

# THE TAKEOVER PANEL

## **JOHN FINLAN PLC ("FINLAN") / THE LINCROFT KILGOUR GROUP PLC ("LINCROFT")**

The full Panel met today under the chairmanship of Sir Jasper Hollom to consider an appeal by Kleinwort Benson, on behalf of Lincroft, against a proposed statement by the Panel executive arising out of a circular issued by Lincroft on 23 August 1984. This circular had made certain comments as to the financial position of Finlan and referred to an Appendix headed "Solvency Report" which contained a graph prepared by Performance Analysis Systems Limited ("PAS"). This graph reflected the results of comparing certain financial ratios of Finlan and Lincroft with those of a significant number of other companies.

The Panel executive had discussed the interpretation and presentation of the data analysed by PAS with Kleinwort Benson and with PAS itself and the full Panel also explored these matters. The Panel concluded that the PAS analysis does not and does not purport to show that a company is or is about to become insolvent as that term is generally understood. However, the Panel held that, as presented, the graph in the Appendix and the references to it in the circular were likely to be misinterpreted by a number of readers as providing grounds for belief that Finlan was or was about to become insolvent.

The Panel recognises that statistical techniques such as the PAS system are used in financial analysis but believes that their use requires a clear understanding of their underlying principles and of their limitations. The Panel accordingly has doubts as to whether the circularisation of complex financial analysis of this nature to shareholders, few of whom are likely to have adequate technical knowledge to be able to assess its proper significance, is appropriate in the course of a take-over offer. Certainly, a more detailed explanation of the PAS system and how it should be interpreted should have been included in the Lincroft circular. In particular, more care should have been taken to ensure that no inference could be drawn from the PAS analysis that Finlan was or was about to become insolvent.

The Panel therefore ruled that the offer by Finlan may exceptionally be extended beyond the normal period of 60 days until 3.00 p.m. on 14 September 1984 and that Lincroft should send a copy of this statement to its shareholders.

Any acceptances received since 3.00 p.m. on 31 August and hitherto held on one side as required by the Panel may be treated by Finlan as being valid acceptances of the offer.

5 September 1984