Watchstone Group plc

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

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

The Board of Watchstone Group Plc will today post its response circular ("Final Response Document") to Watchstone shareholders in respect of the mandatory cash offer of 38.0 pence per Ordinary Share on behalf of Polygon for the whole of the issued and to be issued share capital of Watchstone ("the Final Offer"). As required by the City Code on Takeovers and Mergers, the Board has obtained independent advice in respect of the Final Offer from SPARK Advisory Partners Limited ("SPARK").

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

"Dear Shareholder

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

1. Introduction

On 1 July 2021, Polygon announced an unsolicited mandatory offer for the Ordinary Shares it does not already own of 34.0 pence in cash per Ordinary Share ("**Initial Offer**") which the Directors recommended Shareholders to reject.

On 9 August 2021, Polygon announced that the Initial Offer was being extended and would remain open for acceptance until 20 August 2021 and that Polygon had received valid acceptances in respect of a total of 474,309 Ordinary Shares, representing approximately 1.03 per cent. of the issued share capital of Watchstone.

On 23 August 2021, Polygon announced that the Initial Offer was being further extended and would remain open for acceptance until 31 August 2021 and that Polygon had received valid acceptances in respect of a total of 560,550 Ordinary Shares, representing approximately 1.21 per cent. of the issued share capital of Watchstone.

On 31 August 2021, Polygon announced that the Initial Offer was being increased to a final offer of 38.0 pence per Ordinary Share ("**Final Offer Price**") representing an increase in offer price of 11.76% over the Initial Offer Price and that Polygon had received valid acceptances in respect of a total of 631,902 Ordinary Shares, representing approximately 1.37 per cent. of the issued share capital of Watchstone.

The Directors do not believe that the Final Offer reflects an adequate premium for control and significantly undervalues Watchstone and its prospects. **Accordingly, the Directors recommend that Shareholders should reject the Final Offer.**

TO REJECT THE FINAL 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 Final Offer is opportunistic and undervalues the Group

The Directors believe that the Final Offer still 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 Final Offer values the entire issued and to be issued share capital of Watchstone at approximately £17.49 million and represents:

- a discount of 6.2 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 Initial Offer Document);

- a discount of 15.5 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);
- a discount of 29.6 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); and
- no premium to the closing mid-price of 38.0 pence per Ordinary Share on 30 August 2021 (being the last Business Day prior to announcement of the Final Offer).

As detailed in the Group's unaudited interim results for the six months ended 30 June 2021 on 16 August 2021 ("**Interim Accounts**") and in the Group's audited Report and Accounts for the year ended 31 December 2020 ("**FY20 Accounts**"):

- As at 30 June 2021, the Group had 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);
- As at 13 August 2021, the Group had cash of £14.1m and £1.8m held in escrow; 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 or the Interim Accounts due to the lack of certainty as to the outcome, despite their potential to result in material cash inflows to the Group.

Since 13 August 2021, there have been no announceable developments in respect of the Group's litigation, other assets and liabilities, or operations.

The Final Offer value is only a 13.6 per cent. premium to the net assets as at 30 June 2021, and does not recognise any significant value for the contingent litigation assets.

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. In aggregate, they would expect a meaningful premium to the current share price.

The Directors believe that the Final 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 its 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 Final 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 Final Offer to increase its interests to 50 per cent. or more of the voting rights, it could use its voting power as a majority shareholder to take actions that may be to the potential detriment of other Shareholders including passing any ordinary resolution on its own.

Shareholders should also be aware that, if Polygon receives sufficient acceptances for the Final Offer to increase its interests to 75 per cent. or more of the voting rights, following completion of the Final 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 also draw your attention to the fact that in that scenario, 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 Final 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 Final 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 Final Offer:

- The Final Offer represents an opportunity for Shareholders to realise their investment for cash at a price of 38.0 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 Final 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 Final 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 Final Offer Document and the Final Offer Document and, in doing so, have considered, in particular, paragraph 5 of Part 1 of both the Initial Offer Document and the Final Offer Document (which states there has been no material change to Polygon's plans). 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 Final Offer. Without information regarding Polygon's detailed plans for Watchstone, the Directors cannot be certain as to the full repercussions of the Final 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 Final Offer and; (ii) it intends to ensure that, in the event of completion of the Final 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 Final 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

In the Interim Accounts, 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.

In the Interim Results, the net assets of the Group at 30 June 2021 were stated as £15.4m (31 December 2020: £17.1m). This primarily comprised cash of £14.3m (31 December 2020: £16.7m) and amounts placed in escrow by the Group as security for costs in respect of certain of its litigation assets, included within Other Receivables of £1.8m (31 December 2020: £1.9m). As at 13 August 2021, the Group had cash of £14.1m and £1.8m held in escrow.

7. Litigation

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

The Directors also 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 or interim 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 Final 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 Final Offer, consider that the Final Offer undervalues Watchstone and its prospects and, in light of this, and notwithstanding the other considerations outlined above, unanimously recommend that Shareholders reject the Final 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 Final Offer and that **YOU SHOULD NOT SIGN ANY DOCUMENT WHICH POLYGON OR ITS ADVISERS SEND TO YOU**.

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

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

Yours faithfully

Richard Rose
Non-Executive Chairman"

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 Final 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 Final Offer, the contents of this document or any other matters referred to in this document.

In accordance with Rule 26.1 of the Takeover 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 3 September 2021. The content of the Company's website 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.

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 Final 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 Final Offer should be in hard copy form.