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If you have sold or transferred all of your ordinary shares of 10 pence each in the capital of Watchstone Group plc ("Ordinary Shares"), please send this document immediately to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, this document should not be forwarded or transmitted in or into any jurisdiction in which such act would constitute a violation of relevant laws. If you have sold or transferred part only of your holding of Ordinary Shares, you are advised to consult your stockbroker, bank or other agent through whom the sale or transfer was effected.

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Watchstone Group plc

(Incorporated and registered in England and Wales with registered number 05542221)

RESPONSE TO THE MANDATORY CASH OFFER FOR WATCHSTONE GROUP PLC BY POLYGON GLOBAL PARTNERS LLP

The Offer is subject to the jurisdiction of the Panel.

Each of WH Ireland and SPARK are authorised and regulated in the United Kingdom by the Financial Conduct Authority and are acting exclusively for Watchstone and no one else in connection with the Offer and will not be responsible to anyone other than Watchstone for providing the protections afforded to their clients or for providing advice in relation to the Offer, the contents of this document or any other matters referred to in this document.

The statements contained in this document are not to be construed as legal, business, financial or tax advice. If you are in any doubt about the content of this document, you should consult your own legal, financial or tax adviser for legal, business, financial or tax advice.

The statements contained in this document are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set out in this document since such date. No dealer, salesperson or other person is authorised to give any information or to make any representations with respect to the Offer other than such information or representations contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by Watchstone.

IMPORTANT NOTICE

Overseas jurisdictions

The distribution of this document in jurisdictions other than the United Kingdom and the ability of Shareholders who are not resident in the United Kingdom to accept the Offer may be affected by the laws of relevant jurisdictions. Therefore, any persons who are subject to the laws of any jurisdiction other than the United Kingdom or Shareholders who are not resident in the United Kingdom will need to inform themselves about, and observe, any applicable legal or regulatory requirements. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Offer is not being, and will not be, made available, directly or indirectly, in or into or by the use of the mails of, or by any other means (including, without limitation, facsimile or other electronic transmission, telex or telephone) or instrumentality of inter-state or foreign commerce of, or any facility of a national state or other securities exchange of any Restricted Jurisdiction, unless conducted pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction and will not be capable of acceptance by any such use, means or facility or from within any Restricted Jurisdiction.

Accordingly, copies of this document and all other documents relating to the Offer are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction except pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction and persons receiving this document (including, without limitation, agents, nominees, custodians and trustees) must not distribute, send or mail it in, into or from such jurisdiction. Any person (including, without limitation, any agent, nominee, custodian or trustee) who has a contractual or legal obligation, or may otherwise intend, to forward this document and/or any other related document to a jurisdiction outside the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction.

US investors

The Offer is being made for securities in a company incorporated in England and Wales with a listing on AQSE. Shareholders in the United States should be aware that this document and any other documents relating to the Offer have been prepared in accordance with English law, the Takeover Code, the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules, format and style, all of which differ from those in the United States. All financial information relating to Watchstone and Polygon that is included in this document or any other documents relating to the Offer may not be comparable to financial statements of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved the Offer, or passed comment upon the adequacy or completeness of this document. Any representation to the contrary is a criminal offence in the United States.

Forward-looking statements

This document, including information included or incorporated by reference in this document, may contain “forward-looking statements” concerning Watchstone. All statements other than statements of historical fact may be forward-looking statements. Generally, the words “will”, “may”, “should”, “continue”, “believes”, “expects”, “intends”, “anticipates” or similar expressions identify forward looking statements. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the relevant persons abilities to control or estimate precisely, such as future market conditions and the behaviours of other market participants and, therefore undue reliance should not be placed on such statements, which speak only as of the date of this document.

No member of the Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. Other than in accordance with its legal or regulatory obligations, Watchstone is not under any obligation and Watchstone expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Except as expressly provided in this document, no forward-looking or other statements have been reviewed by the auditors of Watchstone. All subsequent oral or written forward-looking statements attributable to any member of the Group, or any of their respective associates, directors, officers, employees or advisers, are expressly qualified in their entirety by the cautionary statement above. No profit forecasts or estimates No statement in this document is intended to constitute a profit forecast for any period, nor should any statements be interpreted to mean that earnings or earnings per Ordinary Share will necessarily be greater or less than those of the preceding financial periods for Watchstone.

Publication on website

This document, together with those documents listed in paragraph 11 of Part II of this document, and all information incorporated into this document by reference to another source, will be available free of charge, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on Watchstone's website at www.watchstonegroup.com, in each case until the Offer closes. For the avoidance of doubt, except as expressly provided to this document, the content of such website is not incorporated into, and does not form part of, this document.

Dealing and Opening Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 p.m. (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 p.m. (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 p.m. (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3 of the Takeover Code. Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4 of the Takeover Code).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Availability of hard copies

You may request hard copies of any document published on Watchstone's website in connection with the Offer by contacting Watchstone's registrars, **Link Group, 10th Floor Central Square, 29 Wellington Street, Leeds, LS1 4DL (telephone number: 0371 664 0300)**. You may also request that all future documents, announcements, and information to be sent to you in relation to the Offer should be in hard copy form.

Rounding

Certain figures included in this document have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Definitions

Certain words and terms used in this document are defined in Part IV of this document.

Time

All references to time in this document are references to London time unless otherwise stated.

Date of publication

The date of publication of this document is 23 July 2021.

TABLE OF CONTENTS

	<i>Page</i>
LETTER FROM THE CHAIRMAN OF WATCHSTONE	5
ADDITIONAL INFORMATION RELATING TO WATCHSTONE.....	10
DEFINITIONS	16

PART I

LETTER FROM THE CHAIRMAN OF WATCHSTONE

WATCHSTONE GROUP PLC

(Incorporated and registered in England and Wales with registered number 05542221)

Directors:

Richard Rose (Non-Executive Chairman)
Stefan Borson (Group Chief Executive Officer)
Lord Howard of Lympne (Senior Non-Executive Director)
David Young (Non-Executive Director)

Registered Office:

Highfield Court Tollgate, Chandler's Ford,
Eastleigh, Hampshire, SO53 3TY

23 July 2021

Dear Shareholder

Response to the mandatory offer by Polygon Global Partners LLP ("Polygon") for Watchstone Group plc ("Watchstone" or "Group") ("Offer")

1. Introduction

On 1 July 2021, Polygon announced an unsolicited mandatory offer for the Ordinary Shares it does not already own of 34p in cash per Ordinary Share. The Directors believe that the Offer does not reflect an adequate premium for control and significantly undervalues Watchstone and its prospects. **Accordingly, the Directors recommend that Shareholders should reject the Offer.**

TO REJECT THE OFFER YOU NEED TO TAKE NO ACTION

This document sets out the valuation, control and other considerations taken into account by the Directors in reaching their conclusion.

2. The Offer is opportunistic and undervalues the Group

The Directors believe that the Offer significantly undervalues Watchstone and its prospects, both in respect of the lack of premium to the current share price and the underlying value of the Group's assets. The Offer values the entire issued and to be issued share capital of Watchstone at approximately £15.65 million and represents:

- a discount of 16.0 per cent. to the closing price of 40.5 pence per Ordinary Share on 15 July 2021 (being the last Business Day prior to posting of the Offer Document);
- a discount of 24.4 per cent. to the 30-day average closing price to 30 June 2021 (being the last Business Day prior to commencement of the Offer Period); and
- a discount of 37.0 per cent. to the 90-day average closing price to 30 June 2021 (being the last Business Day prior to commencement of the Offer Period).

As detailed in the Group's audited Report and Accounts for the year ended 31 December 2020 ("FY20 Accounts"):

- As at 31 December 2020, the Group had cash of £16.66 million and net assets of £17.14 million; and
- Litigation in relation to the historic activities of the Group is being pursued including claims against

PricewaterhouseCoopers LLP (“PwC”) and Aviva Canada Inc (“Aviva Canada”). The Group also 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. These give rise to contingent assets which are not recognised within the FY20 Accounts due to the lack of certainty as to the outcome, despite their potential to result in material cash inflows to the Group.

Since 31 December 2020, there have been no announceable developments in respect of the Group’s litigation, other assets and liabilities, or operations.

The Offer value is below the values of the Company’s cash and the net assets as at 31 December 2020, and does not recognise any value for the contingent litigation assets.

The Directors also note that, at 34 pence per Ordinary Share, Polygon has, as it is entitled to do, chosen to offer Shareholders the minimum price it could have offered under the Code, being no more than the highest price paid by Polygon for any interest in Ordinary Shares during the 12 months prior to the announcement of the Offer.

The Directors would expect a price to be paid which reflects the Group’s net assets and the potential for cash inflow from its litigation assets; as well as a premium for control, and that would amount to a meaningful premium to the current share price.

The Directors believe that the Offer undervalues the Company and its prospects and should not be accepted by Shareholders.

3. Implications for Watchstone shareholders of Polygon becoming a majority shareholder

Immediately prior to the latest share purchase, Polygon was Watchstone's largest shareholder, with an aggregate percentage interest in Ordinary Shares of 29.9 per cent. Polygon has stated that it does not intend there to be any effect on Watchstone's broader strategic plans as a result of the Offer and it has been a consistent supporter of the actions taken by the Board over the past few years. However, your Directors wish to highlight that, if Polygon receives sufficient acceptances for the Offer to increase its interests to 50 per cent. or more of the voting rights, Polygon could use its voting power as a majority shareholder to take actions that may be to the potential detriment of other Shareholders.

Specifically, the Directors draw your attention to the fact that, on any ordinary resolution put to Shareholders, Polygon will be able to carry the vote on its own and, as such, the other Shareholders will have no influence. Shareholders should also be aware that, in the event that Polygon’s interests reach 75 per cent. of Ordinary Shares the voting rights following completion of the Offer, Polygon’s ability to carry the vote and this lack of influence for other Shareholders would extend to any special resolution put to Shareholders.

The Directors draw your attention to the fact that to the extent Polygon controls Ordinary Shares carrying 75 per cent. or more of the voting rights attaching to the Ordinary Shares by virtue of valid acceptances of the Offer or otherwise, Polygon intends that an application will be made to AQSE to cancel trading in Ordinary Shares on the AQSE Growth Market.

The Directors believe that, while the cancellation of the Company’s trading facility on AQSE will save costs in the short term, it is not in the interests of Shareholders for the following reasons:

- it will significantly reduce the liquidity and marketability of Ordinary Shares held by Shareholders who have not accepted the Offer, prejudicing their ability to realise (and have access to a readily available valuation of) their investment in the Company;
- Shareholders who have not accepted the Offer will own Ordinary Shares in an unlisted company and will not have the benefit of the transparency or the regulatory oversight afforded to companies traded on AQSE; and
- as mentioned above, remaining Shareholders will have limited ability to influence the affairs of the Company by the exercise of their voting rights and will have only limited statutory protection against

the conduct of the Company's affairs in a manner which is unfairly prejudicial to their interests.

If Polygon increases its shareholding to 50 per cent. or more, it will have significantly more influence over the Group and may use that influence to the detriment of the interests of other Shareholders.

4. Other factors Shareholders should consider

Shareholders should also consider the following reasons why they may wish to accept the Offer:

- the Offer represents an opportunity for Shareholders to realise their investment for cash at a price of 34 pence per Ordinary Share and without dealing costs;
- Watchstone's remaining assets are legal cases in England and Canada. As with any legal case, even where the advice received by the Board is positive and confidence in prospects is high, there are risks attached. Cases may be unsuccessful, resulting in adverse cost consequences, or the amounts recovered by the Company in damages and/or costs may be lower than anticipated;
- the Company continues to incur significant operating costs in the pursuit of successful case outcomes and in dealing with its legacy issues; and
- there is a risk of claims being brought against the Group in the future, although Shareholders should note that it is now more than 18 months since a threat of new litigation against the Group was last received and in 2020, the SFO notified the Company that its investigation into the Group's historical business and accounting practices was closed.

5. The Directors' views on the effect of the implementation of the Offer on Watchstone's interests, employees and locations

The Code requires the Directors to give their views on the effects of the implementation of the Offer on all Watchstone's interests, including, specifically, employment, and their views on Polygon's strategic plans for Watchstone and their likely repercussions on employment and the locations of Watchstone's places of business.

In fulfilling their obligations under the Code, the Directors can only comment on the details provided in the Offer Document and, in doing so, have considered, in particular, paragraph 5 of Part 1 of the Offer Document. The Directors note that Polygon has not set out any detailed or considered plans about its intentions for the business of Watchstone, its management or employees following completion of the Offer. Without information regarding Polygon's detailed plans for Watchstone, the Directors cannot be certain as to the full repercussions of the Offer on the Company's interests and are unable to comment further.

The Directors welcome Polygon's statements that (i) it does not intend to cause Watchstone to effect any material change with regard to the continued employment of its employees and managers and the conditions of employment or balance of skills and functions of the management of Watchstone, in each case as a result of the Offer and; (ii) it intends to ensure that, in the event of completion of the Offer, the existing statutory employment rights, including any pension rights, of the management and employees of Watchstone will be fully safeguarded.

The Directors also welcome Polygon's statement that it does not intend there to be any effect on Watchstone's broader strategic plans or places of business (including its headquarters and headquarters functions) as a result of the Offer and that it intends to support management in its existing objective of generating value through the maximisation of its remaining assets.

However, the Directors note that the foregoing are statements of intention and not undertakings with binding effect under the Code. Accordingly, there can be no certainty that Polygon will not alter the strategy of Watchstone in the future.

6. Current trading and Cash position

At the time of announcing its preliminary results for the year ended 31 December 2020 on 6 May 2021, Stefan Borson, Group Chief Executive Officer set out the current status of the Group's contingent assets as detailed in

paragraph 7 below. Since that time there have been no announceable developments in respect of its litigation or other assets and liabilities.

The Directors wish to inform Shareholders that the Group's cash (derived from management accounts and excluding escrow accounts of £1.8 million) as at 30 June 2021 was £14.3 million (31 December 2020- £16.7 million excluding escrow accounts of £1.9 million).

The Directors current expectation is that the unaudited interim accounts for the period to 30 June 2021 will be issued in August, prior to Day 39 of the Offer.

7. Litigation

The attention of Shareholders is drawn to the Group Chief Executive Officer's update on outstanding legacy matters included in the FY20 Accounts in respect of the Group's cases against PwC, Aviva Canada and HMRC and, potentially, KPMG:

"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."

The Directors draw your attention to the following excerpts from the FY20 Accounts which explain why no account is taken of these contingent assets in the Group's accounts:

1. Critical Accounting judgements and key sources of estimation uncertainty – note 4

"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 Financial Statements."

2. Contingent Assets and Liabilities – note 30

"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 Financial Statements due to lack of certainty as to the outcome, despite an inflow of economic benefit being considered probable."

8. Recommendation of the Board

Your decision as to whether to accept the Offer will depend upon your individual circumstances. If you are in any doubt as to what action you should take, you should seek your own independent professional advice.

However, the Directors, who have been so advised by SPARK as to the financial terms of the Offer, consider that the Offer undervalues Watchstone and its prospects and, in light of this, and notwithstanding the other considerations outlined above, unanimously recommend that Shareholders reject the Offer.

SPARK is providing independent financial advice to the Directors for the purposes of Rule 3 of the Code and, in doing so, has taken into account the commercial assessments of the Directors. Accordingly, the Directors

unanimously recommend that **YOU SHOULD TAKE NO ACTION** in relation to the Offer and that **YOU SHOULD NOT SIGN ANY DOCUMENT WHICH POLYGON OR ITS ADVISERS SEND TO YOU**.

If you have already accepted the Offer, there are certain circumstances in which you can withdraw your acceptance of the Offer and a summary of the rights of withdrawal is set out in paragraph 3 of Appendix 1 Part B of the Offer Document.

The Directors who hold Ordinary Shares do not intend to accept the Offer in respect of their own beneficial interests in those Ordinary Shares.

Yours faithfully

Richard Rose
Non-Executive Chairman

PART II

ADDITIONAL INFORMATION RELATING TO WATCHSTONE

1. Responsibility

The issue of this document has been approved by the Directors. The Directors, whose names appear in paragraph 2 below, accept responsibility for the information contained in this document. To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this document (other than any information relating to Polygon, Polygon's directors or their immediate families, related trusts and connected persons) for which they Polygon responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors

Richard Rose	Non-Executive Chairman
Stefan Borson	Group Chief Executive Officer
Lord Howard of Lympne	Senior Non-Executive Director
David Young	Non-Executive Director

The registered office of Watchstone is Highfield Court Tollgate, Chandler's Ford, Eastleigh, Hampshire, SO53 3TY and its registered number is 05542221.

3. Interests and dealings

(a) Definitions

For the purposes of this paragraph 3 only:

- i. acting in concert with a party means any such person acting or deemed to be acting in concert with that party for the purposes of the Code and/or the Offer. Persons who will be presumed to be acting in concert with other persons in the same category include:
 - a. a company, its parent, subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies, all with each other (for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status);
 - b. a company with any of its directors (together with their close relatives and related trusts);
 - c. a company with any of its pension schemes and the pension schemes of any company covered in (a);
 - d. a fund manager (including an exempt fund manager) with any investment company, unit trust or other person whose investments such fund manager manages on a discretionary basis, in respect of the relevant accounts; and
 - e. connected advisers (and persons controlling, controlled by or under the same control as such connected advisers) with their clients;
- ii. connected adviser includes an organisation which: (i) is advising Polygon or (as the case may be) Watchstone in relation to the Offer; (ii) is a corporate broker to Polygon or (as the case may be) Watchstone; or (iii) is advising a person acting in concert with Polygon or (as the case may be) Watchstone in relation to the Offer or in relation to the matter which is the reason for that person being a member of the concert party;
- iii. control means an interest or interests in Ordinary Shares carrying in aggregate 30 per cent. or more of the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or holdings gives de facto control;
- iv. dealing includes: (i) the acquisition or disposal of relevant securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to

relevant securities or of general control of relevant securities; (ii) the taking, granting, acquisition, disposal of, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any relevant securities; (iii) subscribing or agreeing to subscribe for relevant securities; (iv) the exercise or conversion, whether in respect of any new or existing securities, or any relevant securities carrying conversion or subscription rights; (v) the acquisition, disposal of, entering into, closing out, exercising (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to relevant securities; (vi) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities; and (vii) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities in which a person is interested or in respect of which he has a short position;

- v. derivative includes any financial product the value of which, in whole or in part, is determined directly or indirectly by reference to the price of an underlying security;
- vi. disclosure date means 22 July 2021, being the latest practicable date before publication of this document;
- vii. disclosure period means the period which began on 30 June 2020 (the date 12 months before the start of the Offer Period) and ended on the disclosure date;
- viii. exempt fund manager means a person who manages investment accounts on a discretionary basis and is recognised by the Panel as an exempt fund manager for the purposes of the Code;
- ix. a person has an interest or is interested in relevant securities if he has a long economic exposure, whether absolute or conditional, to changes in the price of those securities (but not if he only has a short position in such securities) and in particular if: (i) he owns them; (ii) he has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them; (iii) by virtue of any agreement to purchase, option or derivative, he: (A) has the right or option to acquire them or call for their delivery; or (B) is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or (iv) he is party to any derivative: (I) whose value is determined by reference to their price; and (II) which results, or may result, in his having a long position in them; and
- x. relevant securities includes: (i) Ordinary Shares and any other securities of Watchstone conferring voting rights; (ii) equity share capital of Watchstone; and (iii) securities of Watchstone carrying conversion or subscription rights into any of the foregoing.

(b) Directors

As the Disclosure Date the interests of the Directors in the issued share capital of the Company are as follows:

Director	Number of Ordinary Shares	Percentage of total issued share capital of Watchstone
Richard Rose	100,000	0.217
Stefan Borson	330,000	0.717
Lord Howard of Lympne	12,608	0.027
TOTAL	442,608	0.961

(c) Persons acting in concert with Watchstone

In addition to the Directors (together with their close relatives and related trusts and connected persons), the persons who are acting in concert with Watchstone for the purposes of the Offer and which are required to be disclosed are:

Person acting in concert	Type of company	Relationship with Watchstone	Address
SPARK Advisory Partners Limited	Private	Financial adviser under Rule 3 of the Code	5 St John's Lane, London EC1M 4BH

As Polygon has a shareholding of over 20 per cent. in WH Ireland, WH Ireland is treated as acting in

concert with Polygon. As a result, SPARK has been appointed to provide independent advice to the Directors as required by Rule 3 of the Code.

WH Ireland plc, adviser and broker to the Company, holds an interest in 7,621 Ordinary Shares representing 0.02% of the issued share capital of the Company.

Note 11 arrangements

Except as disclosed in this document, no agreement, arrangement or understanding of whatever nature, whether formal or informal (including indemnity or option arrangements), relating to relevant securities which may be an inducement to deal or refrain from dealing exists between Watchstone, or any concert party of Watchstone, and any other person.

(d) General

Save as disclosed in this paragraph 3, as at the Disclosure Date:

- i. none of:
 - a. the Directors (and their close relatives and related trusts and connected persons); nor
 - b. any other person acting in concert with Watchstone, held any interest in or right to subscribe for or any short position, including any short position under a derivative in relation to, is party to any agreement to sell or has any delivery obligation or right to require another person to purchase or take delivery of any relevant securities of Watchstone;
- ii. none of:
 - a. Watchstone;
 - b. the Directors (and their close relatives and related trusts and controlled companies); nor
 - c. any other person acting in concert with Watchstone, save for any borrowed Ordinary Shares which have either been on-lent or sold, had borrowed or lent any relevant securities of Watchstone (including for these purposes any financial collateral arrangements of the kind referred to in Note 4 on Rule 4.6 of the Code), nor had any such person dealt in relevant securities of Watchstone during the Offer Period;
- iii. none of:
 - a. Watchstone; nor
 - b. the Directors, held any interest in or right to subscribe for or any short position, including any short position under a derivative in relation to, is party to any agreement to sell or has any delivery obligation or right to require another person to purchase or take delivery of any relevant securities of Polygon; and

during the Disclosure Period:

- iv. none of:
 - a. the Directors (and their close relatives and related trusts and controlled companies); nor
 - b. any other person acting in concert with Watchstone, dealt in any relevant securities of Watchstone; and
- v. none of:
 - a. Watchstone; nor
 - b. the Directors, dealt in any relevant securities of Polygon.

4. Dealing Arrangements and Material Contracts

There are no dealing arrangements and, save for the contracts detailed below, there have been no material contracts entered into by Watchstone or any other member of the Group other than in the ordinary course of business within the period of two years prior to 30 June 2021 and which are or may be considered to be material and there have been no material changes to any such contracts or any other such material contracts entered into since the date of publication of the Offer Document.

- (a) In November 2020, the Group completed the sale of its ingenie business to A-Plan Group Limited acting through its related companies Endsleigh Insurance Services Limited ("Endsleigh") and Trafalgar Bidco Limited ("Trafalgar Bidco") for an aggregate cash consideration of up to £5.5 million, of which £3 million was paid on completion. The disposal was effected by way of (i) the sale of the entire issued share capital of Romeo Newco Limited ("Ingenie Newco") (which had previously acquired the technology assets of Ingenie Limited) pursuant to a share purchase agreement dated 7 October 2020 between Ingenie Limited (as seller), Trafalgar Bidco (as purchaser) and the Company (as guarantor) ("Technology Share Purchase Agreement") and (ii) the transfer of the general insurance broking business operated by Ingenie Services Limited ("Ingenie Services") pursuant to a business transfer agreement dated 7 October 2020 between Ingenie Services (as transferor), Endsleigh (as purchaser) and the Company (as guarantor) ("Book Transfer Agreement").

The Technology Share Purchase Agreement provided for payment to Ingenie Limited (as seller of Ingenie Newco) of an initial consideration of £2 million and an earnout consideration of up to £2.5 million to be calculated by reference to 2021 calendar year Ingenie Newco revenues and revenues derived from the Ingenie Services broking business. The agreement contained customary warranties in respect of Ingenie Newco and the insurance technology business as well as non-competition covenants for the benefit of Trafalgar Bidco for a period of three years from completion. A tax covenant was also entered into between the parties in respect of any unprovided tax liabilities of Ingenie Newco and the Technology Business. The period for making claims under the warranties expires on 31 January 2022 save that claims may be made under the tax warranties and the tax covenant for a period of seven years following completion.

The Book Transfer Agreement provided for the payment to Ingenie Services (as transferor of the ingenie broking business) of a consideration of c.£1 million (after rounding down). Customary warranties and non-competition covenants were given to Endsleigh in line with those given under the Technology Share Purchase Agreement and Ingenie Services also agreed to retain responsibility for pre-completion business liabilities. The period for making claims under the warranties expires on 31 January 2022.

The transfer of assets and liabilities of Ingenie Limited to Ingenie Newco was effected under an intra-group transfer deed with the consideration for the business being satisfied by the issue of new shares in Ingenie Newco to Ingenie Services.

- (b) In November 2019, the Group entered into a settlement agreement with Slater & Gordon (UK) 1 Limited ("S&G") in the High Court proceedings issued by S&G in June 2017 (the "Settlement"). Under the Settlement, which was made without admission of liability by either party, all of S&G's claims or potential claims against Watchstone, its present and former directors officers and agents relating to the historic sale of the Group's professional services division in May 2015 were unconditionally withdrawn. Watchstone also agreed not to pursue its counterclaim against S&G. The Settlement provided for £11m of the £50m held in escrow to be released to S&G with the balance of £39m and accrued interest being released to Watchstone. No application for costs was made by either party.
- (c) On 16 September 2019, the Group's Canadian subsidiary, Quindell Services Inc. ("QSI") entered into a Share Purchase Agreement with 11628542 Canada Inc. a wholly owned subsidiary of LM Holdings Corp. (collectively "LMH") (as buyer) and the Company (as guarantor) to sell its wholly owned subsidiary PT Healthcare Solutions Corp. and other subsidiaries forming its Canadian Healthcare services business for an initial cash consideration of Canadian \$36.2m (£22.3m) on a cash and debt free basis to LMH. Typical commercial warranties were given to LMH and the Group's liability under those warranties is subject to customary limitations. The sale completed in February 2020 with liability for representations and warranties continuing in full effect for a period of 18 months from completion.

5. Directors' employment arrangements

Save as is set out below there are no service agreements in force between any Director or any proposed director of Watchstone and Watchstone or any of its subsidiaries and no such contracts have been entered into or amended within six months of the date of this document. Particulars of the Directors' current service agreements or letters of appointment with Watchstone are as follows:

Director	Position	Effective date of contract	Current annual remuneration (including other benefits)	Notice period	Compensation on early termination
Stefan Borson	Group Chief Executive Officer	1 Jan 2018	Salary: £450,000 p.a. Annual bonus of up to 150% of salary Benefits: pension contribution of 10% of base salary, life assurance and health and medical insurance Distribution Incentive Scheme*	6 months	No provision save for notice and payment in lieu of notice and payment under the Distribution Incentive Scheme*
Richard Rose	Non-Executive Chairman	29 May 2015	Fees: £180,000 p.a.	1 month	No provision other than notice
Lord Howard of Lympne	Senior Non-Executive Director	29 May 2015	Fees: £75,000 p.a.	1 month	No provision other than notice
David Young	Non-Executive Director	29 May 2015	Fees: £75,000 p.a.	1 month	No provision other than notice

*The Distribution Incentive Scheme was put in place upon Mr. Borson's appointment as Group Chief Executive Officer to reflect the changing focus of the Group. The Distribution Incentive Scheme is a cash-based incentive and retention scheme that will only be triggered upon distributions or the sale of the Group after 1 January 2018 in excess of a cumulative £57,205,403 (calculated as to £46,038,333 (being £1 per ordinary share) plus the increase of the hurdle due to the now historical and ceased payment of Guaranteed Elements of past annual bonuses) ("Distribution Hurdle"). The Distribution Hurdle was permanently passed during 2020 as a result of the returns of cash to shareholders. Mr. Borson will be entitled to cash bonuses of 5.43% of any future distributions to shareholders. Mr. Borson is the sole participant in the Distribution Incentive Scheme.

6. Bases and sources of information

Unless otherwise stated, the following constitute the bases and sources of information referred to in this document:

- The value attributed to Watchstone's entire issued and to be issued share capital as implied by the offer price stated in paragraph 3 of Part I of this document is based on 46,038,333 Ordinary Shares in issue (although 112,662 Ordinary Shares are unpaid) as at close of business on 22 July 2021 (being the last dealing day prior to the date of this document) and an Offer price of 34 pence per Ordinary Share.
- The Cash balances as at 30 June 2021 have been taken from management accounts supported by verification to relevant bank statements.
- All closing prices for Ordinary Shares are closing middle market prices from S&P Capital IQ database which are derived from the London Stock Exchange or Aquis Exchange.
- The International Securities Identification Number for the Ordinary Shares is GB00BYNBFN51.

7. General

- (a) WH Ireland has given and has not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which it appears.
- (b) SPARK has given and has not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which it appears.
- (c) Save as disclosed in paragraph 6 of Part I of this document, there has been no significant change in the trading or financial position of the Group since 31 December 2020, the date to which the Company's most recent annual results have been prepared.

8. Fees and expenses

The estimated aggregate fees and expenses expected to be incurred by Watchstone in connection with the Offer are £83,000 (exclusive of VAT and expenses). This aggregate amount comprises the following categories (in each case excluding VAT and expenses):

- (a) financial and corporate broking and Rule 3 advice: approximately £50,000;
- (b) legal advice: approximately £25,000;
- (c) other professional services: n/a; and
- (d) other costs and expenses: £8,000.

9. Availability of hard copies

You may request hard copies of any document published on Watchstone's website in connection with the Offer by contacting Watchstone's registrar, Link Group, 10th Floor Central Square, 29 Wellington Street, Leeds, LS1 4DL (telephone number: 0371 664 0300). You may also request that all future documents, announcements, and information to be sent to you in relation to the Offer should be in hard copy form.

10. No incorporation of website information

Save as may be expressly stated in section 11, neither the Watchstone website, nor the contents of any website accessible from hyperlinks on the Watchstone website, is incorporated into, or forms part of, this document.

11. Documents for inspection

Copies of the documents referred to below will be available, free of charge, for inspection on Watchstone's website www.watchstonegroup.com while the Offer remains open for acceptance: (a) the Rule 2.7 announcement of the Offer on 1 July 2021; (b) copies of the Company's announcement dated 1 July 2021 and all other announcements related to the Offer; (c) this response circular; (d) the Offer Document and the accompanying Form of Acceptance; (e) the audited consolidated financial statements of Watchstone for the financial years ended 30 December 2018, 2019 and 2020; (f) the Memorandum and Articles of Association of Watchstone; and (g) the written consents of WH Ireland and SPARK referred to in section 8 above.

For the avoidance of doubt, the content of the website referred to above is not incorporated into and, save for the information specifically incorporated by reference into this document, does not form part of this document.

PART IV

DEFINITIONS

The following definitions and technical terms apply throughout this document, unless the context otherwise requires:

“Act”	means the Companies Act 2006 (as amended);
“AIM”	the AIM market, being a market of that name and operated by the London Stock Exchange;
“AQSE”	the AQSE Growth Market operated by the Aquis Stock Exchange;
“Board” or “Directors”	the board of directors of the Company;
“Code” or “Takeover Code”	the City Code on Takeovers and Mergers;
“Disclosure Period”	being the date of commencement of the Offer Period up to the Disclosure Date;
“Disclosure Date”	being the day prior to the posting of this document being 22 July 2021;
“Group”	the Company and its subsidiaries and subsidiary undertakings;
“Offer”	the mandatory cash offer made by Polygon to acquire the entire issued and to be issued share capital of Watchstone not already owned by Polygon or any members of the Polygon Concert Party, as further detailed in the Offer Document;
“Offer Period”	the period commencing on 1 July 2021 and ending on the 21st day after the date of publication of the Offer Document or (if that day is a Saturday, Sunday or public holiday) on the next succeeding business day, unless extended;
“Offer Price”	34 pence in cash, being the consideration payable by Polygon for each Ordinary Share under the terms of the Offer;
“Offer Document”	the means the document containing the Offer sent to Shareholders by Polygon on 16 July 2021;
“Panel”	the Panel on Takeovers and Mergers;
“Ordinary Shares”	the existing issued or unconditionally allotted and paid (or credited as fully paid) Ordinary Shares of 10 pence each in the capital of Watchstone and any further Ordinary Shares which are unconditionally allotted or issued fully paid (or credited as fully paid) on or prior to the date on which the Offer closes;
“Polygon”	Polygon Global Partners LLP incorporated in England and Wales with company number OC343805, in its capacity as discretionary investment manager, acting on behalf of the Polygon Funds;
“Polygon Funds”	Polygon European Equity Opportunity Master Fund and accounts managed by Polygon;
“Restricted Jurisdiction”	subject always to the requirements of Rule 23.2 of the Code in relation to the distribution of offer documentation to jurisdictions

outside the UK, any jurisdiction where extension of the Offer would violate the law of that jurisdiction;

“Shareholders”

together the registered holders of Ordinary Shares (each individually a “Shareholder”);

“SPARK”

SPARK Advisory Partners Limited, being Rule 3 adviser to the Company;

“UK” or “United Kingdom”

the United Kingdom of Great Britain and Northern Ireland and its dependent territories;

“US” or “United States”

the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction and any political subdivision thereof;

“Watchstone” or “Company”

Watchstone Group plc; and

“WH Ireland ”

WH Ireland Limited, being adviser and broker to Watchstone.

