Watchstone Group plc

Interim Report for the 6 months

ended 30 June 2018

UPDATE

A full summary of actions and issues was presented in our Annual Report published in May 2018 and the focus remains on dealing with legacy matters as well as improving the underlying results and ensuring our businesses are positioned in the best possible way for growth or future divesture.

Business review

Healthcare Services

Healthcare Services consists of our Canadian ptHealth clinics business and InnoCare. This business is growing, with revenue of Canadian $26.1m in H1 2018, an increase of 2.6% vs. 2017. The impact of foreign exchange resulted in Sterling revenues falling by 1.3%. H1 2018 underlying EBITDA of £0.4m is broadly flat compared to last year.

During H1 2018, ptHealth clinics treated approximately 36,760 unique patients and have implemented action plans on selected under-performing clinics to boost margins. A number of operational changes have been implemented and management further strengthened with the results of such changes starting to flow into improved performance of the business.

Since the end of the half year, ptHealth has been appointed as the Canadian Arthritis Society's National Physiotherapy Champion - an exclusive partnership spanning Canada. The official launch will be in early September as part of Arthritis Awareness month.

Ingenie

ingenie's retail business continues to face very difficult market conditions. In the first 6 months of 2018, total revenues fell to £4.8m (H1 2017: £7.7m).

As previously detailed, the impact of changes to the Ogden discount rate created falls in motor policy pricing, which were particularly pronounced in ingenie's young driver market and which benefitted direct writers who can adjust pricing more quickly. Reflecting this and continued investment in its technology platform, profitability was below 2017 in H1. The impact of these factors has been present since H2 2017 and remedial actions are being taken to improve volumes. The new management team is implementing a detailed plan to address these challenges. ingenie will continue to broaden its underwriting partnerships and its product range including its newly launched Learner Driver offering. In addition, ingenie continues to develop its technology platform to utilise internally and with new B2B business.

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.

The insurance and fintech sectors continue to experience high levels of innovation and investment both in the UK and abroad. Whilst this increases competition, ingenie's team, brand and technology positions it well for substantial value growth and the Group remains confident of its long term prospects.

Non-underlying and exceptional items

Significant continued progress has been made towards resolution of the historic taxation matters allowing the release of £0.7m of the existing provision. We have increased the provision for legal costs in relation to the Slater & Gordon (UK) 1 Limited ("Slater & Gordon") claim from £3.2m at 31 December 2017 to £4.3m at 30 June 2018, which reflects our continued determination to robustly defend the action.

Cash

Cash and term deposits of our continuing businesses totalled £58.4m as at 30 June 2018. The reduction from £62.8m on 31 December 2017 is as a result of: a) £0.1m net settlement of exceptional and other non-underlying liabilities from 2017; b) £2.8m outflow of central costs; c) £0.6m outflow from underlying business trading; d) £0.5m outflow for non-underlying business; and e) £0.4m settlement of preference share liabilities.

As at 10 August 2018, the Group had cash and term deposits of £58.1m (with a further £50.2m remaining in escrow).

Update on legacy matters

We continue to address a number of historic matters including the Slater & Gordon claim which is expected to go to trial in late 2019. 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 on the threatened class action litigation first announced in September 2015.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on pages 11 to 12 of the 2017 Annual Report and Financial Statements, a copy of which is available on the Group's website. The Group's risk management approach and the principal risks, potential impacts and primary mitigating activities are unchanged from those set out in the 2017 Annual Report and Financial Statements.

Outlook

We are making good progress in developing the underlying quality of our businesses and their long term value whilst simultaneously resolving the Group's legacy matters as efficiently as possible. We remain confident of a satisfactory ultimate outcome for our shareholders.

Directors' responsibility statement in respect of this interim report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Stefan Borson
Group Chief Executive Officer

INDEPENDENT REVIEW REPORT TO WATCHSTONE GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2018 which comprises the Condensed Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and the AIM Rules.

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

We draw attention to note 10 of the interim condensed set of financial statements concerning the uncertain outcome of the claim by Slater & Gordon, 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 review conclusion is not modified in respect of this matter.

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

Tudor Aw
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London, E14 5GL

29 August 2018

Condensed Consolidated Income Statement

for the period ended 30 June 2018

		Six months ended 30 June 2018			Six months ended 30 June 2017		
		2018	**2018**	**2018**	2017	2017	2017
		Underlying	**Non-underlying***	**Total**	Underlying	Non-underlying*	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	4	**19,710**	**-**	**19,710**	22,896	-	22,896
Cost of sales		**(11,059)**	**-**	**(11,059)**	(12,294)	-	(12,294)
Gross profit		**8,651**	**-**	**8,651**	10,602	-	10,602
Administrative expenses	5	**(11,493)**	**(782)**	**(12,275)**	(12,859)	2,432	(10,427)
Group operating (loss)/profit		**(2,842)**	**(782)**	**(3,624)**	(2,257)	2,432	175
Finance income		**163**	**-**	**163**	228	-	228
Finance expense		**(53)**	**-**	**(53)**	(297)	(94)	(391)
(Loss)/profit before taxation		**(2,732)**	**(782)**	**(3,514)**	(2,326)	2,338	12
Taxation		**115**	**-**	**115**	520	81	601
(Loss)/profit after taxation for the period from continuing operations		**(2,617)**	**(782)**	**(3,399)**	(1,806)	2,419	613
Net gain on disposal of discontinued operations	9	**-**	**558**	**558**	-	-	-
Profit/(loss) for the period from discontinued operations		**-**	**268**	**268**	-	(2,174)	(2,174)
(Loss)/profit after taxation for the period		**(2,617)**	**44**	**(2,573)**	(1,806)	245	(1,561)
Attributable to:							
Equity holders of the parent		**(2,617)**	**44**	**(2,573)**	(1,804)	245	(1,559)
Non-controlling interests		**-**	**-**	**-**	(2)	-	(2)
		(2,617)	**44**	**(2,573)**	(1,806)	245	(1,561)
Loss per share (pence):							
Basic		**(5.7)**		**(5.6)**	(3.9)		(3.4)
Diluted		**(5.7)**		**(5.6)**	(3.9)		(3.4)
(Loss)/profit per share from continuing activities (pence):							
Basic				**(7.4)**			1.3
Diluted				**(7.4)**			1.3

* Non-underlying results have been presented separately to give a better guide to underlying business performance (see notes 1 and 5). Where items have become non-underlying in 2018 the comparable amounts in 2017 have been restated to also be classified on the same basis.

Consolidated Statement of Comprehensive Income

for the period ended 30 June 2018

	Six months ended 30 June 2018	Six months ended 30 June 2017
	£'000	£'000
Loss after taxation	**(2,573)**	(1,561)
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**(261)**	(490)
Total comprehensive loss for the period	**(2,834)**	(2,051)
Attributable to:		
Equity holders of the parent	**(2,818)**	(2,036)
Non-controlling interests	**(16)**	(15)
	(2,834)	(2,051)

Condensed Consolidated Statement of Financial Position

as at 30 June 2018

	Note	**At 30 June 2018 £'000**	At 31 December 2017 £'000
Non-current assets			
Goodwill		**17,242**	17,443
Other intangible assets		**3,961**	4,825
Property, plant and equipment		**2,360**	3,819
Other receivables		**759**	759
		24,322	26,846
Current assets			
Inventories		**933**	1,283
Trade and other receivables	6	**5,090**	6,144
Term deposits		**30,000**	40,000
Cash		**28,386**	22,808
		64,409	70,235
Assets of disposal group classified as held for sale		**-**	833
Total current assets		**64,409**	71,068
Total assets		**88,731**	97,914
Current liabilities			
Cumulative redeemable preference shares		**(2,955)**	(2,203)
Trade and other payables	7	**(6,978)**	(11,710)
Obligations under finance leases		**-**	(4)
Provisions	8	**(12,920)**	(13,024)
		(22,853)	(26,941)
Liabilities of disposal group classified as held for sale		**-**	(851)
Total current liabilities		**(22,853)**	(27,792)
Non-current liabilities			
Cumulative redeemable preference shares		**(2,504)**	(3,795)
Provisions	8	**(85)**	(87)
Deferred tax liabilities		**(53)**	(167)
		(2,642)	(4,049)
Total liabilities		**(25,495)**	(31,841)
Net assets		**63,236**	66,073
Equity			
Share capital	12	**4,604**	4,604
Other reserves		**136,372**	136,618
Retained earnings		**(78,630)**	(76,095)
Equity attributable to equity holders of the parent		**62,346**	65,127
Non-controlling interests		**890**	946
Total equity		**63,236**	66,073

Condensed Consolidated Cash Flow Statement

for the period ended 30 June 2018

	Note	**Six months ended 30 June 2018 £'000**	Six months ended 30 June 2017 £'000
Cash flows from operating activities			
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	13	**(3,085)**	(2,164)
Non-underlying cash outflows excluding discontinued operations		**(186)**	(7,432)
Cash used in operations before net finance expense and tax		**(3,271)**	(9,596)
Corporation tax received		**-**	514
Net cash used by operating activities		**(3,271)**	(9,082)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(861)**	(2,659)
Purchase of intangible fixed assets		**(349)**	(1,070)
Disposal of subsidiaries net of cash foregone		**(33)**	-
Investment in term deposits		**(30,000)**	(30,000)
Maturity of term deposits		**40,000**	37,500
Interest income		**146**	91
Realisation of non-cash assets		**250**	-
Net cash generated from investing activities		**9,153**	3,862
Cash flows from financing activities			
Net finance expense		**-**	(378)
Redemption of preference shares		**(351)**	-
Other		**-**	8
Finance lease repayments		**(4)**	(61)
Repayment of unsecured loans		**-**	(163)
Net cash used by financing activities		**(355)**	(594)
Net increase/(decrease) in cash and cash equivalents		**5,527**	(5,814)
Cash and cash equivalents at the beginning of the period		**22,808**	43,714
Exchange gains/(losses) on cash and cash equivalents		**51**	(297)
Cash and cash equivalents at the end of the period		**28,386**	37,603

Reconciliation of cash to net funds	
Term deposits	**30,000**
Cash	**28,386**
Net funds	**58,386**

Notes to the Interim Statements

1. Preparation of the condensed consolidated financial information

Basis of preparation

The interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with the AIM Rules and the recognition and measurement requirements of IFRSs as adopted by the EU. The interim financial information should be read in conjunction with the Group's Annual Report and Financial Statements for the year ended 31 December 2017, which were prepared in accordance with IFRSs as adopted by the EU.

The comparative figures for the financial year ended 31 December 2017 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies.

The Group's business activities together with the factors that are likely to affect its future developments, performance and position are set out in the Update. The interim financial statements were approved by the Board of Directors on 29 August 2018.

Going Concern

The Group holds significant cash reserves and no material debt. The Group has concluded that its cash reserves together with ongoing operating cash flows will be sufficient to fund the ongoing operations of the Group's businesses together with any future development needs of those businesses, and the settlement of legacy matters.

On this basis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Group to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements. In forming this judgement, the Directors have taken into account the existence of the Slater & Gordon legal claim set out in note 10. 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.

Significant Accounting Policies

The accounting policies applied by the Group in this condensed set of consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations as of 1 January 2018, which did not have any significant impact on the accounting policies, financial position or performance of the Group, as noted below:

- IFRS15, 'Revenue from contracts with customers';
- IFRS9, 'Financial instruments';
- Amendments to IFRS2, 'Classification and measurement of share-based payment transactions';
- Amendments to IFRS4, 'Applying IFRS9 Financial instruments with IFRS4 Insurance contracts';
- Amendments to IAS40, 'Transfers of investment property';
- Annual amendments to IFRS standards 2014-16 cycle; and
- IFRIC22, Foreign currency transactions and advance consideration.

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

2. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made a number of judgements, and the preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The key management judgements together with assumptions concerning the future and other key sources of estimation uncertainty at 30 June 2018 that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the current financial year are discussed below.

Judgement: Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis and when there is an indication of possible impairment. At 30 June 2018 the Group has determined that there are no indicators of possible impairment.

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.

Nevertheless, the outcome remains 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 30 June 2018. No provision has been made in respect of the claim.

Consideration for the sale of the PSD also included deferred, cash consideration and the Company has had to determine the fair value of this financial asset. At 30 June 2018 and all previous period ends 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 10.

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.

3. Key performance indicators

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000
Revenue:		
ingenie	**4,751**	7,738
Healthcare Services	**14,959**	15,158
Total revenue	**19,710**	22,896
Underlying gross profit margin	**44%**	46%
Underlying EBITDA (note 4)	**(2,089)**	(1,684)
Underlying group operating loss (note 4)	**(2,842)**	(2,257)
Cash and term deposits (continuing business)	**58,386**	62,808

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000
Underlying revenue	**19,710**	22,896
Non underlying revenue	**-**	-
Total revenue	**19,710**	22,896
Underlying EBITDA	**(2,089)**	(1,684)
Underlying depreciation and amortisation*	**(753)**	(573)
Underlying group operating loss	**(2,842)**	(2,257)
Non-underlying group operating (loss)/profit	**(782)**	2,432
Group operating (loss)/profit	**(3,624)**	175

	30 June 2017 £'000	31 December 2017 £'000
Cash and term deposits (continuing businesses)	**58,386**	62,808

*excludes depreciation of telematics devices of £978,000 (2017: £1,469,000) which is included within cost of sales and is therefore also included within underlying EBITDA.

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

4. Segmental reporting

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

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

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

	ingenie	**Healthcare Services**	**Central**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Six months ended 30 June 2018				
Underlying revenue	**4,751**	**14,959**	**-**	**19,710**
Underlying cost of sales	**(2,698)**	**(8,361)**	**-**	**(11,059)**
Underlying gross profit	**2,053**	**6,598**	**-**	**8,651**
Underlying administrative expenses excluding depreciation and amortisation*	**(2,638)**	**(6,215)**	**(1,887)**	**(10,740)**
Underlying EBITDA	**(585)**	**383**	**(1,887)**	**(2,089)**
Depreciation and amortisation*				**(753)**
Underlying group operating loss				**(2,842)**
Net finance income				**110**
Underlying group loss before tax				**(2,732)**
Non-underlying loss before tax				**(782)**
Total group loss before tax from continuing operations				**(3,514)**

	ingenie	**Healthcare Services**	**Central**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Six months ended 30 June 2017				
Underlying revenue (restated**)	7,738	15,158	-	22,896
Underlying cost of sales (restated**)	(4,081)	(8,213)	-	(12,294)
Underlying gross profit	3,657	6,945	-	10,602
Administrative expenses excluding depreciation and amortisation*	(2,790)	(6,433)	(3,063)	(12,286)
Underlying EBITDA	867	512	(3,063)	(1,684)
Depreciation and amortisation*				(573)
Underlying group operating loss				(2,257)
Net finance expense				(69)
Underlying group loss before tax				(2,326)
Non-underlying profit before tax				2,338
Total group profit before tax from continuing operations				12

* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £978,000 (2017: £1,469,000) which is included within cost of sales.

** In the preparation of the Financial Statements for the year ended 31 December 2017, certain contracts were identified within the Healthcare Services segment which should have been presented gross, rather than as an agent for the period ended 30 June 2017. Accordingly, the revenue and cost of sales for Healthcare Services for the period ended 30 June 2017 have been restated. The impact of this change in 2017 is £385,000 to revenue and cost of sales. There is no impact upon gross margin.

5. Non-underlying administrative expenses

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000
Exceptional items:		
- Legal and regulatory expenses	**2,582**	2,715
- Legal settlements	**(1,328)**	(46)
- Tax related matters	**(812)**	(7,001)
- (Realisation)/impairment of non-cash assets	**(250)**	100
- Restructuring	**-**	176
Total exceptional items	**192**	(4,056)
Other adjustments:		
- Share based payments	**-**	43
- Amortisation of acquired intangibles	**590**	680
- Other non-underlying administrative expenses	**-**	901
Total other adjustments	**590**	1,624
Total non-underlying administrative expenses	**782**	(2,432)

The legal and regulatory expense relates to additional legal provisions being established and other legal expenses incurred during the period. The legal settlement credit for the period ended 30 June 2018 of £1,328,000 comprises two settlements with former management as discussed in note 11.

Tax related matters in both 2018 and 2017 mainly comprises the release of unused provisions which were created in previous periods, further details are provided in note 8.

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

6. Trade and other receivables

	30 June 2018 £'000	31 December 2017 £'000
Trade receivables (net of impairment provision)	**3,249**	4,416
Monies held in Escrow (net of impairment provision)	**-**	-
Other receivables	**1,068**	1,088
Prepayments	**773**	630
Accrued income	**-**	10
	5,090	6,144

7. Trade and other payables

	30 June 2018 £'000	31 December 2017 £'000
Current liabilities		
Trade payables	**1,150**	1,571
Payroll and other taxes including social security	**219**	482
Accruals	**3,675**	5,801
Deferred income	**1,805**	3,793
Other liabilities	**129**	63
	6,978	11,710

8. Provisions

	Tax related matters £'000	Legal disputes £'000	Onerous contracts £'000	Other £'000	Total £'000
At 1 January 2017	15,093	6,114	2,719	4,315	28,241
Additional provisions	-	2,727	-	375	3,102
Unused amounts released	(7,050)	(46)	-	(386)	(7,482)
Used during the year	(2,413)	(881)	(625)	(1,442)	(5,361)
Exchange movements	-	-	(16)	(12)	(28)
At 30 June 2017	5,630	7,914	2,078	2,850	18,472
At 1 January 2018	**3,193**	**7,442**	**492**	**1,984**	**13,111**
Additional provisions	**-**	**1,884**	**-**	**271**	**2,155**
Unused amounts released	**(693)**	**-**	**(154)**	**-**	**(847)**
Used during the year	**-**	**(662)**	**(255)**	**(514)**	**(1,431)**
Exchange movements	**-**	**-**	**18**	**(1)**	**17**
At 30 June 2018	**2,500**	**8,664**	**101**	**1,740**	**13,005**

Split:

Non-current	-	-	85	-	85
Current	2,500	8,664	16	1,740	12,920

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 six months ended 30 June 2018, the remaining outstanding PAYE issues were resolved and resulted in £693,000 of provision being released to the income statement. In respect of the remaining provision key judgements exist around the classification of certain transactions and therefore the related tax treatment. The amount provided represents the Directors' estimate of the likely outcome based upon the information available; however the ultimate settlement may be different. The 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 10, defence costs are provided as the Group is committed to defending the actions. Such costs are provided for taking into account the 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. During the period an onerous contract was settled at an amount less than was originally provided, resulting in a release of £154,000 to the income statement. The remaining amount provided at 30 June 2018 relates to onerous property leases. Management are looking to sublet or settle these obligations within twelve months.

Other

Provisions have been established for expected costs where a commitment has been made at the balance sheet date and for which no future benefit is anticipated. This primarily relates to three areas, commission clawback relating to non-underlying businesses, warranties provided by the Group and outstanding restructuring payments. £514,000 of the amount provided at 31 December 2017 has been utilised during the period and primarily relates to restructuring payments and commission clawbacks. The exact timing and quantum of the amounts provided at 30 June 2018 is uncertain and the provision is based upon historic trends in these businesses.

9. Disposals

Hubio Fleet

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

The profit arising on disposal is as follows.

	£'000
Sales proceeds	**60**
Net liabilities at disposal	**20**
Expenses and other costs of sale	**(77)**
Profit arising on sale	**3**

Canadian non-telematics assets

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

The profit arising on disposal is as follows.

	£'000
Sales proceeds	**258**
Net liabilities at disposal	**323**
Expenses and other costs of sale	**(26)**
Profit arising on sale	**555**

10. Contingent liabilities and assets

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 2. Having taken external advice, no liability has been recognised at the balance sheet date as, in management's opinion, it is more likely than not that the Group will successfully defend these claims.

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

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

11. Related party transactions

Transactions with former management

The 31 December 2016 Financial Statements referred to an investigation by the Group into expense claims submitted by Mr Robert Terry and payments made to him by the Group during his period of employment and related litigation. In January 2018, Mr Terry (together with his wife and former employee, Mrs Louise Terry) and Watchstone settled certain respective claims arising out of Mr Terry's contract of employment with Watchstone, the settlement agreement entered into when Mr Terry departed Watchstone in November 2014 ("November 2014 Settlement") and a separate agreement relating to works done at Quob Park (the former head office of the Group) ("Terry Settlement"). Under the terms of the Terry Settlement, Mr Terry waived his right to receive £280,000 under the November 2014 Settlement and Mr and Mrs Terry paid Watchstone £800,000 (in cash) in the period to 30 June 2018 in full and final settlement.

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

12. Share capital

	Number 000's	Nominal value fully paid £'000	Nominal value unpaid £'000	Nominal value total £'000
at 31 December 2017 and 30 June 2018	**46,038**	**4,593**	**11**	**4,604**

13. Cash flow from operating activities

	Six months ended 30 June 2018	Six months ended 30 June 2017
Loss after tax	**(2,573)**	(1,561)
Tax	**(115)**	(611)
Finance expense	**53**	544
Finance income	**(163)**	(259)
Operating loss	**(2,798)**	(1,887)
Adjustments for:		
Non underlying cash out flows excluding discontinued operations	**186**	7,432
Share-based payments	**-**	43
Depreciation of property, plant and equipment	**1,214**	2,197
Amortisation of intangible assets	**1,137**	1,410
Impairment of goodwill	**-**	(135)
Loss on disposal of plant, property and equipment	**579**	584
Profit on disposal of subsidiary undertakings and operations	**(558)**	-
Operating cash flows before movements in working capital and provisions	**(240)**	9,644
Decrease/(Increase) in inventories	**349**	(301)
Decrease in trade and other receivables	**1,233**	1,205
(Decrease) in trade and other payables	**(4,427)**	(12,712)
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	**(3,085)**	(2,164)

Officers and Advisors

Directors

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

Company Secretary

Mr S Borson

Registered Office

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

Bankers

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

Broker and Nominated Advisor

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

Auditor

KPMG LLP
15 Canada Square
London, E14 5GL

Solicitors

Dorsey & Whitney
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