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

Response document in respect of the Offer by Polygon Global Partners LLP ("Polygon") issued

The Board of Watchstone Group Plc will today post its response circular ("Response Document") to Watchstone shareholders in respect of the mandatory cash offer of 34 pence per Watchstone share on behalf of Polygon for the whole of the issued and to be issued share capital of Watchstone ("the Offer"). As required by the City Code on Takeovers and Mergers, the Board has obtained independent advice in respect of the Offer from SPARK Advisory Partners Limited ("SPARK").

The text of the letter from the Chairman of the Company (set out in full within the Response Document) is reproduced below. The Response Document and related documents will also be published on the Company's website at www.watchstonegroup.com.

"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”

In accordance with Rule 26.1 of the Code, a copy of this announcement will be available (subject to certain restrictions) on the Company’s website at www.watchstonegroup.com by no later than 12 noon on 26 July 2021. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

This announcement is not intended to and does not, constitute or form part of an offer, invitation or the solicitation of an offer to purchase, otherwise, acquire, subscribe for, sell or otherwise dispose of, any securities whether pursuant to this announcement or otherwise.

For further information:

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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 information contained in this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 (which applies in the United Kingdom by operation of the European Union (Withdrawal) Act 2018 (as amended)). Upon publication of this announcement, this information is now considered to be in the public domain.

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.