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

Preliminary results for the year ended 31 December 2020

Watchstone Group plc (WTG.L) today announces its results for the year ended 31 December 2020.

- £68.9m of cash returned to shareholders (2019: £nil)
- Total profit after tax £7.7m (2019: £30.9m)
- Group operating loss of £1.4m (2019: £3.6m)
- Group net assets of £17.1m representing approximately 37 pence per share (2019: 169 pence per share)
- Group cash and term deposits at 31 December 2020 of £16.7m (31 December 2019: £71.6m) not including amounts held in escrow of £1.9m (2019: £nil)
- Group cash and term deposits at 31 March 2021 of £15.3m not including amounts held in escrow of £1.8m

The Annual Report and Accounts for the year ended 31 December 2020 will be released by 31 May 2021 and posted (where applicable) to registered shareholders. Once published, the Annual Report and Accounts will be available at www.watchstonegroup.com/investors.

The 2021 Annual General Meeting ("AGM") will be held on 29 June 2021 in London. As announced on 23 April 2021, pursuant to AIM Rule 41, the Company intends to seek shareholder approval for the cancellation of trading of its Ordinary Shares on AIM at the AGM.

The Company's Circular relating to the proposed Cancellation of Admission of Ordinary Shares to trading on AIM and the Notice of the AGM will be published on the Company's website at https://www.watchstonegroup.com/investors/shareholder-information/.

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Chris Hardie Lydia Zychowska	

Chairman's Report

The Group achieved a number of significant milestones in 2020, consistent with our plan to dispose of businesses when appropriate, resolve legacy issues and return cash to shareholders.

Taking these objectives in turn, the disposal of our Canadian Physiotherapy business completed in February 2020 after regulatory approval. In light of the impact of COVID-19 around the world, particularly for face to face service industries, the timing was fortuitous. Whilst this has adversely impacted the recovery of additional contingent consideration from the sale, the Group has recorded a profit on disposal and resultant cash inflows rather than experiencing a significant cash drain which would have inevitably occurred owning this business through this difficult period.

The disposal of ingenie in November 2020 completed the process of disposing of our trading businesses and we wish our former colleagues every success under the new ownership of the business.

In April 2020, the Serious Fraud Office ("SFO") informed us that the Company will not be prosecuted for criminal offences in respect of those matters which were the subject of the investigation. We continue to co-operate with the SFO in their remaining ongoing investigation. We have received no further correspondence in respect of the threatened shareholder class actions since November 2019.

The disposal of businesses and resolution of legacy matters has allowed us, with Court approval, to return a further £68.9m to shareholders during 2020 taking the total to almost £500m.

We continue to pursue litigation both in the UK and Canada where we believe we have a very strong case and therefore it is in the interests of shareholders. We plan to make further returns to shareholders as, and when, the outcome to our litigation becomes clearer.

In accordance with the AIM Rules, the disposal of ingenie constituted a fundamental change of business and the Company was classified by AIM as an AIM Rule 15 cash shell leading to our suspension from AIM. Accordingly, the Board were keen to provide shareholders with the services of a regulated market and a trading facility while it pursues its litigation assets and its strategy unfolds. Therefore, we decided to apply for admission of our shares to trading on the AQSE Growth Market operated by the Aquis Stock Exchange. Our Acquis listing commenced after the year end on 30 April 2021.

I would like to thank our now former colleagues for their commitment as we have worked through a difficult but ultimately successful year. I would also once again like to thank our shareholders who have been patient in waiting for the cash returns which recommenced in 2020 and for their support for the Company as the work to maximise value from all our assets has continued. As always, the Board remains confident that we will go on to reward that support.

Richard Rose, Non-executive Chairman

Group Chief Executive's Update

2020 was another key year for the Group as we continued to address the remaining operational and litigation assets and issues. In the year, we completed the sale of the Healthcare Services division and the ingenie business, our final remaining operating assets. Both businesses are well placed for future success in their new owners' hands and we wish them well.

We successfully defended the Group against further putative claims and it is now more than 17 months since the threat of new litigation against the Group was last received. We also received confirmation from the SFO that its investigation into the Group's historic business and accounting practices had been closed. A number of small claims were resolved in our favour in the year.

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 claims against PricewaterhouseCoopers LLP ("PwC"), Aviva Canada Inc ("Aviva Canada") and HMRC.

We also successfully completed two court approved cash returns and further rationalised the central cost and corporate structure such that we now operate from a virtual office and with only Lee James, our Finance Director and myself as executive, permanent staff. We use additional remote consultancy resource judiciously to maintain as flexible a cost base as possible.

Update on outstanding legacy matters

In August 2020, we filed and served a claim against PwC in the High Court. The claim against PwC is for damages or equitable compensation of £63m plus interest and costs. The claim is for breach of contract and/or breach of confidence and/or breach of fiduciary duty and/or unlawful means conspiracy. PwC has filed its defence and the matter is not expected to go to trial before H2 2022. The Group expects to initiate a claim against its former auditor, KPMG LLP ("KPMG"), in respect of its audit of the Group's accounts for the year ended 31 December 2013 which were restated in the subsequent financial year.

Our claim for the recovery of historic VAT paid in the ingenie business is expected to go to a Tribunal in December 2021. Finally, our Canadian subsidiary's claim against Aviva Canada is ongoing.

We will continue to co-operate with the continuing SFO investigation but the Company itself is no longer a suspect and will not be prosecuted in respect of it.

2021 outlook

At the end of April 2021, we joined the Acquis market to provide our shareholders with continued access to trading and the benefits of a regulated market in advance of the suspension from AIM which occurred on 4 May 2021. In due course, we expect to delist from AIM following the suspension caused by becoming a cash shell when we disposed of ingenie. We will look to prosecute our remaining litigation assets for the optimal return for shareholders. Central costs will be carefully managed at reduced levels consistent the needs of the organisation.

Stefan Borson, Group Chief Executive Officer

Consolidated Income Statement
for the year ended 31 December 2020

	2020	2019
	Total	Total
	£'000	£'000
Administrative expenses	**(1,361)**	(3,606)
Group operating loss	**(1,361)**	(3,606)
Finance income	**169**	352
Finance expense	**(12)**	(69)
Loss before taxation	**(1,204)**	(3,323)
Taxation	**-**	3
Loss after taxation for the year from continuing operations	**(1,204)**	(3,320)
Net gain on disposal of discontinued operations	**10,268**	-
(Loss)/profit for the year from discontinued operations, net of taxation	**(1,381)**	34,214
Profit/(loss) after taxation for the year	**7,683**	30,894
Attributable to:		
Equity holders of the parent	**7,683**	30,869
Non-controlling interests	**-**	25
	7,683	30,894
Earnings per share (pence):		
Basic	**16.7**	67.1
Diluted	**16.7**	67.1
Loss per share from continuing operations (pence):		
Basic	**(2.6)**	(7.2)
Diluted	**(2.6)**	(7.2)

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2020

	2020	2019
	£'000	£'000
Profit after taxation	**7,683**	30,894
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**(688)**	(6)
Total comprehensive income for the year	**6,995**	30,888
Attributable to:		
Equity holders of the parent	**6,995**	30,856
Non-controlling interest	**-**	32
	6,995	30,888

Consolidated Statement of Financial Position
as at 31 December 2020

	2020	2019
	£'000	£'000
Non-current assets		
Goodwill	**-**	-
Other intangible assets	**-**	819
Property, plant and equipment	**-**	646
Other receivables	**-**	260
	-	1,725
Current assets		
Inventories	**-**	435
Corporation tax	**81**	178
Trade and other receivables	**2,468**	2,777
Term deposits	**-**	15,000
Cash	**16,656**	56,611
	19,205	75,001
Assets of disposal group classified as held for sale	**-**	27,601
Total current assets	**19,205**	102,602
Total assets	**19,205**	104,327
Current liabilities		
Trade and other payables	**(1,808)**	(4,719)
Provisions	**(258)**	(4,147)
	(2,066)	(8,866)
Liabilities of disposal group classified as held for sale	**-**	(17,749)
Total current liabilities	**(2,066)**	(26,615)
Non-current liabilities		
Provisions	**-**	(19)

Deferred tax liabilities	**(1)**	(1)
	(1)	(20)
Total liabilities	**(2,067)**	(26,635)
Net assets	**17,138**	77,692
Equity		
Share capital	**4,604**	4,604
Other reserves	**69,752**	137,486
Retained earnings	**(57,222)**	(64,905)
Equity attributable to equity holders of the parent	**17,134**	77,185
Non-controlling interests	**4**	507
Total equity	**17,138**	77,692

Consolidated Cash Flow Statement
for the year ended 31 December 2020

	2020	2019
	£'000	£'000
Cash flows from operating activities		
Cash used in operations, net finance expense and tax	**(6,283)**	30,977
Net cash (used by)/generated from operating activities	**(6,283)**	30,977
Cash flows from investing activities		
Purchase of property, plant and equipment	**(790)**	(5,732)
Purchase of intangible fixed assets	**(618)**	(693)
Disposal of subsidiaries net of cash foregone	**-**	-
Investment in term deposits	**(30,000)**	(75,000)
Maturity of term deposits	**45,000**	100,000
Interest income	**170**	333
Disposal of subsidiaries	**21,617**	-
Net cash generated by investing activities	**35,379**	18,908
Cash flows from financing activities		
Finance expense paid	**(451)**	(1,052)
Finance income received	**42**	56
Redemption of preference shares	**-**	(1,832)
Return of capital	**(68,916)**	-
Dividends paid to non-controlling interests	**(287)**	-
Net cash used in financing activities	**(69,612)**	(2,828)
Net (decrease)/increase in cash and cash equivalents	**(40,516)**	47,057
Cash and cash equivalents at the beginning of the year	**57,176**	10,113
Exchange gains on cash and cash equivalents	**(4)**	6

Cash and cash equivalents at the end of the year	**16,656**	57,176

The above Consolidated Cash Flow Statement includes cash flows from both continuing and discontinued operations.

At 31 December 2019, the Group cash and cash equivalents of £57,176,000 included £565,000 within assets held for sale.

Notes:

1. Results announcement

The Financial Statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards. However, this announcement does not contain sufficient information to comply with adopted IFRS. The Group will publish its Annual Report and Financial Statements by 31 May 2021 and these will appear on the Group's website at www.watchstonegroup.com and be posted to shareholders. The auditors have reported on those accounts; their report was (i) unqualified; and (ii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2020. Statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies and those for the year ended 31 December 2020 will be delivered following the AGM. This preliminary announcement was approved by the Board of Directors on 5 May 2021 and these preliminary results have been extracted from the audited results for the year ended 31 December 2020.

2. Business segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the Board). The Group historically operated two segments, being Healthcare Services and ingenie. During the year ended 31 December 2020 both of these segments were disposed of and therefore neither form reportable segments.

3. Administrative expenses

Year ended 31 December	**2020**	2019
	£'000	£'000
Administrative expenses include:		
• Legal expenses	**1,578**	4,419
• Releases of provisions for legal expenses and tax related matters	**(3,503)**	(2,797)
• Legal settlements	**(617)**	(1,026)
• Restructuring	**79**	123
	(2,463)	719

For the year ended 31 December 2020, legal expenses primarily relate to the costs of actual or proposed litigation where the Group is the Claimant. No provisions are made in respect of the costs of such actions since the Group is not obliged to continue to pursue them.

The release of provisions for legal fees in 2020 relates to the discontinued SFO investigation into the Company and potential class action.

During the year ended 31 December 2019, legal expenses includes £3,701,000 of additional legal fee provisions in respect of legal claims, £3,412,000 of which was utilised during the year in achieving settlement with S&G. The settlement resulted in £2,797,000 of provision releases.

The legal settlement credits of £617,000 and of £1,026,000 during 2019 relate to settlements with former management.

4. Goodwill

The movement in goodwill is as follows:

	Goodwill
	£'000
Cost	
At 1 January 2019	96,063
Exchange differences	415
Transfer to assets held for sale	(37,328)
At 1 January 2020	**59,150**
Disposals	**(59,150)**
At 31 December 2020	**-**
Impairment	
At 1 January 2019	87,906
Exchange differences	323
Transfer to assets held for sale	(29,079)
At 1 January 2020	**59,150**
Disposals	**(59,150)**
At 31 December 2020	**-**

Net book value	
31 December 2020	**-**
31 December 2019	-

5. Provisions

	Tax related matters	Legal disputes	Onerous contracts	Other	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2019	1,700	8,207	87	1,410	11,404
Additional provisions	-	3,701	47	409	4,157
Unused amounts released	(1,700)	(127)	-	(1,010)	(2,837)
Used during the year	-	(7,978)	(48)	(534)	(8,560)
Exchange movements	-	-	2	-	2
At 1 January 2020	**-**	**3,803**	**88**	**275**	**4,166**
Additional provisions	**-**	**-**	**-**	**1,100**	**1,100**
Unused amounts released	**-**	**(3,503)**	**(30)**	**-**	**(3,533)**
Used during the year	**-**	**(100)**	**-**	**(1,136)**	**(1,236)**
Disposals	**-**	**-**	**-**	**(239)**	**(239)**
At 31 December 2020	**-**	**200**	**58**	**-**	**258**
Split:					
Non-current	-	-	-	-	-
Current	-	200	58	-	258

Tax related matters

During 2019, as part of the settlement announced on 19 October 2019 with S&G, S&G assumed the liability for historical disputed VAT amounts against which S&G had previously been indemnified for by the Group in respect of the disposal of the PSD. Consequently, the remaining provision was reversed.

Legal disputes and regulatory matters

It is the policy of the Group to provide for legal costs in cases where the Group is (or would be) the defendant, defence costs are provided as the Group is committed to defending the actions. Such costs are provided for at the mid-range of possible eventualities given the uncertainty of the outcome, this range is reassessed on a continuous basis.

The provision as at 31 December 2019 represented the costs of additional legal fees in respect of the Group's defence against any proposed class action and in respect of the investigation by the SFO. On 27 April 2020, the SFO informed the Company of its decision not to proceed to prosecute the Company for criminal offences in respect of those matters which were the subject of the investigation. The investigation continues and the Group continues to co-operate fully.

In respect of the proposed class action the Group has received no further correspondence since November 2019 nor objections during the 2020 Court approved capital reduction processes.

Since the SFO is not proceeding to prosecute the Company and the putative class action has not proceeded, all defence costs provided at 31 December 2019, other than those utilised during the year and the estimated costs of continuing to support the SFO with their enquiries with which the Company is obliged to do, have been released to the income statement.

The future costs of assisting the SFO with their enquiries may ultimately be different from the amount provided at 31 December 2020.

During the year ended 31 December 2019, additional provisions and amounts used during the year in the table above primarily relate to higher than expected legal costs in the defence of the claim from S&G settled during the year.

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. Similarly, in such legal cases where the Group is the claimant and has indemnified a third party, potential future costs associated with the indemnification are not provided for.

Onerous contracts

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. At 31 December 2020, the provision relates exclusively to the maximum exposure remaining under onerous property leases, the timing of which may be reliably determined. These are expected to be resolved in full during the next 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. At 31 December 2019, these primarily relate to policy cancellations within the ingenie business which are based upon historic experience and is limited to one year from policy inception. These obligations were disposed of as part of the disposal of the ingenie business.

6. Contingent assets and liabilities

Litigation in relation to the historic activities of the Group is being pursued including claims against PwC and Aviva Canada. The Group expects to initiate a claim against its former auditor, KPMG, in respect of its audit of the Group's accounts for the year ended 31 December 2013. These give rise to contingent assets, which are not recognised within the Financial Statements due to lack of certainty as to the outcome, despite an inflow of economic benefit being considered probable.

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.

During the year ended 31 December 2019, a firm purporting to act for a group of twelve individuals wrote a "Notice of intended claim" to the Company ("Notice"). The Notice related to 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. Furthermore, the Group has received no further correspondence nor objections during 2020 including during the Court approved capital reduction processes. Since the possibility of any action is now considered remote no amounts, including for defence costs, have been provided at 31 December 2020.