500)	(800)	(1,349)	(2,313)	(6,962)
Exchange movements	–	–	–	33	33
At 1 January 2017	**15,093**	**6,114**	**2,719**	**4,315**	**28,241**
Additional provisions	**–**	**2,927**	**126**	**936**	**3,989**
Unused amounts released	**(9,086)**	**(46)**	**(227)**	**(973)**	**(10,332)**
Used during the year	**(2,814)**	**(1,553)**	**(2,092)**	**(2,282)**	**(8,741)**
Exchange movements	**–**	**–**	**(34)**	**(12)**	**(46)**
At 31 December 2017	**3,193**	**7,442**	**492**	**1,984**	**13,111**
Split:					
Non-current	–	–	87	–	87
Current	3,193	7,442	405	1,984	13,024

Tax related matters

A provision for tax-related matters had been established in previous years with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues. During the year ended 31 December 2017, the majority of the outstanding PAYE issues were resolved and settled for £2,814,000 with £7,586,000 of unused provision being released to the income statement as the settlement was less than management's estimate at the time of preparation of the 31 December 2016 Financial Statements. Of the remaining amounts, £4,000,000 of the provision at 31 December 2016 related to a disputed and judgemental tax issue. Based upon the latest information available to management, this has been reduced to £2,500,000 at 31 December 2017. 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 continues to take steps to resolve these outstanding items and believe the majority will be settled within twelve months from the balance sheet date.

Legal disputes and regulatory matters

In legal cases where the Group is (or would be) the defendant, such as those set out in Note 33, defence costs are provided as the Group is committed to defending the actions. Such costs are provided for at the mid-range of possible eventualities given the uncertainty of the outcome. If the Group is successful in defending such actions, then the final costs may be lower than the total provision recognised above. Additional provisions in the table above relate to expected legal costs to defend these actions. No amounts have been provided for the costs of any settlement, fine or award of damages.

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

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

Onerous contracts

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. The timing and amount of these items can be reasonably determined. The majority of the amount provided at 31 December 2016 related to three onerous property leases. Two of these onerous leases have been settled in the year at amounts less than management's estimate at 31 December 2016 and therefore unused amounts of £227,000 have been released. The settlement and costs incurred during the period relate to the £2,282,000 utilised during the year. To date it has not been possible to sublet or otherwise resolve the remaining property lease and therefore an additional amount of £126,000 has been provided representing the maximum exposure to this onerous lease. The majority of the provision at 31 December 2017 now relates to non-property obligations.

Other

Provisions have been established for expected costs where a commitment has been made at the balance sheet date and for which no future benefit is anticipated. These primarily relate to three areas, commission clawback relating to non-underlying businesses, warranties provided by the Group and outstanding restructuring payments. With the exception of the latter, the exact timing and quantum of the amounts is uncertain and the provision is based upon historic trends in these businesses. £703,000 of the additional provision in the year relates to the normal ongoing business activities of the Group. The amounts of the restructuring provision can be reasonably estimated and are time bound within an upper limit of one year. The commission clawback element of the provision totals £562,000 (2016: £967,000) of which £1,108,000 was used in the year and £703,000 was newly created.

25. Deferred tax

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

	Accelerated capital allowances	Provisions and other temporary timing differences	Total
	£000	**£000**	**£000**
At 1 January 2016	384	(80)	304
Debit to Income Statement	625	(188)	437
At 1 January 2017	**1,009**	**(268)**	**741**
Credit to Income Statement	**(842)**	**268**	**(574)**
At 31 December 2017	**167**	**–**	**167**

	2017	2016
	£000	£000
Deferred tax liabilities	**167**	1,009
Deferred tax assets	**–**	(268)
	167	741

At the Statement of Financial Position date, there are unrecognised deferred tax assets of £9,700,000 (2016: £17,377,000).

Notes to the Financial Statements (continued)

26. Share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
	'000	£000	£000	£000
At 1 January 2017 and 31 December 2017	**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.

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

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

Share based payments in the 2017 Consolidated Income Statement include options charges of £43,000 (2016: £441,000).

Share-based payments – options

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

The Group had the following options outstanding as at 31 December 2017:

			2017	2016
Grant Date	Exercise Price (Pence)	Expiry Date	Number	Number
21 November 2013	1,500	30 June 2019	**219,721**	272,637
21 November 2013	1,500	30 June 2019	**117,960**	134,425
21 November 2013	1,500	30 June 2017	**–**	15,583
21 November 2013	1,500	30 June 2019	**10,417**	10,417
20 June 2014	1,500	30 June 2019	**100,000**	100,000
			448,098	533,062

Details of the movement in options outstanding are as follows:

	2017 Number	**2017 WAEP** Pence	2016 Number	2016 WAEP Pence
Outstanding at the beginning of the year	**533,062**	**1,500.00**	728,547	1,634.86
Cancelled	**(84,964)**	**1,500.00**	(120,485)	3,242.95
Exercised	**–**	**–**	(75,000)	10.00
Outstanding at the end of the year	**448,098**	**1,500.00**	533,062	1,500.00
Exercisable at the end of the year:				
Issued at 1,500 pence	**448,098**	**1,500.00**	454,924	1,500.00
	448,098	**1,500.00**	454,924	1,500.00

The Group recognised a total expense of £43,000 (2016: £441,000) related to the cost of options during the year (included as share based payment charges within administrative expenses). As of 31 December 2017, the weighted-average remaining contractual life of the options outstanding is 1.5 years (2016: 2.4 years) and the weighted-average exercise price was 1,500 pence (2016: 1,500 pence). The expected life used in the model was adjusted, based on management's best estimate, for the effects of non-transferability, performance conditions, exercise restrictions, and behavioural considerations.

27. Reserves

	2017 £000	2016 £000
Share premium account	**127,251**	127,251
Reverse acquisition and merger reserve	**(10,024)**	(3,312)
Other equity reserves	**23,316**	23,316
Foreign currency translation reserve	**(3,925)**	(4,076)
Total other reserves	**136,618**	143,179
Retained earnings	**(76,095)**	(80,218)
Non-controlling interests	**946**	973

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

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

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

Notes to the Financial Statements (continued)

Other equity reserves comprise:

	Equity reserve	Shares treated as held in treasury	Share-based payments	Share consideration reserve	Total other equity reserves
	£000	£000	£000	£000	£000
At 1 January 2016	54	–	3,659	22,934	26,647
Share-based payments (Note 26)	–	–	441	–	441
Realised profits transfer to retained earnings	–	–	(3,772)	–	(3,772)
At 1 January 2017	**54**	**–**	**328**	**22,934**	**23,316**
Share-based payments (Note 26)	**–**	**–**	**43**	**–**	**43**
Realised profits transfer to retained earnings	**–**	**–**	**(43)**	**–**	**(43)**
At 31 December 2017	**54**	**–**	**328**	**22,934**	**23,316**

Share consideration reserve

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

Share-based payment reserve

The share-based payment reserve is increased to reflect the fair value to the Group of share-based payment transactions, with the reserve being reduced when shares are issued. During 2017, an amount of £43,000 (2016: £3,772,000) was transferred to retained earnings, representing amounts which have become realised profits.

28. Operating lease commitments

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

	Land and buildings		Plant and equipment	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Expiring:				
– Within one year	**4,067**	4,675	**–**	6
– Between two and five years	**6,138**	8,615	**–**	–
– After five years	**555**	498	**–**	–
	10,760	13,788	–	6

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

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

29. Cash flow from operating activities

	2017	2016
	£000	£000
Loss after tax	(2,644)	(69,070)
Tax	(830)	260
Net finance income	(2,239)	(2,066)
Operating loss	(5,713)	(70,876)
Adjustments for:		
– Non underlying cash out flows excluding discontinued operations	5,266	10,422
– Share-based payments	43	441
– Depreciation of property, plant and equipment	4,778	4,327
– Amortisation of intangible assets	2,517	3,440
– Impairment of goodwill	5,593	6,814
– Impairment of intangible assets	–	178
– Impairment of escrow	–	50,120
– Impairment of property, plant and equipment	40	–
– Impairment of HFS assets	159	–
– Impairment of inventories	–	(365)
– Loss on disposal of plant, property and equipment	1,221	1,903
– Loss on disposal of intangibles	–	193
– Profit on disposal subsidiary undertakings and operations (Note 34)	(4,930)	(323)
Operating cash flows before movements in working capital and provisions	8,974	6,274
– (Increase)/decrease in inventories	(401)	295
– Decrease in trade and other receivables	3,484	1,625
– Decrease in trade and other payables	(23,346)	(24,605)
Cash used by operations before exceptional costs	(11,289)	(16,411)

Notes to the Financial Statements (continued)

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

	1 January	Acquisitions & Disposals	Cash flow movements	Non-cash movements	31 December
	£000	£000	£000	£000	£000
2017					
Cash	**43,714**	**2,602**	**(23,384)**	**(124)**	**22,808**
Overdrafts and bank loans	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**43,714**	**2,602**	**(23,384)**	**(124)**	**22,808**
Other secured loans > 1 year	**(163)**			**163**	**–**
Cumulative redeemable preference shares < 1 year	**–**	**–**	**–**	**(2,203)**	**(2,203)**
Cumulative redeemable preference shares > 1 year	**(6,131)**	**–**	**–**	**2,336**	**(3,795)**
Finance leases < 1 year	**(102)**	**5**	**94**	**(1)**	**(4)**
Finance leases > 1 year	**–**	**–**	**–**	**–**	**–**
Net funds	**37,318**	**2,607**	**(23,290)**	**171**	**16,806**

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

31. Financial instruments

(a) Carrying value and fair value

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

	Loans and receivables	Other liabilities	Total carrying value	Total fair value
	£000	£000	£000	£000
At 31 December 2017				
Trade and other receivables	**4,416**	**–**	**4,416**	**4,416**
Cumulative redeemable preference shares	**–**	**(5,998)**	**(5,998)**	**(5,998)**
Trade and other payables	**–**	**(2,053)**	**(2,053)**	**(2,053)**
Finance leases	**–**	**(4)**	**(4)**	**(4)**
Term deposits	**40,000**	**–**	**40,000**	**40,000**
Cash and cash equivalents	**22,808**	**–**	**22,808**	**22,808**

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

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

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

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

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

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

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

The Warranty Escrow is a receivable in respect of an escrow account controlled jointly by the Company and Slater & Gordon (see Note 18). Fair value has been determined based on an assessment of the likely timing and amount of any cash which the Company will receive from the escrow.

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

Notes to the Financial Statements (continued)

(b) Fair value hierarchy

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

(c) Financial risk management

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

Fair value estimation

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

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

Interest risk and sensitivity

The Group's borrowings mainly comprise the pt Preference Shares (which are classified as debt in accordance with IAS 32) arising from previous acquisitions. These will be settled at maturity and no longer attract interest, there is therefore minimal exposure to the Group from changes to interest rates upon its borrowings.

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

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

	2017	2016
	£000	£000
Variable rate instruments	**–**	–

Liquidity risk

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

The following are the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	**£000**	**£000**	**£000**	**£000**
Non-derivative financial liabilities					
2017					
Cumulative redeemable preference shares	**5,998**	**(5,998)**	**(2,023)**	**(3,975)**	**–**
Trade and other payables	**2,053**	**(2,053)**	**(2,053)**	**–**	**–**
Finance leases	**4**	**(4)**	**(4)**	**–**	**–**
	8,055	**(8,055)**	**(4,080)**	**(3,975)**	**–**

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
2016					
Other secured loans	163	(163)	(163)	–	–
Cumulative redeemable preference shares	6,131	(9,066)	–	(6,793)	(2,273)
Trade and other payables	4,217	(4,217)	(4,217)	–	–
Finance leases	102	(103)	(96)	(7)	–
	10,613	(13,549)	(4,476)	(6,800)	(2,273)

Capital risk

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

Credit risk

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

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

Notes to the Financial Statements (continued)

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

	2017	2016
	£000	£000
Sterling	–	50
Canadian Dollar	**6,002**	6,181
Other	–	165
	6,002	6,396

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

		2017	2016
	Note	£000	£000
Non-derivative financial assets			
Trade receivables	18	**4,416**	7,247
Term deposits	19	**40,000**	37,500
Cash and cash equivalents	20	**22,808**	43,714
		67,224	88,461

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

	2017	2016
	£000	£000
UK	**1,807**	3,501
Canada	**2,374**	3,325
Rest of World	**235**	421
	4,416	7,247

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

	2017	2016
	£000	£000
Sterling	**1,807**	3,501
Canadian Dollar	**2,374**	3,325
Other	**235**	421
	4,416	7,247

The ageing of trade and other receivables at 31 December 2017 was as follows:

	2017 Gross	2017 Impairment	2017 Net	2016 Gross	2016 Impairment	2016 Net
	£000	£000	£000	£000	£000	£000
Under 1 year	**4,594**	**275**	**4,319**	7,277	253	7,024
1-2 years	**137**	**40**	**97**	703	480	223
2-3 years	–	–	–	19	19	–
	4,731	**315**	**4,416**	7,999	752	7,247

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

	2017	2016
	£000	£000
At 1 January	**752**	2,271
Provision for receivables impairment	**110**	45
Receivables written off	**(526)**	(1,338)
Unused amounts reversed	**(26)**	(410)
Exchange differences	**5**	184
At 31 December	**315**	752

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

32. Ultimate parent company

The ultimate parent company of the Group is Watchstone Group plc. There were no shareholders with overall control of the Company as at 31 December 2017.

33. Contingencies

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

On 14 June 2017, the Group was served with High Court proceedings issued by Slater & Gordon for breach of warranty and/or fraudulent misrepresentation for a total amount of up to £637,000,000 plus interest in damages in respect of the disposal of the PSD in 2015, further details of which are provided in Note 4. Having taken external advice, no liability has been recognised at the balance sheet date as, in management's opinion, it is more likely than not that the Group will successfully defend these claims.

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

On 14 December 2015, the Group received a letter of claim from a law firm ("Claimant Firm") acting for 342 claimants commencing an action against the Company under the Financial Services and Markets Act 2000 ("Letter of Claim"). Despite the Company's endeavours in correspondence with the Claimant Firm, the Company is 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.

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

Notes to the Financial Statements (continued)

34. Discontinued operations and disposals

Assets classified as held for sale

At 31 December 2017, the Group was committed to the disposal of its Hubio Fleet business and the non-telematics assets of its Canadian subsidiary. As such, the related assets and liabilities, are presented as held for sale in the Consolidated Statement of Financial Position. At 31 December 2016, the Group's former head office property was presented as available for sale, this was disposed of during 2017.

Disposal of businesses in 2018

Loss for the year from discontinued operations:

	2017	2016
	£000	£000
Hubio Fleet	**(969)**	(237)
Hubio Canadian non-telematics assets	**(746)**	(678)
HTL	**(457)**	498
Other Hubio	**(981)**	(3,486)
BAS	**(225)**	(392)
BEI	**–**	(145)
Quintica	**–**	(7)
Other previously treated as Continuing NUL*	**–**	(10,835)
Loss for the year from discontinued operations net of tax	**(3,378)**	(15,282)

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

Hubio Fleet

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

The provisional loss arising on disposal is as follows. Given the disposal happened after the balance sheet date this loss on disposal has not been reflected in the result to 31 December 2017:

	£000
Sales proceeds	**60**
Net assets at disposal	**(23)**
Expenses and other costs of sale	**(103)**
Loss arising on sale	**(66)**

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

	2017	2016
	£000	£000
Revenue	**1,160**	1,418
Expenses	**(2,129)**	(1,655)
Loss before tax of discontinued operation	**(969)**	(237)
Tax	**–**	–
Loss after tax of discontinued operation	**(969)**	(237)

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

	2017
	£000
Operating cash outflows	(1,210)
Investing cash flows	–
Financing cash flows	–
Total cash flows	**(1,210)**

During 2016, Hubio Fleet was being established and split from the pre-existing business of RAG B2C. For this reason it is not possible to separately identify the related Hubio Fleet cash flows for this period.

Canadian non-telematics assets

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

The provisional profit arising on disposal is as follows. Given the disposal happened after the balance sheet date this profit on disposal has not been reflected in the result to 31 December 2017:

	£000
Sales proceeds	266
Net assets at disposal	(78)
Expenses and other costs of sale	(27)
Profit arising on sale	**161**

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

	2017	2016
	£000	£000
Revenue	1,721	1,965
Expenses	(2,467)	(2,643)
Loss before tax of discontinued operation	(746)	(678)
Tax	–	–
Loss after tax of discontinued operation	**(746)**	(678)

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

	2017	2016
	£000	£000
Operating cash outflows	(621)	(2,199)
Investing cash flows	–	–
Financing cash flows	–	–
Total cash flows	**(621)**	(2,199)

Disposal of businesses in 2017

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

Notes to the Financial Statements (continued)

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

Metaskil Limited ("Metaskil")

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

Business Advisory Services Limited

The sale of BAS and its subsidiary Watchstone Business Process Outsourcing (Pty) Limited completed in July 2017. Following the completion of the disposal the Group ceased to operate in the energy broking sector. Accordingly, the results of these business have been classified as discontinued in the Consolidated Income Statement for the year to 31 December 2017 and represented on the same basis for the year to 31 December 2016.

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

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

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

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

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

	2017	2016
	£000	£000
Revenue	**1,621**	3,690
Expenses	**(1,912)**	(4,008)
Loss before tax of discontinued operation	**(291)**	(318)
Tax	**66**	(74)
Loss after tax of discontinued operation	**(225)**	(392)

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

	2017	2016
	£000	£000
Operating cash outflows	**(434)**	244
Investing cash flows	**(404)**	(8)
Financing cash flows	**–**	–
Total cash flows	**(838)**	236

Hubio Technologies Limited ("HTL")

During 2017, the Group transferred the trade and assets of HTL, to ICE Insuretech Limited ("ICE"), being a wholly owned subsidiary of HTL. Subsequently, the entire share capital of ICE was sold to Acturis International Limited for cash consideration of £3,500,000. Accordingly, the results of these businesses have been classified as discontinued in the Consolidated Income Statement for the year to 31 December 2017 and represented on the same basis for the year to 31 December 2016.

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

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

The provisional profit arising on disposal is as follows:

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

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

	2017	2016
	£000	£000
Revenue	**4,054**	5,774
Expenses	**(4,507)**	(5,959)
Loss before tax of discontinued operation	**(453)**	(185)
Tax	**(4)**	683
(Loss)/profit after tax of discontinued operation	**(457)**	498

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

	2017	2016
	£000	£000
Operating cash outflows	**(489)**	(1,351)
Investing cash flows	**(37)**	27
Financing cash flows	**–**	–
Total cash flows	**(526)**	(1,324)

Disposal of businesses in 2016

	2016
	£000
BE Insulated (UK) Limited and Carbon Reduction Company (UK) Limited	247
Quintica Holdings Limited	76
Total gain on disposal	323

BE Insulated (UK) Limited ("BEI") and Carbon Reduction Company (UK) Limited ("CRC")

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

The results of these businesses are disclosed as discontinued activities on the face of the Consolidated Income Statement and related notes.

Notes to the Financial Statements (continued)

The Group provided funding to BEI in 2016 prior to disposal. The subsequent profit arising on sale in the period ended 31 December 2016 is as follows:

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

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

	2016
	£000
Revenue	148
Expenses	(258)
Loss before tax of discontinued operation	(110)
Tax	(35)
Loss after tax of discontinued operation	(145)

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

	2016
	£000
Operating cash outflows	–
Investing cash flows	–
Financing cash flows	–
Total cash flows	–

Quintica Holdings Limited ("Quintica")

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

The results of this business are disclosed as discontinued activities on the face of the Consolidated Income Statement and related notes.

The profit arising on sale in the during 2016 was as follows:

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

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

	2016
	£000
Revenue	1,034
Expenses	(1,038)
Loss before tax of discontinued operation	(4)
Tax	(3)
Loss after tax of discontinued operation	(7)

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

	2016
	£000
Operating cash outflows	(553)
Investing cash flows	(17)
Financing cash flows	212
Total cash flows	(358)

35. Related party transactions

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

Disposal of businesses

2017

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

2016

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

On 7 March 2016, the Group disposed of its investment in Quintica to QIH being a company owned by Charles Osburn, a statutory director of Quintica, for approximately £1.35 million.

Compensation of key management personnel

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

	2017	2016
	£000	£000
Short-term employee benefits	**2,835**	3,281
Post-employment benefits	**17**	33
Termination benefits	**30**	–
	2,882	3,314

Transactions with Directors and Key Management

There have been no transactions with Directors and Key Management during 2017.

Transactions with former management

The 31 December 2016 Financial Statements referred to an investigation by the Group into expense claims submitted by Mr Robert Terry and payments made to him by the Group during his period of employment and related litigation. In January 2018, Mr Terry (together with his wife and former employee, Mrs Louise Terry) and Watchstone settled certain respective claims arising out of Mr Terry's contract of employment with Watchstone, the settlement agreement entered into when Mr Terry departed Watchstone in November 2014 ("November 2014 Settlement") and a separate agreement relating to works done at Quob Park (the former head office of the Group) ("Terry Settlement"). Under the terms of the Terry Settlement, Mr Terry waived his right to receive £280,000 under the November 2014 Settlement and Mr and Mrs Terry paid Watchstone £800,000 (in cash). These items, arising after the balance sheet date, have not been included in the results of the Group in the year ended 31 December 2017.

Notes to the Financial Statements (continued)

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

Transactions with OS3 Distribution Limited

On 28 June 2016, the outstanding loan notes of £1,387,000 were settled by OS3 Distribution Limited, a company in which the Group holds an investment.

36. Post balance sheet events

Settlements with former management and former vendors

In January and March 2018, the Company agreed settlements with former management, further details are provided in Note 35.

Disposal of businesses

In January 2018, the Group disposed of the non-telematics assets of its Canadian subsidiary and in February 2018 the Group disposed of its Hubio Fleet business. Further details of these transactions are included in Note 34.

Company Statement of Financial Position

as at 31 December 2017	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	40	**–**	22
Investments in subsidiaries	41	**19,234**	24,030
Interests in associates	41	**–**	–
Investments	41	**–**	–
		19,234	24,052
Current assets			
Trade and other receivables	42	**25,135**	25,346
Term deposits	43	**40,000**	37,500
Cash and cash equivalents	44	**18,458**	36,641
		83,593	99,487
Assets classified as held for sale		**–**	1,300
Total current assets		**83,593**	100,787
Total assets		**102,827**	124,839
Current liabilities			
Trade and other payables	45	**(35,324)**	(61,358)
Provisions	45	**(11,441)**	(22,186)
Total current liabilities		**(46,765)**	(83,544)
Total liabilities		**(46,765)**	(83,544)
Net assets		**56,062**	41,295
Equity			
Share capital	47	**4,604**	4,604
Other reserves	48	**128,451**	135,163
Retained earnings	48	**(76,993)**	(98,472)
Total equity		**56,062**	41,295

The Financial Statements of the Company, registered number 05542221, on pages 79 to 95 were approved by the Directors on 26 April 2018 and signed on its behalf by:

Mark P Williams
Director

Richard Rose
Director

Notes to the Financial Statements (continued)

Company Cash Flow Statement

for the year ended 31 December 2017	Note	2017 £000	2016 £000
Cash flows from operating activities			
Cash used by operations before exceptional costs, net finance expense and tax	51	**(36,815)**	(14,759)
Non underlying operating cash out flows excluding discontinued operations		**(4,046)**	(2,089)
Cash used by operations before net finance expense and tax		**(40,861)**	(16,848)
Corporation tax received		**375**	289
Net cash used by operating activities		**(40,486)**	(16,559)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2)**	(1)
Sale of PSD		**–**	3,805
Sale of assets held for sale		**1,125**	–
Sale of subsidiaries		**1,500**	–
Sale of associated undertakings		**–**	86
Purchase of term deposit		**(70,000)**	(82,500)
Proceeds from maturing term deposits		**67,500**	45,000
Interest income		**178**	97
Repayment of loans that were made to group undertakings		**(12,079)**	(20,372)
Loans from group undertakings		**3,344**	6,968
Repayment of financing loan		**–**	1,255
Dividends received from subsidiaries		**30,737**	840
Net cash generated by/(used in) investing activities		**22,303**	(44,822)
Cash flows from financing activities			
Net finance income received		**–**	375
Issue of share capital		**–**	8
Net cash generated by financing activities		**–**	383
Net decrease in cash and cash equivalents		**(18,183)**	(60,998)
Cash and cash equivalents at the beginning of the year		**36,641**	97,639
Cash and cash equivalents at the end of the year	44	**18,458**	36,641

Company Statement of Changes in Equity

for the year ended 31 December 2017	Share capital	Share premium account	Merger reserve	Other equity reserve	Share-based payments reserve	Total other reserves	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2017	4,604	127,251	7,530	54	328	135,163	(98,472)	41,295
Loss for the year	–	–	–	–	–	–	(16,013)	(16,013)
Dividends received	–	–	–	–	–	–	30,737	30,737
Total comprehensive income	–	–	–	–	–	–	14,724	14,724
Share-based payments (Note 26)	–	–	–	–	43	43	–	43
Reserves adjustments, including transfer of realised Profits to retained earnings	–	–	(6,712)	–	(43)	(6,755)	6,755	–
Total transactions with owners, recognised directly in equity	–	–	(6,712)	–	–	(6,712)	6,755	43
At 31 December 2017	4,604	127,251	818	54	328	128,451	(76,993)	56,062

for the year ended 31 December 2016	Share capital	Share premium account	Merger reserve	Other equity reserve	Share-based payments reserve	Total other reserves	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2016	4,596	127,251	7,530	54	3,659	138,494	(14,014)	129,076
Loss for the year	–	–	–	–	–	–	(89,070)	(89,070)
Dividends received	–	–	–	–	–	–	840	840
Total comprehensive income	–	–	–	–	–	–	(88,230)	(88,230)
Issue of share capital (Note 26, 27)	8	–	–	–	–	–	–	8
Share-based payments (Note 26)	–	–	–	–	441	441	–	441
Reserves adjustments, including transfer of realised Profits to retained earnings (Note 27)	–	–	–	–	(3,772)	(3,772)	3,772	–
Total transactions with owners, recognised directly in equity	8	–	–	–	(3,331)	(3,331)	3,772	449
At 31 December 2016	4,604	127,251	7,530	54	328	135,163	(98,472)	41,295

Notes to the Financial Statements (continued)

37. General information

Watchstone Group plc is a company registered and domiciled in the United Kingdom. The Financial Statements are presented in pounds sterling, to the nearest thousand, as this is the currency of the primary economic environment in which the Company operates. The address of the registered office is Highfield Court, Tollgate, Chandler's Ford, Hampshire, SO53 3TY.

38. Significant accounting policies

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

Basis of preparation

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

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

Going concern

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

On this basis, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Company to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements. In forming this judgement, the Directors have taken into account the existence of the Slater & Gordon claim set out in Note 33. Having taken legal advice on this claim, the Directors consider that the risk of this matter giving rise to a level of liability which would impact the ability of the company to remain a going concern is remote. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements.

Income Statement and Statement of Comprehensive Income

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

Operating profit

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

Share-based payments

Options

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

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

Post combination vendor remuneration

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

Property, plant and equipment

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

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

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

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

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Consideration receivable for the Professional Services Division

£50,000,000 (plus interest) of the PSD sale consideration is retained in the Warranty Escrow. At 31 December 2017, the Company has impaired the Warranty Escrow receivable in full.

Term deposits

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

Provisions

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

Taxation including deferred tax

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

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

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

Notes to the Financial Statements (continued)

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

Share capital

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

39. Adoption of new and revised Standards

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

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

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

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

Annual Improvements to IFRSs	2014-2016 cycle
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 (which in some cases have not yet been adopted by the European Union), and have not been applied in preparing these Financial Statements. None of these are expected to have a significant effect on the Financial Statements of the Company, as follows:

Amendments to IAS 40	Transfers of Investment Property
IFRS 9	Financial Instruments; IFRS 9 is effective from 1 January 2018. The Group has assessed the impact of this standard and it is not expected to be material
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 10 and 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayments features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRS 16	Leases
IFRS 17	Insurance Contracts

40. Property, plant and equipment

	Leasehold land and buildings £000
Cost	
At 1 January 2016	1,846
Additions	1
Transfer to assets classified as held for sale	(1,815)
At 1 January 2017	**32**
Additions	**2**
Disposals	**(34)**
At 31 December 2017	**–**
Depreciation	
At 1 January 2016	362
Charge for the year	163
Transfer to assets classified as held for sale	(515)
At 1 January 2017	**10**
Charge for the year	**6**
Disposals	**(16)**
At 31 December 2017	**–**
Net book value	
31 December 2017	–
31 December 2016	22

Notes to the Financial Statements (continued)

41. Investments

	Shares in investments	Shares in associates	Shares in group undertakings	Total
	£000	£000	£000	£000
Cost				
At 1 January 2016	1,500	5,689	264,801	271,990
Additions	–	–	3,397	3,397
Disposals	–	(261)	–	(261)
At 1 January 2017	**1,500**	**5,428**	**268,198**	**275,126**
Additions	**–**	**–**	**49**	**49**
Disposals	**–**	**(1,206)**	**(13,575)**	**(14,781)**
At 31 December 2017	**1,500**	**4,222**	**254,672**	**260,394**
Impairment				
At 1 January 2016	1,500	5,603	221,725	228,828
Charge for the year	–	–	22,443	22,443
Disposals	–	(175)	–	(175)
At 1 January 2017	**1,500**	**5,428**	**244,168**	**251,096**
Charge for the year	**–**	**–**	**4,838**	**4,838**
Disposals	**–**	**(1,206)**	**(13,568)**	**(14,774)**
At 31 December 2017	**1,500**	**4,222**	**235,438**	**241,160**
Net book value				
31 December 2017	**–**	**–**	**19,234**	**19,234**
31 December 2016	–	–	24,030	24,030

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

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

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
Investments incorporated in Canada		
Registered Address: 20 Victoria Street, 6th Floor, Toronto, Ontario, M5C 2N8		
Connected Car Solutions Inc	Indirect	
Hubio SaaS Solutions Inc	Direct	
Hubio Solutions Inc	Indirect	
Intrinsic Holding Company Inc	Indirect	
Intrinsync Insurance Company Inc	Indirect	
Iter8 Consulting Services Inc	Indirect	
Watchstone (Canada) Inc	Direct	
Registered Address: 35 The Esplanade, Suite 250, Toronto, Ontario, M5E 1Z4		
Quindell Services Inc	Indirect	
Registered Address: 510-157 Adelaide St W, Toronto, Ontario, M5H 4E7		
ingenie (Canada) Inc	Indirect	
Registered Address: 70 Frid Street, Unit 2, Hamilton, Ontario, L8P 4M4		
pt Healthcare Solutions Corp	Indirect	
Innocare Limited	Indirect	
7211589 Canada Inc	Indirect	
Registered Address: 67 Yonge Street, Suite # 1101, Toronto, Ontario, M5E 1J8		
pt Health Aspen Limited Partnership	Indirect	51%
Registered Address: c/o Actus Law Droit, 900 Main Street, Moncton, New Brunswick, E1C 1G4		
pt Health NB 2016 Professional Corporation Inc	Indirect	25% Common shares, 100% preference shares

Investments incorporated in United Kingdom		
Registered Address: Highfield Court, Tollgate, Chandlers Ford, Eastleigh, Hampshire SO53 3TY		
Brand Extension (UK) Limited ~	Indirect	
Connected Car Solutions Limited	Direct	
Hubio Fleet Limited	Indirect	
Hubio Solutions Limited	Direct	99.92%
Hubio Technologies Limited	Direct	
Ingleby (1653) Limited	Indirect	
Ingleby Sub Limited (formerly Road Angel Group Limited)	Indirect	
Maine Finance Limited	Indirect	
Morpheous Holdings Limited	Indirect	
Morpheous Sub Limited (formerly Road Pilot Limited)	Indirect	
QPS Energy Limited ~	Indirect	
QPS Scaffolding Limited ~	Indirect	
QPS South West Limited ~	Indirect	
Quindell Business Process Services Limited	Direct	98.40%
Quindell Property Services Limited	Direct	
Sunlite Solutions Limited ~	Indirect	
Watchstone Limited	Direct	
Registered Address: 4 Prince Albert Road, London, NW1 7SN, England,		
Glanty Limited	Direct	0.35%
Registered Address: Pillar House, 113/115 Bath Road, Cheltenham, Gloucestershire, GL53 7LS		
BestPriceHotDeals Limited	Indirect	50%

Notes to the Financial Statements (continued)

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
Investments incorporated in United Kingdom (continued)		
Registered Address: Quob Park, Titchfield Lane, Wickham, Fareham, Hampshire		
OS3 Digital Platform Limited (formerly OS3 Telecoms Distribution Limited)	Indirect	5.29%
OS3 Distribution Limited	Direct	5.29%
Registered Address: The Stables, Thorncroft Manor, Thorncroft Drive, Leatherhead, Surrey		
ingenie (UK) Limited	Indirect	
ingenie Limited	Direct	
ingenie Services Limited	Indirect	
Investments incorporated in United States of America		
Registered Address: 280 Madison Avenue, Room 912 - 9th Floor, New York 10016		
SMI Telecoms LLC	Indirect	
Registered Address: 160 Greentree Drive, Ste 101, Dover, DE 19904		
Hubio Inc.	Indirect	
Registered Address: 3800 N Central Ave, Ste 460, Phoenix, AZ 85012		
Navseeker Inc	Indirect	
Registered Address: Corporate Trust Co., Corporate Trust Center, 1209 Orange Street, Wilmington, DE 19801		
ingenie (USA) Inc ~	Indirect	
SMI Telecoms Distribution LLC	Indirect	
Registered Address: Corporation Service Company, 2711 Centerville Road, Ste 400, Wilmington, DE 19808		
eeGeo Inc	Indirect	8.90%
Iter8 (USA) Inc	Indirect	
Registered Address: National Registered Agents, 818 W 7th Street, Ste 930, Los Angeles, CA 90017		
LocX Inc	Indirect	

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

The financial year ends of the Group's subsidiaries are 31 December 2017. 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
eeGeo Inc (8.9%)	USA	Indirect
OS3 Digital Platform Limited (5.3%)	UK	Indirect
OS3 Distribution Limited (5.3%)	UK	Direct
Glanty Limited (0.4%)	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.

42. Trade and other receivables

	2017	2016
	£000	£000
Payroll and other taxes including social security	38	142
Other debtors	152	477
Prepayments	35	93
Amounts due from subsidiary undertakings	24,910	24,634
	25,135	25,346

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.

43. Term deposits

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

	2017	2016
	£000	£000
Term deposits	40,000	37,500

44. Cash and cash equivalents

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

	2017	2016
	£000	£000
Cash and cash equivalents	18,458	36,641

45. Liabilities

	2017	2016
	£000	£000
Current liabilities		
Trade payables	385	488
Amounts owed to Group undertakings	32,530	57,881
Accruals	2,409	2,989
Provisions	11,441	22,186
	46,765	83,544

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

Notes to the Financial Statements (continued)

The analysis of provisions is as follows:

	Tax related matters	Legal disputes	Other	Total
	£000	£000	£000	£000
At 1 January 2016	20,697	4,400	3,225	28,322
Additional provisions	3,231	1,800	525	5,556
Unused amounts reversed	(7,626)	–	(100)	(7,726)
Used during the year	(2,202)	(800)	(964)	(3,966)
At 1 January 2017	**14,100**	**5,400**	**2,686**	**22,186**
Additional provisions	**–**	**2,941**	**26**	**2,967**
Unused amounts reversed	**(8,842)**	**–**	**(227)**	**(9,069)**
Used during the year	**(2,065)**	**(899)**	**(1,679)**	**(4,643)**
At 31 December 2017	**3,193**	**7,442**	**806**	**11,441**
Split:				
Current	3,193	7,442	806	11,441

Tax related matters

A provision for tax-related matters has been established in previous years with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues. During the year ended 31 December 2017, the majority of the outstanding PAYE issues were resolved and settled for £2,065,000 with £8,842,000 of unused provision being released to the income statement as the settlement was less than management's estimate at the time of preparation of the 31 December 2016 Financial Statements. £2,500,000 of the remaining provision relates to a disputed and judgemental tax issue.

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

Legal disputes

On 14 June 2017, the Company was served with High Court proceedings issued by Slater & Gordon for breach of warranty and/or fraudulent misrepresentation for a total amount of up to £637,000,000 plus interest in damages in respect of the disposal of the PSD in 2015, further details of which are provided in Note 4. 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 Company will successfully defend these claims.

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

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

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.

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

Other

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

During the year ended 31 December 2017, two property lease obligations were settled, £1,620,000 of this provision was utilised during the year and £173,000 of unused provision being released to the income statement as the settlement was less than management's estimate at the time of preparation of the 31 December 2016 Financial Statements.

46. Financial instruments and financial risk management

(a) Financial instruments

The Company's financial instruments comprise:

1. Loans and receivables comprising: trade and other receivables including amounts due from subsidiary undertakings £24,910,000 (2016: £24,634,000);
2. Monies held in escrow of £nil (2016: £nil);
3. PSD deferred consideration of £nil (2016: £nil);
4. Term deposits of £40,000,000 (2016: £37,500,000);
5. Cash and cash equivalents of £18,458,000 (2016: £36,641,000); and
6. Other liabilities comprising: trade and other payables including amounts owed to Group undertakings of £32,915,000 (2016: £58,369,000).

The carrying value and fair values are approximately the same. The fair values of assets and liabilities and fair value hierarchy is as described in Note 31.

(b) Financial risk management

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

The following are the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	£000	£000	£000	£000
2017					
Trade and other payables	**385**	**(385)**	**(385)**	**–**	**–**
Amounts owed to Group undertakings	**32,530**	**(32,530)**	**(32,530)**	**–**	**–**
	32,915	**(32,915)**	**(32,915)**	**–**	**–**
2016					
Trade and other payables	488	(488)	(488)	–	–
Amounts owed to Group undertakings	57,881	(57,881)	(57,881)	–	–
	58,369	(58,369)	(58,369)	–	–

Included within trade and other payables is an amount of CDN$33,000 (2016: CDN$9,000); all other financial instruments are denominated in pounds sterling.

Notes to the Financial Statements (continued)

47. Called up share capital

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

2016	Number '000	Nominal value fully paid £000	Nominal value unpaid £000	Nominal value total £000
At 1 January – issued shares of 15 pence	45,963	4,585	11	4,596
Issued shares of 15 pence fully paid	75	8	–	8
At the end of the year	46,038	4,593	11	4,604

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

48. Reserves

	2017 **£000**	2016 £000
Share premium account	**127,251**	127,251
Merger reserve	**818**	7,530
Other equity reserve	**54**	54
Share-based payments reserve	**328**	328
Other reserves	**128,451**	135,163
Retained earnings	**(76,993)**	(98,472)

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

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

During the year, £6,712,000 of realised profits have been transferred from the merger reserve to retained earnings as a result of the sale of BAS and Metaskil.

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 81.

At the Statement of Financial Position date, the Company had negative distributable reserves of £77,495,000 and unrealised profit amounts totalling £502,000 in retained earnings.

49. 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 2017 was £16,013,000 (2016: loss of £89,070,000).

50. Operating lease commitments

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

	Land and buildings	
	2017	2016
	£000	£000
Expiring:		
Within one year	**41**	709
Between two and five years	**5**	1,717
	46	2,426

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

51. Cash flow from operating activities

	2017	2016
	£000	£000
Loss after tax	**(16,013)**	(89,070)
Tax	**(375)**	(33)
Finance expense	**–**	14
Finance income	**(348)**	(712)
Operating loss	**(16,736)**	(89,801)
Adjustments for:		
– Non underlying operating cash out flows excluding discontinued operations	**4,046**	2,089
– Share-based payments	**–**	237
– Depreciation of property, plant and equipment	**6**	163
– Profit on disposal	**(3,389)**	–
– Impairment of investments	**4,838**	22,443
– Impairment of intercompany	**17,424**	13,855
– Impairment of escrow	**–**	50,120
Operating cash flows before movements in working capital and provisions	**6,189**	(894)
– Increase in trade and other receivables	**(11,263)**	(2,481)
– Decrease in trade and other payables	**(31,741)**	(11,384)
Cash used by operations before exceptional costs	**(36,815)**	(14,759)

Notes to the Financial Statements (continued)

Reconciliation of net cash flow to movement in net funds:

	1 January	Cash flow movements	31 December
	£000	£000	£000
2017			
Cash	**36,641**	**(18,183)**	**18,458**
Cash and cash equivalents	**36,641**	**(18,183)**	**18,458**
Net funds	**36,641**	**(18,183)**	**18,458**
2016			
Cash	97,639	(60,998)	36,641
Cash and cash equivalents	97,639	(60,998)	36,641
Net funds	97,639	(60,998)	36,641

52. Discontinued operations and disposals

Business Advisory Services Limited

BAS was sold in July 2017 for an enterprise value of £2.5m (satisfied as cash consideration of £1.5m and assumption of debt £1m). There was a gain on the disposal of BAS of £3,309,000.

Further details on discontinued operations and disposals are included in Note 34.

53. Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2017.

54. Contingent liabilities

The Company routinely enters into a range of contractual arrangements in the ordinary course of events which can give rise to claims or potential litigation against Group companies. It is the Company's policy to make specific provisions at the Statement of Financial Position date for all liabilities which, in the opinion of the Directors, are expected to result in a significant loss. Please refer to Note 33 where further details are provided.

55. Related party transactions

In the year, the key management personnel were the Directors and the Group General Counsel & Company Secretary. The Directors and Key Management had no material transactions with the Company during the year, other than disclosed in the Directors' Remuneration Report on pages 14 to 16 or as described in Note 35.

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

	2017	2016
	£000	£000
Subsidiary undertakings:		
Purchases	**(1,404)**	(3,311)
Sales	**2,347**	2,727

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

	2017	2016
	£000	£000
Amounts due from subsidiary undertakings	**156,236**	142,731
Provisions for doubtful debts relating to amounts due from subsidiary undertakings	**(131,326)**	(118,097)
Net amounts due from subsidiary undertakings	**24,910**	24,634
Amounts due to subsidiary undertakings	**(32,530)**	(57,881)

58. Post balance sheet events

Settlements with former management and former vendors

In January and March 2018, the Company agreed settlements with former management, further details are provided in Note 35.

59. 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 (appointed on 1 January 2018)
Mr M P Williams

Company Secretary

Mr S Borson

Registered Office

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

Bankers

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

Broker and Nominated Adviser

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

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Solicitors

Dorsey & Whitney LLP
199 Bishopsgate
London
EC2M 3UT

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Registrars

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

Watchstone.

Highfield Court
Tollgate, Chandler's Ford
Eastleigh
Hampshire
SO53 3TY
watchstonegroup.com