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

Results for the six months ended 30 June 2020

Watchstone (AIM:WTG.L) today announces its results for the six months ended 30 June 2020.

- £50.5m of cash returned to shareholders in H1 2020 with a further return of £18.4m after the period end in July 2020
- Completion of the disposal of Healthcare Services for £21.7m recognising a profit of £7.5m, net cash received of £18.8m
- Underlying EBITDA loss of £1.4m (2019: loss of £1.5m)
- Total continuing profit before tax of £0.7m (2019: loss of £4.7m)
- Group net assets of £35.3m at 30 June 2020 (as at 31 December 2019: £77.7m)
- Group cash and term deposits, excluding amounts included within assets held for sale at 30 June 2020 of £37.3m (as at 31 December 2019: £71.6m)
- Group cash at 25 September 2020 of £17.2m including amounts held in escrow (£2.0m) but excluding amounts included within assets held for sale.

For further information:

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Update

A full summary of actions and issues was presented in our Annual Report published in May 2020.

Impact of COVID 19 the United Kingdom leaving the European Union

Action was taken to reduce costs whilst the Stay at Home and related COVID-19 measures were in place in the UK and in the Netherlands where one of ingenie's customers operates. This included furloughing a small number of ingenie employees amongst other measures. With the return of driving tests in the UK, the ingenie business has started to return to pre-COVID-19 levels in respect of new business volumes.

The Group experienced no material impact from the departure of the UK from the European Union on 31 January 2020 whilst transitional measures remain in place.

A significant proportion of the Group's assets are held as cash and therefore the Group remains relatively insulated from macroeconomic factors.

Business review

The results of ingenie have improved significantly from H1 2019 despite the impact of COVID-19 restrictions, which included a temporary halt to driving tests in the UK. The ingenie business has however inevitably been adversely impacted by COVID-19. The board of ingenie has taken the steps necessary to protect the business for when the situation resolves. Revenue for the period to 30 June 2020 was £4,766,000 compared to £3,315,000 for the same period in 2019. The loss for the period, net of tax was £671,000 (six months to 30 June 2019, loss of £1,810,000). These results reflect a 53% increase in new business volumes over H1 2019 and the continued success of the relationship with the ANWB. Furthermore, in the half, ingenie signed a deal with Endsleigh Insurance for the provision of an end-to-end telematics, behavioural coaching, data analytics, policy administration, and claims management solution built upon ingenie's decade of experience in insurance and technology.

The Group is committed to a plan to dispose of its ingenie business and to primarily realise value from this business through sale. The assets and liabilities of the business have therefore been included within assets and liabilities held for sale and classified as Discontinued within the Condensed Consolidated Income Statement. Comparatives are restated on a consistent basis.

Remaining legal claims and other assets

Other than ingenie, the Group retains no material trading businesses and the assets of the Group are primarily in cash. Several non-trading entities remain within the Group which are primarily retained since they are party to legal action or, for example, hold onerous property leases (which are provided against). Additionally, there are three historic investments in unlisted entities, all impaired to nil.

Litigation in relation to the historic activities of the Group is being pursued where it is considered that we have a strong case and where the Board having taken advice, expects a successful outcome in favour of the Group. These include filed cases against PricewaterhouseCoopers LLP ("PwC"), Aviva Canada Inc as well as other potential claims against other parties currently in contemplation.

The Healthcare Services disposal included deferred contingent consideration although COVID-19 is likely to have a negative impact upon the post disposal trading of Healthcare Services which was not anticipated when the transaction completed. No deferred contingent consideration has been included within these financial results. As is customary, the Group has provided time bound warranties to the purchasers of Healthcare Services.

Financial update

The Group disposed of its Healthcare Services business in February 2020 for £21,713,000 and a profit on disposal of £7,470,000 has been recognised in the period ended 30 June 2020. Further details are provided in note 9. At 30 June 2020, the Group was also committed to a plan to dispose of its ingenie business and to primarily realise value from this business through sale.

Accordingly, the results of both the Healthcare Services business to the date of disposal (6 February 2020) and ingenie are included within discontinued operations within the Condensed Consolidated Income Statement. Comparative amounts have been restated on a consistent basis. At 30 June 2020, the assets and liabilities of ingenie are included as held for sale within the Condensed Consolidated Statement of Financial Position. The assets and liabilities of Healthcare Services were included as held for sale within assets and liabilities at 30 December 2019.

Legal update

On 27 April 2020, the Serious Fraud Office ("SFO") informed the Company that it will not be prosecuted for criminal offences in respect of those matters which were the subject of its investigation. The Group has received no further correspondence during the period in respect of a threatened class legal action against the Company. As a consequence of these factors £2,246,000 of provisions have been released to non-underlying results within the Condensed Consolidated Income Statement.

The resolution of litigation with Slater & Gordon during 2019 in relation to the disposal of the Professional Services Division resulted in £39,390,000 of amounts placed in escrow being returned to the Company during 2019 and allowed other cash reserves to be distributed. Accordingly, the Company returned £50,518,000 to shareholders during the period. Subsequent to the SFO's decision above, the Company also returned a further £18,398,000 after the period end ("July Return of Cash") . Further details are provided in note 14.

Cash

Cash and term deposits totalled £37,340,000 as at 30 June 2020, excluding amounts included within assets held for sale. The reduction from £71,611,000 at 31 December 2019 was primarily as a result of £50,518,000 being returned to shareholders and operating cash outflows from ingenie and central costs net of £18,816,000 from the disposal of Healthcare Services and £467,000 in respect of a settlement from a former Director (note 11).

As at 25 September 2020, the Group had cash of £17,206,000 (including £2,000,000 held in escrow), following the July Return of Cash to shareholders and excluding amounts included within assets held for sale.

Principal risks and uncertainties

The principal risks and uncertainties to which the Group is exposed remain broadly as set out in section 4 of the Strategic Report included within the Annual Report and Financial Statements for the year ended 31 December 2019.

Outlook

We remain focussed on resolving the Group's remaining legacy matters as efficiently as possible and are confident of returning further cash sums to shareholders in due course.

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
On behalf of the Directors

Condensed Consolidated Income Statement

for the period ended 30 June 2020

	Note	**Six months ended 30 June 2020**			Six months ended 30 June 2019		
		2020 Underlying	**2020 Non-underlying***	**2020 Total**	2019 Underlying	2019 Non-underlying*	2019 Total
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue		**-**	**-**	**-**	-	-	-
Cost of sales		**-**	**-**	**-**	-	-	-
Gross profit		**-**	**-**	**-**	-	-	-
Administrative expenses	4	**(1,406)**	**1,853**	**447**	(1,562)	(3,173)	(4,735)
Group operating profit/(loss)		**(1,406)**	**1,853**	**447**	(1,562)	(3,173)	(4,735)
Finance income		**248**	**-**	**248**	222	-	222
Finance expense		**-**	**-**	**-**	(214)	-	(214)
Profit/(loss) before taxation	4	**(1,158)**	**1,853**	**695**	(1,554)	(3,173)	(4,727)
Taxation		**-**	**-**	**-**	-	-	-
Profit/(loss) after taxation for the period from continuing operations		**(1,158)**	**1,853**	**695**	(1,554)	(3,173)	(4,727)
Net gain on disposal of discontinued operations	9	**-**	**7,470**	**7,470**	-	-	-
Loss for the period from discontinued operations	9	**-**	**(922)**	**(922)**	-	(2,553)	(2,553)
Profit/(loss) after taxation for the period		**(1,158)**	**8,401**	**7,243**	(1,554)	(5,726)	(7,280)
Attributable to:							
Equity holders of the parent		**(1,158)**	**8,401**	**7,243**	(1,554)	(5,726)	(7,280)
Non-controlling interests		**-**	**-**	**-**	-	-	-
		(1,158)	**8,401**	**7,243**	(1,554)	(5,726)	(7,280)
Profit/(loss) per share (pence):							
Basic		**(2.5)**		**15.7**	(3.4)		(15.8)
Diluted		**(2.5)**		**15.7**	(3.4)		(15.8)
Profit/loss per share from continuing activities (pence):							
Basic				**1.5**			(10.3)
Diluted				**1.5**			(10.3)

* Non-underlying results have been presented separately to give a better guide to underlying business performance (see notes 1 and 5).

Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 June 2020

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
Profit/(loss) after taxation	**7,243**	(7,280)
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**(471)**	549
Total comprehensive profit/(loss) for the period	**6,772**	(6,731)
Attributable to:		
Equity holders of the parent	**6,772**	(6,745)
Non-controlling interests	**-**	14
	6,772	(6,731)

Condensed Consolidated Statement of Financial Position

as at 30 June 2020

	Note	At 30 June 2020 £'000	At 31 December 2019 £'000
Non-current assets			
Other intangible assets		**-**	819
Property, plant and equipment		**1**	646
Other receivables		**-**	260
		1	1,725
Current assets			
Inventories		**-**	435
Corporation tax		**-**	178
Trade and other receivables	6	**568**	2,777
Term deposits		**15,000**	15,000
Cash		**22,340**	56,611
		37,908	75,001
Assets of disposal group held for sale	9	**3,936**	27,601
Total current assets		**41,844**	102,602
Total assets		**41,845**	104,327
Current liabilities			
Trade and other payables	7	**(1,507)**	(4,719)
Provisions	8	**(1,527)**	(4,147)
		(3,034)	(8,866)
Liabilities of disposal group held for sale	9	**(3,488)**	(17,749)
Total current liabilities		**(6,522)**	(26,615)
Non-current liabilities			
Provisions	8	**(19)**	(19)
Deferred tax liabilities		**(1)**	(1)
		(20)	(20)
Total liabilities		**(6,542)**	(26,635)
Net assets		**35,303**	77,692
Equity			
Share capital	12	**4,604**	4,604
Other reserves		**88,348**	137,486
Retained earnings		**(57,653)**	(64,905)
Equity attributable to equity holders of the parent		**35,299**	77,185
Non-controlling interests		**4**	507
Total equity		**35,303**	77,692

Condensed Consolidated Cash Flow Statement

for the period ended 30 June 2020

	Note	**Six months ended 30 June 2020 £'000**	Six months ended 30 June 2019 £'000
Cash flows from operating activities			
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	13	**(1,386)**	(3,860)
Non-underlying cash outflows excluding discontinued operations		**(83)**	(2,996)
Cash used in operations before net finance expense and tax		**(1,469)**	(6,856)
Corporation tax received		**178**	-
Net cash used by operating activities		**(1,291)**	(6,856)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(516)**	(521)
Purchase of intangible fixed assets		**(350)**	(387)
Disposal of subsidiaries		**18,816**	-
Investment in term deposits		**(30,000)**	(30,000)
Maturity of term deposits		**30,000**	40,000
Interest income		**160**	214
Net cash generated from investing activities		**18,110**	9,306
Cash flows from financing activities			
Net finance expense		**(273)**	(567)
Redemption of preference shares		**-**	(886)
Dividends to minority interests		**(287)**	-
Return of capital		**(50,518)**	-
Net cash used by financing activities		**(51,078)**	(1,453)
Net (decrease)/increase in cash and cash equivalents		**(34,259)**	997
Cash and cash equivalents at the beginning of the period		**57,176**	10,113
Exchange losses on cash and cash equivalents		**(2)**	(32)
Cash and cash equivalents at the end of the period		**22,915**	11,078

Reconciliation of cash to net funds	
Term deposits	**15,000**
Cash	**22,340**
Cash included within assets held for sale	**575**
Net funds	**37,915**

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 2020 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 2019, which were prepared in accordance with IFRSs as adopted by the EU.

The comparative figures for the financial year ended 31 December 2019 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 28 September 2020.

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 activities together with any future 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. Therefore 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 2019, except for the adoption of new standards and interpretations as of 1 January 2020. None of these standards have any significant impact on the accounting policies, financial position or performance of the Group, as noted below:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

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 2020 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: Classification of businesses as discontinued and held for sale

At 30 June 2020, the Group was committed to a plan to dispose of its ingenie business and to primarily realise value from this business through sale. Similarly, at 30 December 2019, the Group was committed to the sale of its Healthcare Services business. For a business to be classified as held for sale the business must be available for immediate sale in its present condition and the sale must be highly probable.

In management's view both of these conditions have been met at the Statement of Financial Position date and consequently the assets and liabilities of these businesses have been included within assets and liabilities held for sale. By virtue of being held for sale, the results of these businesses are also classified as Discontinued within the Condensed Consolidated Income Statement. Comparatives are restated on a consistent basis.

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 historical 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.

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: Revenue (within discontinued operations)

The Group treats a number of contractual promises as single performance obligations since they are not capable of being distinct. Management must apply judgement in making this assessment which has the impact of changing the timing at which revenue is recognised. Furthermore, where performance obligations are recognised over time management have assessed that the most appropriate method is to apportion the revenue evenly over the duration of the agreement since this best represents the timing of the transfer of the benefits to the customer.

Where management have reviewed an agreement and consider that it contains multiple performance obligations the total transaction price is allocated to each performance obligation, this allocation may be different to amounts specified in a contract. Where possible this allocation is made with reference to separate selling prices. This estimate impacts the timing of recognition of revenue for these agreements.

In instances where further agreements are made with a customer, or changes to existing agreements are made, management must apply judgement in determining if the changes are distinct and therefore represent a new contract or instead, a contract amendment. The outcome of this judgement results in the additional revenues either being recognised entirely prospectively or retrospectively from the start of the existing agreement.

Judgement: Identifying performance obligations within contracts with customers

The Group must identify the performance obligations within its contracts against which revenue is subsequently recognised. Judgement is applied in determining if the related good or service is capable of being distinct or if it is distinct in the context of the contract. In particular, this applies to telematics services and devices and one-off fees in relation to licences and system delivery to B2B customers.

It is management's judgement that the telematics device and the related service represent a single performance obligation delivered over time and the set-up fees with the related license represent a single performance obligation recognised over time. The consequence of this judgement is to spread revenues relating to elements of the contract over longer periods than if the goods and services were deemed to be separate performance obligations.

Judgement: Recognition of liabilities arising under the Distribution Incentive Scheme

As discussed in note 14 and the Directors' Remuneration Report of the 2019 Annual Report and Financial Statements the Group Chief Executive Officer is entitled to 5.43% of any distribution over and above a prescribed distribution hurdle ("DIS Hurdle"). No amounts have been recognised in these Condensed Consolidated Financial Statements in respect of this liability despite a distribution being planned at 30 June 2020 as it is the judgement of management that the liability does not crystallise, and is materially uncertain, until Court approval has been obtained for the related capital reduction and cash return. The impact of this judgement in relation to the distribution approved on 21 July 2020 is £634,000. The impact of any future distributions is 5.43% of the amounts to be distributed.

3. Key performance indicators

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
Underlying EBITDA (Note 4)	**(1,405)**	(1,537)
Underlying group operating loss (Note 4)	**(1,406)**	(1,562)
Cash and term deposits (continuing business)	**37,340**	71,611*

*At 31 December 2019

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
Underlying EBITDA	**(1,405)**	(1,537)
Underlying depreciation and amortisation	**(1)**	(25)
Underlying group operating loss	**(1,406)**	(1,562)
Non-underlying group operating profit/(loss)	**1,853**	(3,173)
Group operating profit/(loss)	**447**	(4,735)

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. At 31 December 2019, this represented a single division, ingenie, supported by a Group cost centre (denoted as Central below). As noted in note 9, ingenie has been classified as discontinued during the period to 30 June 2020 and therefore no longer forms part of the continuing underlying operations of the Group. The comparative amounts below have been restated to a consistent basis with the treatment in 2020.

A reconciliation of alternative performance measure to nearest GAAP equivalents is presented in note 3.

	Central £'000	**Total £'000**
Six months ended 30 June 2020		
Underlying administrative expenses excluding depreciation and amortisation	**(1,405)**	**(1,405)**
Underlying EBITDA	**(1,405)**	**(1,405)**
Depreciation and amortisation		**(1)**
Underlying group operating loss		**(1,406)**
Net finance income		**248**
Underlying group loss before tax		**(1,158)**
Non-underlying profit before tax		**1,853**
Total group profit before tax from continuing operations		**695**

	Central £'000	**Total £'000**
Six months ended 30 June 2019		
Administrative expenses excluding depreciation and amortisation	(1,537)	(1,537)
Underlying EBITDA	(1,537)	(1,537)
Depreciation and amortisation		(25)
Underlying group operating loss		(1,562)
Net finance income		8
Underlying group loss before tax		(1,554)
Non-underlying profit before tax		(3,173)
Total group profit before tax from continuing operations		(4,727)

5. Non-underlying administrative expenses

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
Exceptional items:		
- Legal expenses	**(1,371)**	2,942
- Tax related matters	**(467)**	-
- Restructuring	**(15)**	231
Total exceptional items	**(1,853)**	3,173
Total non-underlying administrative expenses	**(1,853)**	3,173

The credit to legal expense includes the release of unused provisions of £2,246,000 net of expenses incurred. Further detail is provided in note 8. Legal expense during 2019 relates to additional legal provisions being established and other legal expenses incurred during the period, net of £127,000 partial provision releases.

The credit to tax related matters relates to a receipt from a former director as detailed in note 11.

The 2019 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.

6. Trade and other receivables

	30 June 2020 £'000	31 December 2019 £'000
Trade receivables (net of impairment provision)	**-**	244
Other receivables	**505**	1,931
Prepayments	**63**	602
	568	2,777

7. Trade and other payables

	30 June 2020 £'000	31 December 2019 £'000
Current liabilities		
Trade payables	**372**	729
Payroll and other taxes including social security	**19**	84
Accruals	**1,073**	2,003
Contract liabilities	**-**	1,453
Other liabilities	**43**	450
	1,507	4,719

8. Provisions

	Tax related matters £'000	**Legal disputes £'000**	**Onerous contracts £'000**	**Other £'000**	**Total £'000**
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
At 1 January 2020	**-**	**3,803**	**88**	**275**	**4,166**
Additional provisions	**-**	**-**	**-**	**831**	**831**
Unused amounts released	**-**	**(2,246)**	**-**	**-**	**(2,246)**
Used during the year	**-**	**(85)**	**(15)**	**(693)**	**(793)**
Transferred to liabilities held for sale	**-**	**-**	**-**	**(413)**	**(413)**
Exchange movements	**-**	**-**	**1**	**-**	**1**
At 30 June 2020	**-**	**1,472**	**74**	**-**	**1,546**

Split:

Non-current	-	-	19	-	19
Current	-	1,472	55	-	1,527

Legal disputes and regulatory matters

In legal cases where the Group is (or would be) the defendant, such as those set out below and 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. No amounts have been provided for the costs of any settlement, fine or award of damages.

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. At 31 December 2019, the Group was unable to reliably estimate the amount or timing of any potential penalty or settlement and therefore, having taken external advice, had not established a provision. The Group had however established a provision for legal costs associated with the ongoing investigation. On 27 April 2020, the SFO informed the Company of its decision that it did not intend to prosecute the Company for criminal offences in respect of those matters which were the subject of the investigation. The investigation itself continues and the Group continues to co-operate fully.

As detailed in note 10, the Company received a notice of intended claim during 2019. No further response has been received from the purported claimants and therefore £761,000 of the related provision for legal fees has been released during the period ended 30 June 2020. Amounts utilised during the year relates to legal costs incurred in respect of the above matters.

As a consequence of the facts above £2,246,000 of the provision for legal fees has been released during the period ended 30 June 2020. At 30 June 2020, £1,472,000 remains provided for legal fees since the Company continues to co-operate with the ongoing SFO investigation and to respond to any future developments in respect of the notice of intended claim.

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 30 June 2020, 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. These primarily relate to policy cancellations within the ingenie business which are based upon historic experience within the business and is limited to one year from policy inception. These amounts have been transferred to liabilities held for sale along with the other assets and liabilities of ingenie at 30 June 2020.

9. Discontinued operations and disposals

Loss for the period from discontinued operations:

	2020 **£'000**	2019 £'000
Healthcare Services	**(236)**	(781)
Ingenie	**(671)**	(1,810)
Hubio	**(15)**	38
Loss for the period from discontinued operations net of tax	**(922)**	(2,553)

The sale of Healthcare Services completed in February 2020 and accordingly the results of this business are included within discontinued operations within the Condensed Consolidated Income Statement. The assets and liabilities of Healthcare Services are presented within assets and liabilities held for sale in the Condensed Consolidated Statement of Financial Position at 31 December 2019. At 30 June 2020, the Group was committed to a plan to dispose of ingenie and therefore the results of this business are also classified as discontinued operations within the Condensed Consolidated Income Statement.

The results for the comparative period have been restated to the same basis. At 30 June 2020, the assets and liabilities of ingenie are included within assets and liabilities held for sale in the Condensed Consolidated Statement of Financial Position.

Rights around certain potential claims and recoveries remain with the Group however no amounts are recognised within the results presented.

The profit recognised in the Condensed Consolidated Income Statement arising upon the sale of Healthcare Services in February 2020 is as follows:

	£'000
Sales proceeds	**21,713**
Net assets at disposal	**(11,569)**
Expenses and other costs of sale	**(804)**
Profit arising on sale	**9,340**
Cumulative foreign exchange losses recognised through OCI	**(1,870)**
Net profit arising on sale to be recognised in profit and loss	**7,470**

Up to a further CDN $800,000 becomes payable should the business generate target revenues in the year after disposal. This amount is not included within the proceeds above.

10. Contingent liabilities

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

On 14 December 2015, the Group received a letter of claim from a law firm ("Claimant Firm") threatening to commence an action against the Company under the Financial Services and Markets Act 2000. 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. We therefore believe this purported action has been discontinued.

Separately, a firm purporting to act for a group of twelve individuals (some of whom participated in the original threatened litigation) submitted a "Notice of intended claim" to the Company during the year ended 31 December 2019 ("Notice"). The Notice related to the potential pursuit of a claim arising under section 90A and Schedule 10A of the Financial Services and Markets Act 2000. However, it provided no information to support the validity or valuation of the individual prospective claimants' claims, which they would be required to prove in due course in any litigation. The Company responded fully to the Notice, outlining its view that the purported claim had no legal merit, because the legal tests for bringing a claim of this sort were not satisfied. The Company will vigorously defend all such claims if so brought. 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 this matter have been provided for as set out in note 8.

11. Related party transactions

Transactions with a supplier

As disclosed in note 33 of the 2019 Annual Report and Financial Statements one of the Group's subsidiaries has entered into an arms-length agreement with a Company of which Mr Young, a non-executive Director of Watchstone Group plc is also a director.

Transactions with former management

On 18 June 2020, £467,000 was received from Mr Fielding, who served as a Director of the Group from 19 June 2014 to 29 May 2015 as settlement for historic tax positions.

12. Share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
	000's	**£'000**	**£'000**	**£'000**
at 31 December 2019 and 30 June 2020	**46,038**	**4,593**	**11**	**4,604**

13. Cash flow from operating activities

	Six months ended 30 June 2020	Six months ended 30 June 2019
Profit/(loss) after tax	**7,243**	(7,280)
Tax	**-**	10
Finance expense	**273**	600
Finance income	**(248)**	(222)
Operating profit/(loss)	**7,268**	(6,892)
Adjustments for:		
Non underlying cash out flows excluding discontinued operations	**83**	2,996
Depreciation of property, plant and equipment	**734**	1,782
Amortisation of intangible assets	**265**	747
Loss on disposal of plant, property and equipment	**102**	3
Profit on disposal of subsidiary undertakings and operations	**(7,470)**	-
Operating cash flows before movements in working capital and provisions	**982**	(1,364)
Decrease/(increase) in inventories	**435**	(40)
Decrease/(increase) in trade and other receivables	**17,302**	(405)
(Decrease) in trade and other payables	**(20,105)**	(2,051)
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	**(1,386)**	(3,860)

14. Post balance sheet events

On 21 July 2020, the High Court of Justice in England and Wales approved a further reduction of the Company's share capital enabling the subsequent return of £18,398,000 to shareholders, taking the total returned to holders of ordinary shares during 2020 to £68,944,000. The approval of July Return of Cash exceeded the DIS Hurdle and crystallised a payment of £634,000 to Mr Borson. Further details of the scheme can be found in the Directors' Remuneration Report of the 2019 Annual Report and Financial Statements.

On 7 August 2020, the Company filed and served a claim against PwC in the High Court. The Particulars of Claim are available on written application to the Commercial Court, alternatively online at the HM Courts & Tribunals e-filing Service.

Officers and Advisors

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Rt. Hon. Lord M Howard
Mr D Young
Mr S Borson

Company Secretary

Mr S Borson

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