The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

Watchstone Group plc
("Watchstone" or the "Company" or the "Group")

Results for the six months ended 30 June 2019

Watchstone (AIM:WTG.L) today announces its results for the six months ended 30 June 2019.

- Revenues of £18.6m (2018: £19.7m)
- Underlying EBITDA loss of £1.6m* (2018: loss of £2.1m)
- Total loss before tax of £7.3m (2018: loss of £3.5m)
- Group net assets of £40.1m at 30 June 2019 (as at 31 December 2018: £46.8m)
- Group cash and term deposits at 30 June 2019 of £41.1m, with a further £50.3m in escrow
- Group cash and term deposits at 31 August 2019 of £37.9m

**Includes the impact of the transition to IFRS 16*

For further information:

Watchstone Group plc	Tel: 03333 448048
WH Ireland Limited, Nominated Adviser and broker Chris Hardie	Tel: 020 7220 1666

UPDATE

A full summary of actions and issues was presented in our Annual Report published in May 2019. The business continues to move toward resolving legacy matters and in positioning the trading businesses for future divesture.

Business review

Healthcare Services

Healthcare Services consists of our Canadian ptHealth clinics business and InnoCare. The trading results of the business have been largely flat year on year with a marginal increase in revenues to Canadian $26.3m in H1 2019 compared to Canadian $26.1m in H1 2018. This was supplemented by exchange rate movements resulting in an overall increase of 2.2% year on year. The average Canadian dollar/Sterling exchange rate for the six month periods to 30 June 2018 and 30 June 2019 has moved from 1.7467 to 1.7231.

The transition to IFRS 16, "Leases" as detailed in Note 2 masks flat EBITDA performance against H1 2018. As such the business is stable overall, with operational improvements in the Clinic element of the business showing year on year growth.

The Group has redeemed a significant proportion of the outstanding preference shares in the six months ended 30 June 2019 of £0.9m taking the closing balance within liabilities to £2.8m.

ingenie

ingenie's results compared to H1 2018 reflect the decline in volumes experienced throughout the second half of 2017 and all of 2018, with H1 2019 revenues of £3.3m comparing to £4.8m in H1 2018. EBITDA losses increased from £0.6m to £1.5m including the transition to IFRS 16 and after non-recurring costs of £0.2m relating to the changes outlined below.

ingenie's retail business continued to face difficult market conditions, but significant changes have been made to increase competitiveness which are now bearing fruit. These changes required considerable planning and were successfully implemented in March 2019. ingenie's outsourced policy sales and administration were moved to a new provider which has allowed a more flexible and proactive approach to product and customer management. This includes the better use of data analytics and the extension of its footprint with established insurers to help the competitiveness of its underwriting panel when quoting for business. The business today has materially evolved from that which Selim Cavanagh, it's CEO, inherited in late 2017 and the directors believe it is well set for recovery and future growth.

New business volumes have started to recover with a general trend of continuing month on month growth. In the month of June 2019, the total number of policies in force increased for the first time since Autumn 2017. Further actions and measures are in place to build upon this during H2 2019 including moving to its newly developed "multi platform" which allows multiple pricing and device models to be managed at a reduced hosting cost.

The programme supporting our external customer in the Netherlands, ANWB, has been extended for a further period and towards the end of the period, ANWB introduced an ingenie-developed app-based telematics product which has been very well received by ANWB's customers, further 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, the directors believe that 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

High Court proceedings issued by Slater & Gordon (UK) 1 Limited ("Slater & Gordon") and the associated counterclaim

Substantial preparatory work has been undertaken in advance of the trial which will commence in October 2019. £3.9m of the provision held at 31 December 2018 has been utilised in such work. Through the disclosure process, we have been able to inspect documents previously unavailable to us and we continue to be confident in the strength of our defence, the quality of our preparations and the lack of merit in Slater & Gordon's claim.

As announced on 29 August 2019, this work also identified evidence that at the time of the due diligence and negotiation of the sale of the Professional Services Division to Slater & Gordon, an illicit back channel, was procured by Greenhill & Co, a corporate finance adviser to Slater & Gordon, with Watchstone's then group restructuring and technical accounting adviser, PricewaterhouseCoopers. This resulted in the unlawful disclosure to Slater & Gordon of Watchstone's confidential and commercially sensitive information. On 28 August 2019, the Group obtained permission from the High Court to file an Amended Defence and Counterclaim in the proceedings ("Counterclaim"). The Counterclaim is currently for damages of at least £63m plus exemplary damages, interest and costs for breach of confidence, inducing breach of contract, and unlawful means conspiracy. Further details are provided in Note 10.

We have provided additional amounts of £2.7m in respect of our legal costs as the scope of the work we have been required to undertake has broadened and as we approach trial. Watchstone has reviewed almost 600,000 documents and other media files and been left with no option but to pay the costs of disclosure from some third parties. In addition, the trial has lengthened in expected duration to nine weeks and we will now prosecute the Counterclaim vigorously. We believe our legal team is of the highest calibre and we look forward to a positive outcome for shareholders.

Other

Non-underlying expenses also includes £0.4m in respect of legal fees for other cases where we are the claimant, and were therefore not provided at 31 December 2018, and costs of £0.3m in relation to the departure of the previous Group Finance Director.

Cash

Cash and term deposits of our continuing businesses totalled £41.1m as at 30 June 2019. The reduction from £50.1m at 31 December 2018 is primarily as a result of £3.2m of legal fees, £0.9m of preference share redemptions, £2.3m relating to central costs and £2.8m from underlying businesses.

The outflow from underlying businesses is partially in respect of a timing differences around the period end but mainly in respect of investment in to ingenie to enable the fundamental changes to the business undertaken in the period. The cash provided to ingenie in the six months ended 30 June 2019 (£2.1m) has been in the form of repayment of historic debt loaned from ingenie to the Group.

As at 31 August 2019, the Group had cash and term deposits of £37.9m (with a further £50.3m remaining in escrow pending resolution or determination of the Slater & Gordon claim).

Update on legacy matters

Other than the Slater & Gordon claim discussed above, 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 to which the Group is exposed remain as set out in section 4 of the Strategic Report included within the Annual Report and Financial Statements for the year ended 31 December 2018.

Outlook

We remain focussed 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

Responsibility statement of the Directors 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 2019 which comprises the Condensed Consolidated Income Statement, the Condensed 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 2019 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.

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.

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 a claim by Slater & Gordon, alleging breach of warranty and/or fraudulent misrepresentation where the company is the defendant. Although we note the recent commencement of a counterclaim against Slater & Gordon, 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.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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.

As disclosed in Note 1, 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

3 September 2019

Condensed Consolidated Income Statement

for the period ended 30 June 2019

	Note	**Six months ended 30 June 2019** 2019 Underlying £'000	2019 Non-underlying* £'000	2019 Total £'000	Six months ended 30 June 2018 2018 Underlying £'000	2018 Non-underlying* £'000	2018 Total £'000
Revenue	5	**18,601**	-	**18,601**	19,710	-	19,710
Cost of sales		**(10,793)**	-	**(10,793)**	(11,059)	-	(11,059)
Gross profit		**7,808**	-	**7,808**	8,651	-	8,651
Administrative expenses	6	**(11,467)**	**(3,271)**	**(14,738)**	(11,493)	(782)	(12,275)
Group operating loss		**(3,659)**	**(3,271)**	**(6,930)**	(2,842)	(782)	(3,624)
Finance income		**222**	-	**222**	163	-	163
Finance expense		**(600)**	-	**(600)**	(53)	-	(53)
Loss before taxation		**(4,037)**	**(3,271)**	**(7,308)**	(2,732)	(782)	(3,514)
Taxation		**(10)**	-	**(10)**	115	-	115
Loss after taxation for the period from continuing operations		**(4,047)**	**(3,271)**	**(7,318)**	(2,617)	(782)	(3,399)
Net gain on disposal of discontinued operations		-	-	-	-	558	558
Profit the period from discontinued operations		-	**38**	**38**	-	268	268
Loss after taxation for the period		**(4,047)**	**(3,233)**	**(7,280)**	(2,617)	44	(2,573)
Attributable to:							
Equity holders of the parent		**(4,047)**	**(3,233)**	**(7,280)**	(2,617)	44	(2,573)
Non-controlling interests		-	-	-	-	-	-
		(4,047)	**(3,233)**	**(7,280)**	(2,617)	44	(2,573)
Loss per share (pence):							
Basic		**(8.8)**		**(15.8)**	(5.7)		(5.6)
Diluted		**(8.8)**		**(15.8)**	(5.7)		(5.6)
(Loss)/profit per share from continuing activities (pence):							
Basic				**(15.9)**			(7.4)
Diluted				**(15.9)**			(7.4)

* Non-underlying results have been presented separately to give a better guide to underlying business performance (see Notes 1 and 6).

Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 June 2019

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000
Loss after taxation	**(7,280)**	(2,573)
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**549**	(261)
Total comprehensive loss for the period	**(6,731)**	(2,834)
Attributable to:		
Equity holders of the parent	**(6,745)**	(2,818)
Non-controlling interests	**14**	(16)
	(6,731)	(2,834)

Condensed Consolidated Statement of Financial Position

as at 30 June 2019

	Note	At 30 June 2019 £'000	At 31 December 2018 £'000
Non-current assets			
Goodwill		**8,518**	8,157
Other intangible assets		**2,876**	3,144
Property, plant and equipment		**15,738**	1,854
Other receivables		**929**	759
		28,061	13,914
Current assets			
Inventories		**800**	760
Trade and other receivables	7	**5,346**	5,110
Term deposits		**30,000**	40,000
Cash		**11,078**	10,113
Total current assets		**47,224**	55,983
Total assets		**75,285**	69,897
Current liabilities			
Cumulative redeemable preference shares		**(2,615)**	(2,209)
Trade and other payables	8	**(8,689)**	(8,201)
Lease liabilities		**(1,587)**	-
Provisions	9	**(9,594)**	(11,319)
Total current liabilities		**(22,485)**	(21,729)
Non-current liabilities			
Cumulative redeemable preference shares		**(201)**	(1,278)
Lease liabilities		**(12,500)**	-
Provisions	9	**(20)**	(85)
Deferred tax liabilities		**(1)**	(1)
		(12,722)	(1,364)
Total liabilities		**(35,207)**	(23,093)
Net assets		**40,078**	46,804
Equity			
Share capital	12	**4,604**	4,604
Other reserves		**138,034**	137,827
Retained earnings		**(103,145)**	(96,288)
Equity attributable to equity holders of the parent		**39,493**	46,143
Non-controlling interests		**585**	661
Total equity		**40,078**	46,804

Condensed Consolidated Cash Flow Statement

for the period ended 30 June 2019

	Note	**Six months ended 30 June 2019 £'000**	Six months ended 30 June 2018 £'000
Cash flows from operating activities			
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	13	**(3,860)**	(3,085)
Non-underlying cash outflows excluding discontinued operations		**(2,996)**	(186)
Cash used in operations before net finance expense and tax		**(6,856)**	(3,271)
Corporation tax received		**-**	-
Net cash used by operating activities		**(6,856)**	(3,271)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(521)**	(861)
Purchase of intangible fixed assets		**(387)**	(349)
Disposal of subsidiaries net of cash foregone		**-**	(33)
Investment in term deposits		**(30,000)**	(30,000)
Maturity of term deposits		**40,000**	40,000
Interest income		**214**	146
Recovery of fully impaired investment		**-**	250
Net cash generated from investing activities		**9,306**	9,153
Cash flows from financing activities			
Net finance expense		**(567)**	-
Redemption of preference shares		**(886)**	(351)
Finance lease repayments		**-**	(4)
Net cash used by financing activities		**(1,453)**	(355)
Net increase in cash and cash equivalents		**997**	5,527
Cash and cash equivalents at the beginning of the period		**10,113**	22,808
Exchange (losses)/gains on cash and cash equivalents		**(32)**	51
Cash and cash equivalents at the end of the period		**11,078**	28,386

Reconciliation of cash to net funds	
Term deposits	**30,000**
Cash	**11,078**
Net funds	**41,078**

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 2019 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 2018, which were prepared in accordance with IFRSs as adopted by the EU.

The comparative figures for the financial year ended 31 December 2018 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 report of the auditor was (i) unqualified, (ii) included a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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 3 September 2019.

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 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.

Statement of Directors' responsibilities

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

Significant Accounting Policies

The accounting policies applied by the Group in 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 2018, except for the adoption of new standards and interpretations as of 1 January 2019. The adoption of IFRS 16, 'Leases' impacts the financial performance and financial position of the Group. Further details are provided in Note 2.

<u>Other standards</u>

The following standards did not have any significant impact on the accounting policies, financial position or performance of the Group, as noted below:

- IFRIC 23 'Uncertainty over income tax treatments',
- Amendments to IFRS9, 'Prepayment features with negative compensation',
- Amendments to IAS28, 'Long-term interests in associates and joint ventures',
- Amendments to IAS19, 'Plan amendment, curtailment or settlement',
- Annual amendments to IFRS standards 2015-17 cycle,
- Amendments to references to conceptual framework to IFRS standards,
- Amendments to IFRS3, 'Definition of a business'; and,

•Amendments to IAS1 and IAS8, 'Definition of material'.

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

2. Adoption of IFRS 16 'Leases'

Identification of leases:

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continued to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16.

Policy applicable from 1 January 2019:

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

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

Policy applicable prior to 1 January 2019:

Prior to 1 January 2019 the Group determined if an agreement was, or contained a lease based upon assessment of whether:

- Fulfilment of the agreement was dependent upon the use of a specified asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use an asset if one of the following was met:
    - The purchaser had the ability or right to operate the asset
    - The purchaser had the ability or right to control physical access to the asset

Recognition:

The Group recognises a right-of-use asset and a lease liability at the latter of the lease commencement date or the date of transition, being 1 January 2019. The right of use asset is initially measured at cost , which comprises the initial amount of the lease liability adjusted for any payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received.

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

The lease liability is initially valued at the present value of lease payments that are not paid at the latter of the commencement date or the date of transition, discounted at a borrowing rate equivalent to a similar loan in the same territory as the right-of-use asset. Lease payments included in the calculation of the lease liability include payments in optional renewal periods if the Group reasonably expects they will be exercised.

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

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

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

Leases of low value assets:

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

Transition

The Group has not taken advantage of the exemption under IFRS 16 to grandfather the determination of lease agreements from IAS 17. Consequently, all agreements have been reassessed to determine if they are, or contain a lease for the period from 1 January 2019.

Impact

The impact of the changes at 1 January 2019 was to increase Property, Plant and Equipment by £12,270,000 with a corresponding increase in Lease Liabilities. Interest expense in the six months to 30 June 2019 has increased by £371,000 and depreciation expense by £1,331,000. Administrative expenses, excluding depreciation have reduced by £1,348,000 as IAS 17 lease rentals are no longer included. The overall impact upon the income statement in the six month period is therefore £354,000 of additional expense, representing the higher interest incurred in the early part of the lease term.

3. 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 2019 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 when there is an indication of possible impairment and at 30 June 2019 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. On 28 August 2019 Watchstone obtained permission from the High Court to file an Amended Defence and Counterclaim in the High Court proceedings issued by Slater & Gordon and this was served and filed on 29 August 2019. The counterclaim against Slater & Gordon is currently for damages of at least £63,000,000 plus exemplary damages, interest and costs. No asset has been recognised in respect of the counterclaim. Further details are provided in Note 10.

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 2019. 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 2019 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.

Estimate and judgement: Leases

IFRS 16, 'Leases' requires judgements to be made regarding the expected term of lease agreements, such as the likelihood of lease extension options or break clauses being taken. Furthermore, estimates are required in respect of the applicable interest rate to apply when valuing the present value of future lease liabilities. The consequence of these two factors can materially impact the carrying value of lease assets and liabilities with a corresponding subsequent impact upon interest and depreciation expenses. Further details regarding the policy are provided in Note 2.

4. Key performance indicators

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000
Revenue:		
ingenie	**3,315**	4,751
Healthcare Services	**15,286**	14,959
Total revenue	**18,601**	19,710
Underlying gross profit margin	**42%**	44%
Underlying EBITDA (Note 5)	**(1,589)**	(2,089)
Underlying group operating loss (Note 5)	**(3,659)**	(2,842)
Cash and term deposits (continuing business)	**41,078**	58,386

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000
Underlying revenue	**18,601**	19,710
Non underlying revenue	**-**	-
Total revenue	**18,601**	19,710

Underlying EBITDA	**(1,589)**	(2,089)
Underlying depreciation and amortisation*	**(2,070)**	(753)
Underlying group operating loss	**(3,659)**	(2,842)
Non-underlying group operating loss	**(3,271)**	(782)
Group operating loss	**(6,930)**	(3,624)

	30 June 2019 £'000	31 December 2018 £'000
Cash and term deposits (continuing businesses)	**41,078**	50,113

*excludes depreciation of telematics devices of £369,000 (2018: £978,000) 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 6.

5. 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 4.

	ingenie £'000	**Healthcare Services £'000**	**Central £'000**	**Total £'000**
Six months ended 30 June 2019				
Underlying revenue	**3,315**	**15,286**	**-**	**18,601**
Underlying cost of sales	**(2,096)**	**(8,697)**	**-**	**(10,793)**
Underlying gross profit	**1,219**	**6,589**	**-**	**7,808**
Development cost of changing outsourcing partner	**(229)**	**-**	**-**	**(229)**
Underlying administrative expenses excluding depreciation and amortisation*	**(2,468)**	**(5,163)**	**(1,537)**	**(9,168)**
Underlying EBITDA	**(1,478)**	**1,426**	**(1,537)**	**(1,589)**
Depreciation and amortisation*				**(2,070)**
Underlying group operating loss				**(3,659)**
Finance expense relating to lease liabilities				**(371)**
Underlying group operating loss including lease finance expense				**(4,030)**
Other net finance expense				**(7)**
Underlying group loss before tax				**(4,037)**
Non-underlying loss before tax				**(3,271)**
Total group loss before tax from continuing operations				**(7,308)**

	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
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 profit before tax				(782)
Total group profit before tax from continuing operations				(3,514)

* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £369,000 (2018: £978,000) which is included within cost of sales.

	ingenie	Healthcare Services	Central	Total
Six months ended 30 June 2019	**£'000**	**£'000**	**£'000**	**£'000**
Underlying EBITDA as reported	**(1,478)**	**1,426**	**(1,537)**	**(1,589)**
Lease expense under IAS 17	**(174)**	**(1,154)**	**(20)**	**(1,348)**
Underlying EBITDA under IAS 17	**(1,652)**	**272**	**(1,557)**	**(2,937)**
Six months ended 30 June 2018				
Underlying EBITDA under IAS 17 (as reported)	(585)	383	(1,887)	(2,089)

6. Non-underlying administrative expenses

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000
Exceptional items:		
- Legal and regulatory expenses	**2,942**	2,582
- Legal settlements	**-**	(1,328)
- Tax related matters	**-**	(812)
- (Realisation)/impairment of non-cash assets	**-**	(250)
- Restructuring	**231**	-
Total exceptional items	**3,173**	192
Other adjustments:		
- Amortisation of acquired intangibles	**98**	590
Total other adjustments	**98**	590
Total non-underlying administrative expenses	**3,271**	782

The legal and regulatory expense relates to additional legal provisions being established and other legal expenses incurred during the period, net of £127,000 partial provision releases.

Restructuring costs relate to the exit of the former Group Finance Director £334,000, net of £103,000 of provision releases in respect of businesses disposed of in prior years.

7. Trade and other receivables

	30 June 2019 £'000	31 December 2018 £'000
Trade receivables (net of impairment provision)	**2,936**	2,982
Monies held in Escrow (net of impairment provision)	**-**	-
Other receivables	**1,312**	1,530
Prepayments	**1,098**	598
	5,346	5,110

8. Trade and other payables

	30 June 2019 £'000	31 December 2018 £'000
Current liabilities		
Trade payables	**2,760**	1,262
Payroll and other taxes including social security	**256**	177
Accruals	**3,789**	4,973
Contract liabilities	**1,550**	1,685
Other liabilities	**334**	104
	8,689	8,201

9. Provisions

	Tax related matters £'000	**Legal disputes £'000**	**Onerous contracts £'000**	**Other £'000**	**Total £'000**
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
At 1 January 2019	**1,700**	**8,207**	**87**	**1,410**	**11,404**
Additional provisions	**-**	**2,691**	**47**	**100**	**2,838**
Unused amounts released	**-**	**(127)**	**-**	**-**	**(127)**
Used during the year	**-**	**(4,028)**	**(20)**	**(459)**	**(4,507)**
Exchange movements	**-**	**-**	**6**	**-**	**6**
At 30 June 2019	**1,700**	**6,743**	**120**	**1,051**	**9,614**
Split:					
Non-current	-	-	20	-	20
Current	1,700	6,743	100	1,051	9,594

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 VAT issues. 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 Notes 10 and 11, 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.

As at 30 June 2019, £2,901,000 of the balance relates to amounts provided to defend the Slater & Gordon claim in respect of the disposal of the PSD. In advance of the trial which will commence in October 2019, substantial preparatory work has been undertaken in the period and £3,854,000 of the provision held at 31 December 2018 has been utilised in respect of this process. As this work has progressed through disclosure stages and we are able to inspect documents previously unavailable to us we are increasingly confident in the strength of our defence, the quality of our preparations and the lack of merit to their claim. Additional amounts of £2,691,000 in respect of our legal costs for this matter have been provided. This process has also given rise to an Amended Defence and Counterclaim as discussed in Note 10.

Additional amounts provided and unused amounts reversed represent changes in the expected total costs to be incurred, on a case by case basis. 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

At 1 January 2019, the remaining amount relates to onerous property leases. 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. 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. £458,000 of the amount provided at 31 December 2018 has been utilised during the period and relates to restructuring payments and commission clawbacks. The exact timing and quantum of the amounts provided at 30 June 2019 is uncertain and the provision is based upon historic trends in these businesses.

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.

In 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 3. 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.

In August 2019, the Group filed and served an Amended Defence and Counterclaim in the proceedings referred to above. The counterclaim against Slater & Gordon is currently for damages of at least £63,000,000 plus exemplary damages, interest and costs for breach of confidence, inducing breach of contract, and unlawful means conspiracy ("Counterclaim"). The

Counterclaim arises from the recent discovery via third party disclosure of an illicit back channel that Greenhill & Co, a corporate finance adviser to Slater & Gordon, procured during the period of due diligence and negotiation with Watchstone's then group restructuring and technical accounting adviser, PricewaterhouseCoopers. The Judge ordered that Watchstone's claims in relation to the back channel, including its Counterclaim, are to be heard at the same time as the trial of Slater & Gordon's claims starting on 21 October 2019.

IFRS only allow an asset to be recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has value that can be measured reliably. This is a higher bar of recognition than for a liability. The Group is confident in the strength of the Counterclaim. However, an asset has not been recognised in the balance sheet at 30 June 2019. Whilst the claim for damages is at least £63,000,000 it is difficult to reliably quantify, particularly when considering the value of exemplary damages, interest and costs.

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 and the last correspondence from the Claimant Firm was received in June 2016. 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.
Defence costs in respect of the matters above have been provided for as set out in Note 9.

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

11. Related party transactions

Transactions with former management

In the ongoing High Court proceedings brought by Watchstone against its former Executive Chairman, Mr Robert Terry, and others, for breach of the share purchase agreement entered into by the Company with Mr Terry and others on 28 April 2011 in respect of the sale and purchase of shares in Watchstone Limited ("WL") (the "SPA" and the "SPA Proceedings"), the Company has received an application by Mr Terry and the other defendants, seeking permission to bring a counterclaim for approximately £14.7m.

The Company has obtained legal advice on the proposed counterclaim, and considers it to be without merit and lacking in credibility.

Although the proposed counterclaim is materially lacking in detail, in essence it appears to be a claim in negligent misrepresentation arising out of a tax indemnity that Mr Terry says the Company's subsidiary WL granted to him orally in 2011 (the "Oral Indemnity", further details are provided below). Mr Terry alleges that, in 2013, at and around the time when WL paid approximately £3.1m to Mr Terry (the then Chairman and Group Chief Executive) in respect of personal tax liabilities arising as a result of the disposal of shares in WL in 2011 pursuant to the Oral Indemnity, the Company expressly (and by conduct) made false representations that it would not challenge the validity of the Oral Indemnity and would not seek to recover any amount paid under the Oral Indemnity, including under the SPA.

Mr Terry now says that, in reliance on these alleged representations, he did not seek to sell some 22.59% of his then shareholding in the Company between January and March 2013 (which, he says, would have yielded some £20m), and thereby suffered a loss of approximately £14.7m relative to the price for which he eventually sold his shares in the Company between November 2014 and January 2015 shortly after he left the Company.

The Company's solicitors have written to the defendants' solicitors to identify deficiencies in the proposed counterclaim. If it is maintained (in its current form or otherwise) the Company intends to defend it vigorously and to continue with the SPA Proceedings.

On 16 November 2018, in separate proceedings, Mr Terry, and other connected parties including Mrs Terry, successfully established the existence of the Oral Indemnity and claimed £1.0m (plus the award of costs and interest) from WL in respect of further capital gains tax liabilities arising as a result of the disposal of shares in WL in 2011, and associated fees, pursuant to the Oral Indemnity. One issue in those proceedings was whether the Oral Indemnity was voidable as a substantial property transaction entered into without shareholder approval, contrary to section 190 of the Companies Act 2006. The High Court found that it was not susceptible to challenge on that ground, and on 18 February 2019, the Court of Appeal granted WL permission to appeal on that issue. The appeal is listed to be heard in November 2019. If the appeal is allowed, WL would be entitled to repayment of the sums paid under the Oral Indemnity (exceeding £4.0m in total).

12. Share capital

	Number 000's	**Nominal value fully paid £'000**	**Nominal value unpaid £'000**	**Nominal value total £'000**
at 31 December 2018 and 30 June 2019	**46,038**	**4,593**	**11**	**4,604**

Outstanding share options expired during the period and consequently £328,000 has been transferred from the Share Based Payment Reserve to Retained Earnings.

13. Cash flow from operating activities

	Six months ended 30 June 2019	Six months ended 30 June 2018
Loss after tax	**(7,280)**	(2,573)
Tax	**10**	(115)
Finance expense	**600**	53
Finance income	**(222)**	(163)
Operating loss	**(6,892)**	(2,798)
Adjustments for:		
Non underlying cash out flows excluding discontinued operations	**2,996**	186
Depreciation of property, plant and equipment	**1,782**	1,214
Amortisation of intangible assets	**747**	1,137
Loss on disposal of plant, property and equipment	**3**	579
Profit on disposal of subsidiary undertakings and operations	**-**	(558)
Operating cash flows before movements in working capital and provisions	**(1,364)**	(240)
(Increase)/decrease in inventories	**(40)**	349
(Increase)/Decrease in trade and other receivables	**(405)**	1,233
(Decrease) in trade and other payables	**(2,051)**	(4,427)
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	**(3,860)**	(3,085)

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Mr D Young
Mr S Borson

Company Secretary

Mr S Borson

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