

THE TAKEOVER PANEL
1995 – 1996 REPORT

THE TAKEOVER PANEL
REPORT ON THE YEAR ENDED
31 MARCH 1996

THE TAKEOVER PANEL
1995 – 1996 REPORT

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THE TAKEOVER PANEL
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THE PANEL
AS AT 18 JULY 1996

SIR DAVID CALCUTT QC
FORMER CHAIRMAN OF THE BAR

CHAIRMAN
Appointed by
the Governor of
the Bank of England

SIR BRIAN PITMAN
GROUP CHIEF EXECUTIVE,
LLOYDS TSB GROUP

President,
British Bankers'
Association

JOHN F C HULL
FORMER CHAIRMAN,
J HENRY SCHRODER & CO

DEPUTY CHAIRMAN
Appointed by
the Governor of
the Bank of England

MARTIN F BROUGHTON
GROUP CHIEF EXECUTIVE,
BAT INDUSTRIES

Nominated by
Confederation of
British Industry

JOHN F GOBLE
FORMER SENIOR PARTNER,
HERBERT SMITH

DEPUTY CHAIRMAN
Appointed by
the Governor of
the Bank of England

BRIAN M CURRIE
FORMER MANAGING PARTNER,
ARTHUR ANDERSEN, LONDON

President,
Institute of Chartered
Accountants in
England and Wales

SIR CHRISTOPHER BENSON
CHAIRMAN,
SUN ALLIANCE GROUP

Appointed by
the Governor of
the Bank of England

CHARLES K R NUNNELEY
CHAIRMAN,
NATIONWIDE BUILDING SOCIETY

Chairman
Investment Management
Regulatory Organisation

H DENNIS STEVENSON
CHAIRMAN,
GPA GROUP

Appointed by
the Governor of
the Bank of England

JOHN L WALKER-HAWORTH
MANAGING DIRECTOR,
SBC WARBURG

Nominated by
London Investment
Banking Association

ROBERT B JACK
FORMER SENIOR PARTNER,
MCGRIGOR DONALD

Appointed by
the Governor of
the Bank of England

ANTONY R BEEVOR
EXECUTIVE DIRECTOR,
HAMBROS BANK

Chairman,
London Investment
Banking Association
Corporate Finance
Committee

JOHN G T CARTER
CHIEF EXECUTIVE,
COMMERCIAL UNION

Chairman,
Association of
British Insurers

JOHN KEMP-WELCH
FORMER JOINT SENIOR PARTNER,
CAZENOVE & CO

Chairman,
London Stock Exchange

DOUGLAS C P MCDUGALL
JOINT SENIOR PARTNER,
BAILLIE GIFFORD & COMPANY

Chairman,
Association of
Investment Trust
Companies

GRAHAM K ALLEN
MANAGING DIRECTOR,
ICI INVESTMENT MANAGEMENT

Nominated by
National Association
of Pension Funds

CLIVE N BOOTHMAN
MANAGING DIRECTOR,
SCHRODER UNIT TRUSTS

Chairman,
Association of
Unit Trusts and
Investment Funds

NICHOLAS J DURLACHER
DIRECTOR,
BARCLAYS DE ZOEETE WEDD
SECURITIES

Chairman,
Securities and
Futures Authority

THE APPEAL COMMITTEE
AS AT 18 JULY 1996

THE RT HON
SIR MICHAEL KERR
FORMER LORD
JUSTICE OF APPEAL

CHAIRMAN OF THE
APPEAL COMMITTEE
Appointed by
the Governor of
the Bank of England

THE RT HON
SIR CHRISTOPHER SLADE
FORMER LORD
JUSTICE OF APPEAL

DEPUTY CHAIRMAN OF
THE APPEAL COMMITTEE
Appointed by
the Governor of
the Bank of England

THE TAKEOVER PANEL
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THE PANEL EXECUTIVE
AS AT 18 JULY 1996

*ALISTAIR N C DEFRIEZ SBC Warburg	DIRECTOR GENERAL
T PETER LEE	DEPUTY DIRECTOR GENERAL
NOEL P HINTON	DEPUTY DIRECTOR GENERAL
ANTHONY G B PULLINGER	DEPUTY DIRECTOR GENERAL
*CARLTON P EVANS Linklaters & Paines	SECRETARY
*MICHAEL D SHAW Herbert Smith	SECRETARY
*HELENA R M Z SKARBK Bank of England	ASSISTANT SECRETARY
*LEONIE S GRIMES Arthur Andersen	ASSISTANT SECRETARY
*RICHARD OZSANLAV Coopers & Lybrand	ASSISTANT SECRETARY
*ANGUS W POTTINGER Merrill Lynch	ASSISTANT SECRETARY
*EDWARD J M BAKER Ashurst Morris Crisp	ASSISTANT SECRETARY
*BERNADETTE M MCKERNAN Deloitte & Touche	ASSISTANT SECRETARY
*PATRICK J MAGEE J P Morgan	ASSISTANT SECRETARY
JANE M TAYLOR	ASSISTANT TO THE SECRETARY

* SECONDED

INTRODUCTION TO THE TAKEOVER PANEL

The Takeover Panel is the regulatory body which publishes and administers the City Code on Takeovers and Mergers. It is concerned with takeovers of companies the shares of which are held by the public. The Code is designed to ensure good business standards and fairness to shareholders. Maintaining fair and orderly markets is crucial to this.

The commercial merits of takeovers are not the responsibility of the Panel; these are matters for the companies concerned and their shareholders. Wider questions of public interest are the concern of the governmental authorities in the UK and, in some circumstances, the European Community, through the Office of Fair Trading and the Monopolies and Mergers Commission or the EC Commission.

The Panel was set up in 1968 in response to mounting concern about unfair practices. The composition and powers of the Panel have evolved over the years as circumstances have changed, although it remains a non-statutory body.

The essential characteristics of the Panel system are flexibility, certainty and speed, enabling parties to know where they stand under the Code in a timely fashion. It is important that these characteristics should be retained in order to avoid over-rigid rules and the risk of takeovers becoming delayed by litigation of a tactical nature, which may frustrate the ability of shareholders to decide the outcome of an offer.

It is the Panel's practice to focus on the specific consequences for shareholders of rule breaches, rather than simply on disciplinary action, with the aim of providing appropriate redress. If the Panel finds there has been a breach, it may have recourse to private reprimand, to public censure, to reporting the offender's conduct to another regulatory authority (for example, the Department of Trade and Industry, the London Stock Exchange, the Securities and Investments Board or the relevant self-regulating organisations or recognised professional bodies) and/or to requiring further action to be taken, as it thinks fit.

THE TAKEOVER PANEL
1995 – 1996 REPORT

THE PANEL

The Panel draws its membership from major financial and business institutions to ensure a spread of expertise in takeovers, securities markets, industry and commerce. The Panel has the support of the Bank of England, its original sponsor, and the Governor appoints the Chairman, two Deputy Chairmen and three independent members, two of whom are industrialists. To ensure that industry is represented at all meetings, many of which have to be arranged at short notice, in recent years a small group of senior industrialists has been appointed to act as alternates to the two industrialist members.

The Panel can be convened at short notice to hear an appeal against an Executive ruling. It also hears disciplinary cases.

THE APPEAL COMMITTEE

There is a right of appeal from the Panel to the Appeal Committee in certain circumstances, particularly where the Panel finds a breach of the Code and proposes to take disciplinary action. An appeal may also be made, in other cases, with leave of the Panel. The Chairman of the Appeal Committee will usually have held high judicial office.

THE EXECUTIVE

The day-to-day work of the Panel is carried out by its Executive, headed by the Director General, usually a merchant banker on secondment. Some of the Executive are permanent, providing an essential element of continuity. They are joined by lawyers, accountants, stockbrokers, bankers and others on two-year secondments.

The Executive monitors takeovers, checking that all actions taken, as well as documents and announcements issued, comply with the Code and keeping a close watch on dealings in relevant securities. The Executive is available for consultation and to give rulings and interpretations before, during and, where appropriate, after takeovers. The Panel encourages early consultation so that problems can be avoided; a major part of the Executive's role is to provide guidance.

Many enquiries about the possible effects of the Code on prospective transactions need a swift response to allow the potential bidders, once an offer has been announced, to meet the Code's strict timetable.

CHAIRMAN'S STATEMENT

Bid activity last year was greater than in any year since the end of the 1980s. The number of bids was up by nearly 50% compared with the previous year. There has been a considerable proportion of large offers and the year has been notable for the activity in the utility sector, particularly the electricity industry.

Much of the credit for the success and hard work of the Executive must go to its former Director General, Bill Staple. It was with great regret that we bade him farewell at the end of his term of office in March. The Panel owes him a very considerable debt. He has now returned to Rothschilds where we wish him continued success in his career.

Alistair Defriez of SBC Warburg has succeeded Bill Staple. He has had very considerable experience in takeovers and has had an advisory role in some of the major bids in recent times. He has already been involved in a number of important and difficult issues at the Panel. We wish him every success.

At the end of March, Peter Frazer retired after 28 years with the Panel. He made a unique contribution in establishing the Panel and ensuring its continuing success. Wide appreciation of his work has been expressed by those who have dealt with the Panel over nearly three decades. We miss him greatly, and thank him for all that he has done for the Panel and the spirit in which he did it.

The Panel has always prided itself on keeping abreast of new developments, practices and techniques in the market which are relevant to the regulation of bids. This is achieved through the wide knowledge and experience of Panel members, the secondment of appropriate people to the Executive and by frequent informal dialogue with practitioners. The Panel therefore constantly monitors the provisions of the Code to ensure that appropriate additions or amendments are made in the light of the introduction of new instruments or new techniques. The Panel has recently published its requirements for a greater degree of disclosure in respect of derivative transactions in the context of an offer. In addition, it now seems an appropriate time for the Panel to review the current position of market-makers under the Code. After Big Bang the Panel created the concept of an exempt market-maker. Over the last few years securities markets have developed rapidly and further major changes in market structure are in prospect.

Every year many hundreds of decisions are made by the panel Executive, often concerning very complex issues and in transactions involving considerable amounts of money. It has always impressed me that the authority of the Panel is rarely questioned. The overwhelming majority of rulings, having been made, are accepted by the parties without further dispute.

A new proposal for a Takeover Directive was adopted in February by the European Commission. The proposal is for a framework Directive which would establish general principles to govern the conduct of bids. The Panel is concerned that the very fact of adopting this Directive could upset the present system of takeover regulation in the UK without any apparent countervailing benefits. The Directive, which would create new rights for the parties, would require statutory implementation and could accordingly lead to the real possibility of significantly greater resort to and intervention by the Courts during bids. This would create a considerable risk that the benefits of speed, flexibility and certainty, present in the current system, might be lost to the disadvantage of shareholders generally. The Panel has sought and continues to seek, together with a number of other parties, to make widely known the possible adverse implications of the Directive for the regulation of takeovers in the UK.

SIR DAVID CALCUTT QC
18 JULY 1996

**REPORT BY THE
DIRECTOR GENERAL**

There were more takeover or merger proposals published in the year ended 31 March 1996 than for six years. The number of bids was up by nearly 50% compared with the previous year. As a result of this, the Executive has had an extremely busy year.

DERIVATIVES

In March 1995, following an appeal to the Panel during the Trafalgar House offer for Northern Electric, the Panel asked the Executive to review the use of derivative products in takeover situations. The employment of such products in the Northern Electric case attracted a great deal of publicity and raised issues for a number of regulators including the Panel.

Over the following six months the Executive carried out a review and reported back to the Panel which agreed that the Code should be amended to require a greater degree of disclosure in respect of derivative transactions by the parties to an offer, their associates and large shareholders. Essentially the Executive proposed that appropriate details of such transactions should be made public in a similar manner to the disclosure of dealings in relevant underlying securities, in order to bear down on any use of derivative products to manipulate prices or stock location.

Both during and after its review, the Executive participated in discussions with other regulators and, pending the completion of these discussions, the Panel deferred the introduction of new disclosure rules. By June of this year it had become clear that, whilst other regulators might restrict the use of derivatives, they were unlikely to prohibit such use completely. The Panel therefore published its requirements for the disclosure of derivatives. At the same time the SIB published a consultative paper on derivative transactions.

Derivatives are complex and versatile products. The Panel strongly recommends practitioners and others to consult the Executive prior to entering into a derivative transaction if they are in any doubt as to the way in which the Code will be applied. Such parties should also be aware that the requirements of other regulators may restrict or prevent a particular course of action.

CREST

The Panel has issued amendments to deal with the introduction of CREST, the electronic share settlement system. Discussions have taken place between the Executive and relevant parties, including registrars and receiving agents, to establish the simplest method of reducing the possibility of any double counting when shares are held in CREST. The approach that has been adopted still requires the shareholder to send in an acceptance form, but the relevant shareholding is transferred to an escrow account at the CREST member level to provide the receiving agent with the necessary proof of ownership. It should be noted that the existing system will continue to operate in respect of certificated shares.

As there has been considerable progress in register updating over the last ten years, the Executive has also taken the opportunity to require that receiving agents are provided with up-to-date registers as soon as possible once an offer has been announced and also with daily updates on subsequent changes to the register. The Executive believes that this approach will reduce still further the risk of any errors occurring when receiving agents are determining whether or not an offer is unconditional as to acceptances. It is clearly vital that the result of an offer is announced quickly, but it is even more important that it is accurate.

MARKET - MAKERS

At the time of Big Bang the Code was amended to permit, subject to certain restrictions and requirements, market-making operations to be carried on during an offer within multi-service financial organisations. In order to enjoy this freedom, and to be categorised as “exempt market-makers” when such organisations are also involved in an advisory capacity, relevant houses must satisfy the Panel that their market-making operations are run wholly independently and without regard to the interests of corporate finance clients. Recognised market-makers acting in that capacity and having no connection with the offeror or offeree side continue to be exempt from the requirements to disclose dealings which apply to large shareholders.

In 1987 the Panel set up a market surveillance unit as part of the Executive’s operations to ensure that the new rules were properly observed. The Executive has built up considerable experience and knowledge of dealing practices, and has enhanced its monitoring capability significantly, working closely with the London Stock Exchange and other regulators. Over the last 10 years the securities markets in the UK have developed rapidly. One of the features is a considerable increase in the proprietary trading activity of a number of recognised market-makers, particularly during takeover bids. Major changes in market structure are now in prospect as a result of the recent London Stock Exchange proposals for new electronic trading services.

In view of these developments the Executive considers that it is now opportune to review the rules which apply to exempt market-makers connected with one of the parties to an offer to see if there is a case for amendment. It is also examining whether the general disclosure exemption enjoyed by market-makers continues to be appropriate.

PROPOSED TAKEOVER DIRECTIVE

A revised proposal for the 13th Company Law Directive has now been adopted by the European Commission. As expected, the proposed Directive is less detailed than previous versions on which it proved impossible to obtain the agreement of Member States.

The Panel does not believe that there would be any benefit for takeover regulation in the UK if these proposals were adopted and, indeed, it is concerned about the risks which they would pose to the existing system. In particular, the Directive, which would require statutory implementation, could lead to a legalistic interpretation of the Code with the consequent risk of greater resort to and intervention by the Courts. Participants in takeovers would inevitably seek to challenge Panel decisions which might lead not only to the granting of injunctive relief by the Courts in the UK but also to issues being referred to the European Court of Justice. It could also result in tactical litigation between the parties. This interference with the takeover process would adversely affect the speed, flexibility and certainty with which the Panel is currently able to operate and would add significantly to the costs and disruption incurred during the course of a bid.

The Panel continues to question both the need for this Directive as most Member States have in recent years introduced measures to regulate takeovers and the need for action on a European basis under the principle of subsidiarity.

FOREIGN REGULATORS

Over time the Executive has given informal advice and assistance to many countries, including those as disparate as New Zealand, South Africa, Sri Lanka and Switzerland, on the establishment of a takeover regulatory system. Also, on a continuous basis, the Executive is requested by foreign regulators, both within the European Union and around the world, to give advice on the application and interpretation of rules which are similar to those in the Code. The Executive is always very happy to give such advice, on the basis of how it would interpret the Code in the UK.

As a result of this frequent dialogue, the Executive has extremely good relationships with many other takeover regulators all over the world. Accordingly, when the need has arisen, the Executive has received every possible assistance from them.

THE REPUBLIC OF IRELAND

The Executive has been kept informed about the establishment of an Irish Takeover Panel by the authorities in the Republic of Ireland. Following the separation of the Stock Exchange in Dublin from the London Stock Exchange, there was no logical reason for the Panel continuing to be responsible for regulating takeovers in the Republic of Ireland. This coincided with the Irish review of the impact of the implementation of the Investment Services Directive which, inter alia, led to the decision that an Irish Takeover Panel would be established. The Executive understands that the parliamentary process is still underway but that the Irish Panel is expected to be established later in the year.

SECRECY BEFORE ANNOUNCEMENTS

The Executive continues to be concerned about the apparent leaking of information to the press and others during contested bids and also about leaks before bids are announced.

It is of vital importance that information released during an offer satisfies the highest standards of accuracy. Further, when that information is released, it must be made equally available to all shareholders, as nearly as possible, at the same time and in the same manner.

The importance of absolute secrecy before the announcement of a bid cannot be over-emphasised. Furthermore, the Executive wishes to stress the necessity of prior and full consultation with it in respect of the announcement obligation under Rule 2, particularly in the context of a possible unilateral offer. It is acknowledged that determining the time at which an announcement should be made, particularly by a potential offeror under Rule 2.2(d), is often difficult to assess. However, the Executive is not in a position to make a proper and fair judgment on such issues if it is not consulted immediately and informed of all relevant facts where circumstances arise which may result in such an announcement being required. Accordingly, the Executive considers that potential offerors and offeree companies and their respective advisers should not only keep a close watch on the offeree company's share price, as required by Rule 2.3, but should also monitor the media for any evidence of rumour and speculation. It is also incumbent on parties to be prepared to make announcements immediately should circumstances require this.

The Executive also wishes to emphasise that a requirement on a potential offeror to make an announcement of its interest under Rule 2.2(d) can, and often does, arise prior to any decision being made to proceed with such an offer, or prior to the funding needed for such an offer being finalised. The Executive takes the view that if there is rumour and speculation relating to a particular

offeree company or there is an untoward movement in its share price and there are reasonable grounds for concluding that this is as a result of the potential offeror's actions, then, even if the potential offeror has not yet decided to proceed with an offer, an announcement of its possible interest is required.

It follows that not all companies which enter offer periods become the subject of an offer. Talks may terminate, potential offerors may decline or be unable to proceed or other circumstances may supervene.

ASSET VALUATIONS

In certain bids, particularly those involving property companies, asset valuations often play a central and very significant part. In preparing and presenting such valuations it is therefore essential that the requirements of Rule 29 are followed. If the parties involved are in any doubt as to what the Code requires they should consult the Executive. Rule 29 applies not only to the valuation of land and buildings but also to valuations of other assets.

An area of particular difficulty is where one party to a contested offer wishes to make some form of assessment of the value of certain assets of the other side. Prior consultation with the Executive is strongly recommended in such cases. Depending on the circumstances, the Executive may not allow this. However, if it is allowed, it will be important that the nature of what is being undertaken is very precisely described, because it is unlikely to be a formal valuation.

For many years the Executive has had a close relationship with The Royal Institution of Chartered Surveyors. In any case involving a valuation of land, buildings or plant and machinery, which has presented particularly difficult issues, the RICS has been willing, often at very short notice, to give advice to the Executive. The Executive has greatly valued this assistance from experts in the field when controversial technical issues have arisen. Prior consultation by the parties with the RICS may also be desirable, therefore, on issues where an unusual degree of judgment has to be exercised by the valuer.

STANDSTILL AGREEMENTS

Note 4 on the definition of acting in concert means that an agreement between a company, or the directors of a company, and a shareholder which restricts the shareholder or the directors from either offering for, or accepting an offer for, the shares of the company or from increasing or reducing shareholdings, may cause the Panel to regard such parties as acting in concert. Any restriction on a party from either accepting an offer at any stage of the bid or giving an irrevocable undertaking to accept an offer before or after its announcement will normally lead the Executive

to view a defensive concert party as existing. A restriction on a party from selling his shares to an offeror or potential offeror or from having the right to make a counter-bid following an offer from a third party may also lead to the conclusion that a defensive concert party exists.

If a concert party arises as a result of a standstill agreement its ability to purchase shares will be limited by Rule 5 and Rule 9. If the agreement includes appropriate carveouts to take account of the points mentioned above, no concert party will exist. It is therefore recommended that, before entering into any such agreement, the Executive is consulted.

Attention is drawn to the fact that, under the London Stock Exchange's Listing Rules, in certain circumstances, there may be a requirement to enter into a standstill agreement. This is also the case, in certain circumstances, on the application of a company for quotation on the Alternative Investment Market. It may well be advisable to consult the Executive concerning the implications under the Code where such an agreement is required.

ACCOUNTS FOR THE YEAR ENDED
31 MARCH 1996

In the year to 31 March 1996 the income from document fees was £3,453,000 compared with £1,889,500 in 1995; income from the contract note levy was £1,998,176 against £2,679,841 for the previous year. Expenditure totalled £3,753,471, compared with £3,866,790 in 1995, the reduction in expenditure being accounted for principally by lower costs for premises.

As stated in last year's Annual Report, the Panel's surplus is intended to be sufficient to enable the Panel to continue operating for some time despite a sharp reduction in income or a sudden large expenditure. However, the high level of takeover activity throughout the year has produced an income far greater than anticipated at the beginning of the year. The Panel had intended to review the effect of the October 1994 reduction in the contract note levy once these accounts had been prepared. Following the high level of activity in the first six months, the Panel took the decision to reduce the levy from £1.00 to 25p per transaction with effect from 1 February 1996. This is expected in prevailing market conditions to lead to a reduction in income from this source of approximately £1.5m in a full year.

Alistair N C Defriez
18 July 1996

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**ACCOUNTS FOR THE YEAR ENDED
31 MARCH 1996**

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1996

	NOTE	1996 £	1995 £
INCOME			
Contract note levy		1,998,176	2,679,841
Document fees		3,453,000	1,889,500
City Code sales		31,522	29,370
Other income		4,175	3,655
		<u>5,486,873</u>	<u>4,602,366</u>
EXPENDITURE			
Personnel costs		2,874,883	2,569,864
Accommodation costs	3	267,863	764,371
Other expenditure		610,715	532,555
		<u>3,753,461</u>	<u>3,866,790</u>
SURPLUS BEFORE INTEREST AND TAXATION		1,733,412	735,576
Interest receivable		390,986	219,359
Taxation	2	<u>(100,737)</u>	<u>(54,839)</u>
SURPLUS FOR THE YEAR		2,023,661	900,096
ACCUMULATED SURPLUS			
AT BEGINNING OF YEAR		<u>5,523,831</u>	<u>4,623,735</u>
ACCUMULATED SURPLUS AT END OF YEAR		<u><u>7,547,492</u></u>	<u><u>5,523,831</u></u>

All activities are regarded as being continuing.

The Panel on Takeovers and Mergers has no recognised gains and losses other than the income and expenditure shown above and therefore no statement of total gains and losses has been presented.

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BALANCE SHEET
AT 31 MARCH 1996

	NOTES	1996 £	1995 £
CURRENT ASSETS			
Debtors and prepayments	4	449,521	555,376
Bank and cash		7,352,816	5,194,773
		<u>7,802,337</u>	<u>5,750,149</u>
CURRENT LIABILITIES			
Creditors and accruals	5	162,556	168,759
Corporation tax		89,762	51,452
		<u>252,318</u>	<u>220,211</u>
NET CURRENT ASSETS		7,550,019	5,529,938
Deferred tax	6	(2,527)	(6,107)
		<u>7,547,492</u>	<u>5,523,831</u>
Net assets		<u><u>7,547,492</u></u>	<u><u>5,523,831</u></u>
Representing:			
ACCUMULATED SURPLUS		<u><u>7,547,492</u></u>	<u><u>5,523,831</u></u>

The accounts on pages 16 to 20 were approved by the Finance Committee on 25 June 1996 and signed on behalf of the Members by:

SIR DAVID CALCUTT QC

The Chairman, Panel on Takeovers and Mergers

JOHN HULL

The Chairman, Finance Committee

THE TAKEOVER PANEL
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CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1996

	NOTES	1996	1995
		£	£
Net cash inflow from activities	7	1,840,285	1,754,457
Returns on investments and servicing of finance			
Interest received		383,765	206,849
Net cash inflow from returns on investments and servicing of finance		383,765	206,849
Taxation			
UK corporation tax paid		(66,007)	(25,195)
Increase in cash	8	2,158,043	1,936,111

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF ACCOUNTS AND ACCOUNTING POLICIES

- a) The accounts have been prepared on the historical cost basis of accounting and in accordance with applicable Accounting Standards in the United Kingdom.
- b) All expenditure of a capital nature is written off in the year in which it is incurred.
- c) Income and expenditure is accounted for on an accruals basis.
- d) Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

	1996	1995
	£	£
2. TAXATION		
UK corporation tax payable on interest income received:		
Current	104,317	51,756
Deferred	(3,580)	3,083
	100,737	54,839
	100,737	54,839

Corporation tax is payable at a rate of 25% for the first £300,000 of taxable profit and thereafter at an effective rate of 35%. In 1995 corporation tax was payable at 25%.

Following discussions with the Inland Revenue, agreement was reached in 1991 to the effect that the Panel is not carrying on a trade and that consequently no tax liability arises on the accumulated surpluses. Corporation tax continues to be payable on investment income.

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NOTES TO THE ACCOUNTS *continued*

3. BUSINESS RATES REFUND

The Panel pays rates to the Corporation of London based on an apportionment of business rates for the whole Stock Exchange building in which the Panel is a tenant. Following a reassessment of the basis for this apportionment, the Panel has received a rebate in respect of rates. This income has been included in the accounts as a deduction in the accommodation costs, for the year ended 31 March 1996.

	1996	1995
	£	£
4. DEBTORS AND PREPAYMENTS		
Contract note levy accrued income	240,667	475,000
Document fees	30,000	6,000
Interest receivable	31,827	24,606
Other debtors and prepayments	147,027	49,770
	<u>449,521</u>	<u>555,376</u>
	1996	1995
	£	£
5. CREDITORS AND ACCRUALS		
Personnel costs	43,458	108,687
Legal and professional fees	104,832	19,011
Other creditors and accruals	14,266	41,061
	<u>162,556</u>	<u>168,759</u>
	1996	1995
	£	£
6. DEFERRED TAXATION		
In respect of short term timing differences:		
This is provided at 35% (1995: 25%)		
Provision at 1 April	6,107	3,024
Charge for year	(3,580)	3,083
Provision at 31 March	<u>2,527</u>	<u>6,107</u>
	1996	1995
	£	£
7. RECONCILIATION OF SURPLUS TO NET CASH INFLOW FROM ACTIVITIES		
Surplus before interest and taxation	1,733,412	735,576
Decrease / (increase) in debtors and prepayments	113,076	1,004,446
Increase / (decrease) in creditors	(6,203)	14,435
Net cash inflow from activities	<u>1,840,285</u>	<u>1,754,457</u>

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NOTES TO THE ACCOUNTS *continued*

	1996		1995
8. CASH AND CASH EQUIVALENTS	£		£
a) CHANGES DURING THE YEAR			
Balance at 1 April	5,194,773		3,258,662
Net cash inflow	2,158,043		1,936,111
	7,352,816		5,194,773
Balance at 31 March	7,352,816		5,194,773
	1996	CHANGE IN YEAR	1995
	£	£	£
b) ANALYSIS OF BALANCES			
Cash at bank and in hand	7,352,816	2,158,043	5,194,773
		CHANGE IN YEAR	1994
		£	£
			3,258,662

REPORT OF THE AUDITORS TO THE MEMBERS OF THE PANEL ON TAKEOVERS AND MERGERS

We have audited the accounts on pages 16 to 20.

RESPECTIVE RESPONSIBILITIES OF PANEL MEMBERS AND AUDITORS

As described on page 21 the Panel Members are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Panel Members in the preparation of the accounts, and of whether the accounting policies are appropriate to the Panel's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts present fairly, on the basis set out in Note 1, the state of affairs of The Panel on Takeovers and Mergers at 31 March 1996 and of its surplus and cash flows for the year then ended.

COOPERS & LYBRAND

Chartered Accountants and Registered Auditors, London

25 June 1996

THE TAKEOVER PANEL
1995 – 1996 REPORT

STATEMENT OF PANEL MEMBERS' RESPONSIBILITIES

The Panel Members have determined that accounts should be prepared for each financial year that present fairly the state of affairs of the Panel as at the end of the financial year and of its surplus or deficit for that period.

The Panel Members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 March 1996. The Panel Members also confirm that applicable accounting standards have been followed and that the accounts have been prepared on the going concern basis.

The Panel Members are responsible for keeping proper accounting records and for taking reasonable steps to safeguard the assets of the Panel and to prevent and to detect fraud and other irregularities.

STATISTICS

The Panel held two meetings to hear appeals against rulings by the Executive. Neither appeal was successful. No cases were heard by the Appeal Committee.

There were 156 (year ended 31 March 1995 – 108) published takeover or merger proposals of which 151 (106) reached the stage where formal documents were sent to shareholders. These proposals were in respect of 145 (100) target companies.

37 (33) offers were not recommended at the time the offer document was posted. 32(24) of these remained unrecommended at the end of the offer period, of which 8(7) lapsed.

7 (12) offers were, at the time of their announcement, mandatory bids under Rule 9.

A further 20 (16) cases, which were still open at 31 March 1996, are not included in these figures.

The Executive was engaged in detailed consultations in another 241 (201) cases which either did not lead to published proposals, were waivers of the Code's requirements in cases involving very few shareholders or were transactions, subject to approval by shareholders, involving controlling blocks of shares.

	1995-1996	1994-1995
OUTCOME OF PROPOSALS		
Successful proposals involving control (including schemes of arrangement)	123	75
Unsuccessful proposals involving control (including schemes of arrangement)	16	11
Proposals withdrawn before issue of documents (including offers overtaken by higher offers)	5	2
Proposals involving minorities, etc	12	20
	<u>156</u>	<u>108</u>

**STATEMENTS ISSUED BY THE PANEL
DURING THE YEAR
ENDED 31 MARCH 1996**

1995

9 June	1995 / 6	THE PEOPLES PHONE COMPANY – MRS M P MARKS, MR J A D MARKS AND MR R MARKS <i>(Sufficiency of information in a whitewash document)</i>
24 July	1995 / 7	TRAFALGAR HOUSE – NORTHERN ELECTRIC <i>(Started an offer period pending clarification of situation)</i>
1 August	1995 / 8	THE STOCK EXCHANGE'S ALTERNATIVE INVESTMENT MARKET AND THE RULES GOVERNING SUBSTANTIAL ACQUISITIONS OF SHARES <i>(Application of SARs to AIM companies)</i>
12 December	1995 / 9	KVAERNER – AMEC <i>(Criticism of an adviser following leaking of information)</i>
13 December	1995 / 10	KVAERNER – AMEC <i>(Confirmation of Panel Executive's position)</i>
21 December	1995 / 11	GRANADA GROUP – FORTE <i>(Compliance with standards relating to the provision of information)</i>

1996

6 February	1996 / 1	APPOINTMENT OF ALISTAIR DEFRIEZ AS DIRECTOR GENERAL
23 February	1996 / 2	RENTOKIL GROUP – BET <i>(Duty of offeror to make an announcement before offeree has been approached)</i>
19 March	1996 / 3	RETIREMENT OF PETER FRAZER

For details of how to obtain copies of the Code, Panel Statements and Annual Reports contact:

The Secretary, Panel on Takeovers and Mergers,
P O Box No 226, The Stock Exchange Building,
London EC2P 2JX. Telephone: 0171 382 9026

THE TAKEOVER PANEL
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Burrups Ltd, St Ives plc