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

Results for the six months ended 30 June 2021

Watchstone today announces its results for the six months ended 30 June 2021.

- EBITDA loss of £1.8m (2020: profit of £0.4m)
- Group net assets of £15.4m at 30 June 2021 (as at 31 December 2020: £17.1m)
- Group cash at 30 June 2021 of £14.3m and £1.8m held in escrow (as at 31 December 2020: £16.7m and £1.9m respectively)
- As at 13 August 2021, the Group had cash of £14.1m and £1.8m held in escrow.

For further information:

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Update

A full summary of actions and issues was presented in our Annual Report published in May 2021.

Offer from Polygon

On 1 July 2021, Polygon Global Partners LLP ("Polygon") announced an unsolicited mandatory offer for the Ordinary Shares it does not already own of 34 pence in cash per Ordinary Share ("Offer"). On 23 July 2021, the Directors wrote to shareholders stating that they did not believe that the Offer reflected any premium for control and significantly undervalued Watchstone's assets. Accordingly, the Directors recommended that shareholders should reject the Offer.

The Offer is conditional on Polygon receiving acceptances which would give Polygon a shareholding of greater than 50 per cent., so the Offer would fail if that level is not achieved and any accepting shareholders would not receive the 34 pence per share for their holding. On 9 August 2021, Polygon announced acceptances as at 6 August 2021 in respect of 474,309 Ordinary Shares, being 1.03 per cent. of the existing issued share capital and that the Offer has been extended until 1 p.m. on 20 August 2021. The Board re-iterates its advice to shareholders as a whole not to accept the Offer for the reasons set out in its response to shareholders dated 23 July 2021.

Business review and legal update

At the end of April 2021, the Group joined the Aquis market to provide our shareholders with continued access to a trading facility and the benefits of a regulated market in advance of the delisting from AIM which occurred on 7 July 2021.

The first half of 2021 has been occupied with progressing realisation of our remaining litigation assets for the benefit of shareholders.

As previously announced, in August 2020, we filed and served a claim against PriceWaterhouseCoopers LLP ("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 2023. The first Case Management Conference is scheduled to take place in late September 2021. As stated in those proceedings, we consider that PwC acted contrary to our interests and in breach of the fundamental principles of objectivity and integrity which represent the core of the relationship between a client and its financial adviser. We are satisfied that we have a very strong case and are determined to take the claim to trial, should that prove necessary.

The preliminary work for a claim against the former auditor of the Group, KPMG LLP ("KPMG") is advanced and, if not settled, we expect to file the claim in before the end of 2021. The claim is in respect of the 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 former ingenie business, to which we retain the economic benefits, is expected to go to a Tribunal in December 2021 and finally, our Canadian subsidiary's claim against Aviva Canada Inc. is ongoing.

We will continue to co-operate with the continuing SFO investigation but as announced on 28 April 2020, we have been informed by the SFO that the Company will not be prosecuted in respect of their investigation into the Company.

Impact of COVID 19

A significant proportion of the Group's assets are held as cash and therefore the Group remains relatively insulated from macroeconomic factors save for interest rate and inflation risks.

Financial update

The costs of pursuing our litigation assets are expensed as incurred. No associated income from settlement or otherwise is recognised due to the inherent uncertainty in the outcome and timing of the legal cases. £0.6m of external legal fees were incurred in the six months ended 30 June 2021 (six months ended 30 June 2020: £0.6m).

Costs of defending legal action in previous years were provided against and legal expenses incurred were utilised against the provision. Since litigation in favour of the Group is pursued at the discretion of the Group, no provision for legal expenses is made.

The net assets of the Group at 30 June 2021 are £15.4m (31 December 2020: £17.1m). This primarily comprises cash of £14.3m (31 December 2020: £16.7m) and amounts placed in escrow by the Group as security of costs in respect of certain of its litigation assets, included within Other Receivables of £1.8m (31 December 2020: £1.9m)

Any value attributable to litigation in favour of the Group represents contingent assets and is therefore not recognised in the Condensed Consolidated Statement of Financial position due to the inherent uncertainty in respect of their outcome, value and timing.

As at 13 August 2021, the Group had cash of £14.1m and £1.8m held in escrow.

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 2020.

Outlook

We remain focussed on realising the Group's remaining litigation assets 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 set of condensed consolidated financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted for use in the UK;
- 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 set of condensed consolidated 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 2021

	Note	**Six months ended 30 June 2021 £'000**	Six months ended 30 June 2020 £'000
Revenue		**-**	-
Cost of sales		**-**	-
Gross profit		**-**	-
Administrative expenses	4	**(1,834)**	447
Group operating (loss)/profit		**(1,834)**	447
Finance income		**16**	248
(Loss)/profit before taxation	4	**(1,818)**	695
Taxation		**-**	-
(Loss)/profit after taxation for the period from continuing operations		**(1,818)**	695
Net gain on disposal of discontinued operations	8	**-**	7,470
Profit/(loss) for the period from discontinued operations	8	**118**	(922)
(Loss)/profit after taxation for the period		**(1,700)**	7,243
Attributable to:			
Equity holders of the parent		**(1,700)**	7,243
Non-controlling interests		**-**	-
		(1,700)	7,243
(Loss)/profit per share (pence):			
Basic		**(3.7)**	15.7
Diluted		**(3.7)**	15.7
(Loss)/profit per share from continuing activities (pence):			
Basic		**(3.9)**	1.5
Diluted		**(3.9)**	1.5

Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 June 2021

	Six months ended 30 June 2021 £'000	Six months ended 30 June 2020 £'000
(Loss)/profit after taxation	**(1,700)**	7,243
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**(22)**	(471)
Total comprehensive (loss)/profit for the period	**(1,722)**	6,772
Attributable to:		
Equity holders of the parent	**(1,722)**	6,772
Non-controlling interests	**-**	-
	(1,722)	6,772

Condensed Consolidated Statement of Financial Position

as at 30 June 2021

	Note	**At 30 June 2021 £'000**	At 31 December 2020 £'000
Current assets			
Corporation tax		**81**	81
Trade and other receivables	5	**2,437**	2,468
Cash		**14,348**	16,656
Total current assets		**16,866**	19,205
Total assets		**16,866**	19,205
Current liabilities			
Trade and other payables	6	**(1,261)**	(1,808)
Provisions	7	**(188)**	(258)
Total current liabilities		**(1,449)**	(2,066)
Non-current liabilities			
Deferred tax liabilities		**(1)**	(1)
Total non-current liabilities		**(1)**	(1)
Total liabilities		**(1,450)**	(2,067)
Net assets		**15,416**	17,138
Equity			
Share capital	10	**4,604**	4,604
Other reserves		**69,730**	69,752
Retained earnings		**(58,922)**	(57,222)
Equity attributable to equity holders of the parent		**15,412**	17,134
Non-controlling interests		**4**	4
Total equity		**15,416**	17,138

Condensed Consolidated Cash Flow Statement

for the period ended 30 June 2021

	Note	**Six months ended 30 June 2021 £'000**	Six months ended 30 June 2020 £'000
Cash flows from operating activities			
Cash used in operations before net finance expense and tax	11	**(2,309)**	(1,469)
Corporation tax received		-	178
Net cash used by operating activities		**(2,309)**	(1,291)
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(516)
Purchase of intangible fixed assets		-	(350)
Disposal of subsidiaries		-	18,816
Investment in term deposits		-	(30,000)
Maturity of term deposits		-	30,000
Interest income		-	160
Net cash generated from investing activities		-	18,110
Cash flows from financing activities			
Net finance expense		-	(273)
Dividends to minority interests		-	(287)
Return of capital		-	(50,518)
Net cash used by financing activities		-	(51,078)
Net decrease in cash and cash equivalents		**(2,309)**	(34,259)
Cash and cash equivalents at the beginning of the period		**16,656**	57,176
Exchange gains/(losses) on cash and cash equivalents		**1**	(2)
Cash and cash equivalents at the end of the period		**14,348**	22,915

Notes to the Interim Statements

1. Preparation of the condensed consolidated financial information

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with the AQSE Growth Market Rules and the recognition and measurement requirements of IFRSs as adopted for use in the UK. The interim financial information should be read in conjunction with the Group's Annual Report and Financial Statements for the year ended 31 December 2020, which were prepared in accordance with IFRSs as adopted for use in the UK.

The comparative figures for the financial year ended 31 December 2020 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 condensed consolidated financial statements were approved by the Board of Directors on 13 August 2021.

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 condensed consolidated financial statements.

Statement of Directors' responsibilities

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

Significant Accounting Policies

The accounting policies applied by the Group in this set of condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards and interpretations as of 1 January 2021. None of these standards have any significant impact on the accounting policies, financial position or performance of the Group, as noted below:

• Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

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 condensed consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated 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 2021 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.

Estimate and judgement: Legal cases

The Group is involved with a number of actual or potential legal cases which, if successful, could result in material cash inflows to the Group. The relative merits of these cases and the assessment of their likely outcome is highly judgemental by nature. Similarly, management recognise the hurdle set by accounting standards to recognise an asset or disclose a contingent asset is very high and therefore neither is recognised or disclosed within these condensed consolidated financial statements.

Judgement: Recognition of contingent consideration due on disposals

The disposal of ingenie included an element of contingent consideration of up to £2,500,000. The receipt of this is contingent upon the revenue of the disposed business during 2021 exceeding a predetermined level. Given the impact of COVID-19 and in particular the cessation of driving tests during periods of lockdown it is not considered probable at 30 June 2021 that the contingent consideration will be received.

Judgement: Recognition of liabilities arising under the Distribution Incentive Scheme

As discussed in the Directors' Remuneration Report on pages 20 to 23 of the 2020 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") which was first and permanently exceeded during 2020. No amounts have been recognised in these condensed consolidated financial statements in respect of any future payments 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 and furthermore, any distribution (and therefore incentive payment) is made at the discretion of the Group. The impact of this judgement is 5.43% of any future amounts distributed.

3. Key performance indicators

Year ended 31 December	**Six months ended 30 June 2021 £'000**	Six months ended 30 June 2020 £'000
Cash returned to shareholders	**-**	50,518
EBITDA	**(1,834)**	448
Group net assets	**15,416**	17,138*
Cash	**14,348**	16,656*
Basic (loss)/profit (pence per share) – continuing operations	**(3.9)**	1.5

*At 31 December 2020

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	Six months ended 30 June 2021 £'000	Six months ended 30 June 2020 £'000
EBITDA	**(1,834)**	448
Depreciation and amortisation	**-**	(1)
Group operating (loss)/profit	**(1,834)**	447

4. Administrative expenses

	Six months ended 30 June 2021 £'000	Six months ended 30 June 2020 £'000
Administrative expenses include:		
- Legal expenses	**560**	567
- Releases of provisions for legal expenses	**-**	(2,246)
- Tax related matters	**63**	185
- Legal settlements	**-**	(467)
	623	(1,961)

Legal expenses and tax related matters primarily relate to the costs of legal cases where the Group is the claimant or counter claimant.

The 2020 credit for the release of provisions for legal expenses relates to the decision by the SFO not to proceed to prosecute the Company and the continued absence of correspondence in relation to any potential class action. Further details are provided in note 7. The 2020 credit for legal settlements relates to a receipt from a former director as detailed. Further details are included in note 32 of the 2020 Annual Report and Financial Statements.

5. Trade and other receivables

	30 June 2021 £'000	31 December 2020 £'000
Trade receivables (net of impairment provision)	**100**	81
Other receivables	**2,215**	2,352
Prepayments	**122**	35
	2,437	2,468

6. Trade and other payables

	30 June 2021 £'000	31 December 2020 £'000
Current liabilities		
Trade payables	**170**	194
Payroll and other taxes including social security	**41**	70
Accruals	**770**	1,304
Other liabilities	**280**	240
	1,261	1,808

7. Provisions

	Legal disputes £'000	Onerous contracts £'000	Other £'000	Total £'000
At 1 January 2020	3,803	88	275	4,166
Additional provisions	-	-	831	831
Unused amounts released	(2,246)	-	-	(2,246)
Used during the period	(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
At 1 January 2021	**200**	**58**	**-**	**258**
Unused amounts released	**-**	**(47)**	**-**	**(47)**
Used during the period	**(12)**	**(11)**	**-**	**(23)**
At 30 June 2021	**188**	**-**	**-**	**188**
Split:				
Non-current	-	-	-	-
Current	188	-	-	188

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.

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.

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 its investigation.

Since the SFO is not proceeding to prosecute the Company and the putative class action has not proceeded only the estimated costs of continuing to support the SFO with their enquiries, which the Company is obliged to do, have been provided for. The amounts used during the period ended 30 June 2021 relate to the costs of assisting the SFO during this period. The future costs of assisting the SFO with their enquiries may ultimately be different from the amount provided at 30 June 2021.

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

At 1 January 2021, 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 leases conclude in the second half of 2021.

8. Discontinued operations and disposals

Profit/(loss) for the period from discontinued operations:

	2021 **£'000**	2020 £'000
Healthcare Services	**-**	(236)
Ingenie	**65**	(671)
Hubio	**53**	(15)
Profit/(loss) for the period from discontinued operations net of tax	**118**	(922)

The net gain on disposal of discontinued operations arising in the six months ended 30 June 2020 relates to the disposal of Healthcare Services.

9. Contingent assets and liabilities

Litigation in relation to the historic activities of the Group is being pursued including claims against PricewaterhouseCoopers LLP and Aviva Canada Inc. The Group expects to initiate a claim against its former auditor, KPMG LLP, 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 condensed consolidated 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.

10. Share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
	000's	£'000	£'000	£'000
at 31 December 2020 and 30 June 2021	**46,038**	**4,593**	**11**	**4,604**

11. Cash flow from operating activities

	Six months ended 30 June 2021	Six months ended 30 June 2020
(Loss)/profit after tax	**(1,700)**	7,243
Tax	**-**	-
Finance expense	-	273
Finance income	**(16)**	(248)
Operating (loss)/profit	**(1,716)**	7,268
Adjustments for:		
Depreciation of property, plant and equipment	**-**	734
Amortisation of intangible assets	**-**	265
Loss on disposal of plant, property and equipment	**-**	102
Profit on disposal of subsidiary undertakings and operations	**-**	(7,470)
Operating cash flows before movements in working capital and provisions	**(1,716)**	899
Decrease in inventories	**-**	435
Decrease in trade and other receivables	**31**	17,302
(Decrease) in trade and other payables	**(624)**	(20,105)
Cash outflows from operations before exceptional and non-underlying items, net finance expense and tax	**(2,309)**	(1,469)