THE TAKEOVER PANEL

REPORT ON THE YEAR ENDED
31 MARCH 1997

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THE PANEL
AS AT 23 JULY 1997

SIR DAVID CALCUTT QC FORMER CHAIRMAN OF THE BAR	CHAIRMAN Appointed by the Governor of the Bank of England
JOHN F C HULL FORMER CHAIRMAN, J HENRY SCHRODER & CO	DEPUTY CHAIRMAN Appointed by the Governor of the Bank of England
JOHN L WALKER-HAWORTH FORMER MANAGING DIRECTOR SBC WARBURG	DEPUTY CHAIRMAN Appointed by the Governor of the Bank of England
SIR CHRISTOPHER BENSON DEPUTY CHAIRMAN, ROYAL & SUN ALLIANCE INSURANCE GROUP	Appointed by the Governor of the Bank of England
H DENNIS STEVENSON CHAIRMAN, PEARSON	Appointed by the Governor of the Bank of England
ROBERT B JACK FORMER SENIOR PARTNER, MCGRIGOR DONALD	Appointed by the Governor of the Bank of England
JOHN G T CARTER CHIEF EXECUTIVE, COMMERCIAL UNION	Chairman, Association of British Insurers
BEN C R SIDDONS CHAIRMAN OF THE INVESTMENT FUNDS, DRESDNER KLEINWORT BENSON	Deputy Chairman, Association of Investment Trust Companies
LEWIS J MCNAUGHT DIRECTOR, HEAD OF UK RETAIL GARTMORE INVESTMENT MANAGEMENT	Chairman, Association of Unit Trusts and Investment Funds
ANDREW R F BUXTON CHAIRMAN, BARCLAYS BANK	President, British Bankers' Association
MARTIN F BROUGHTON GROUP CHIEF EXECUTIVE, BAT INDUSTRIES	Nominated by Confederation of British Industry
CHRISTOPHER N LAINÉ PARTNER, COOPERS & LYBRAND	President, Institute of Chartered Accountants in England and Wales
DOUGLAS C P MCDOUGALL JOINT SENIOR PARTNER, BAILLIE GIFFORD & COMPANY	Chairman, Investment Management Regulatory Organisation
ANTONY R BEEVOR EXECUTIVE DIRECTOR, HAMBROS BANK	Nominated by London Investment Banking Association
CHARLES L A IRBY DEPUTY CHAIRMAN, BARING BROTHERS INTERNATIONAL	Chairman, London Investment Banking Association Corporate Finance Committee
JOHN KEMP-WELCH FORMER JOINT SENIOR PARTNER, CAZENOVE & CO	Chairman, London Stock Exchange
GRAHAM K ALLEN MANAGING DIRECTOR, IGI INVESTMENT MANAGEMENT	Nominated by National Association of Pension Funds
NICHOLAS J DURLACHER DIRECTOR, BARCLAYS DE ZOETE WEDD SECURITIES	Chairman, Securities and Futures Authority

THE APPEAL COMMITTEE
AS AT 23 JULY 1997

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 PANEL EXECUTIVE

AS AT 23 JULY 1997

*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
*GUY T D NORMAN Clifford Chance	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
*DARREN BRYANT Price Waterhouse	ASSISTANT SECRETARY
*NICHOLOS R J HELLYER UBS	ASSISTANT SECRETARY
*ALEXANDRA C KELLOW HSBC Investment Bank	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 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 has continued at a high level. The Executive has been kept extremely busy and has been working long hours and under great pressure. The Panel is grateful to them for their efforts and achievements.

On 20 May 1997 the Chancellor of the Exchequer announced a proposed reform of the Financial Services Act 1986, under which an enlarged Securities and Investments Board would take direct responsibility for the regulatory regime presently covered by the Act together with responsibility for banking supervision, which would be transferred to it from the Bank of England. It has not, however, been suggested that the Panel should be included in these proposed reforms. Regulation of the conduct of takeovers is different in kind from the regulation of financial services generally. The continued effective and efficient functioning of the Panel does not need the support of domestic or European legislation. On the contrary, it depends for its efficacy on being non-statutory. A quarter of a century ago my predecessor Lord Shawcross wrote thus:

> "In a statutory system those concerned are entitled to exercise their ingenuity in so ordering their affairs as to avoid the application of prohibitory or inconvenient rules. If a particular course of conduct is not expressly forbidden it is permissible: there is no grey area. With the City Code broadening down from precedent to precedent and obligatory in the spirit as well as in the letter, immediate steps can be taken to stop abuses as soon as they are discovered, and the fear of possible action undoubtedly prevents many abuses arising. This flexibility, the advisory function, the great expedition of its work and the authority behind it, are not, I believe, capable of reproduction in a statutory system."

As the Panel enters its thirtieth year, it is also worth noting the excellent working relationships the Panel has always enjoyed with Westminster, Whitehall and with other regulatory authorities, including SIB.

Last year the Panel gave evidence to a House of Lords Select Committee concerning the revised draft Takeover Directive proposed by the European Commission. This Committee, chaired by Lord Hoffmann, took evidence both orally and in writing from a large number and wide range of respondents, including the Commission itself. The Commission accepted that the system in the United Kingdom served as its model and asserted that it had never been the Commission's intention to change this system and indeed that a subsidiary purpose had been to leave it, if possible, completely intact.

The Report, which was published in July 1996, represents the most comprehensive and authoritative analysis of the proposed Directive. It concluded that "the United Kingdom has an effective and efficient system for the regulation of takeovers. That should not be put at risk without substantial and clearly identifiable benefits. We do not believe that the Commission has made out its case." The Committee ended by saying "we do not believe that there should be a Directive. We reiterate the view expressed by the Committee in 1989 that the Government should strive to protect the position of the Code and the Panel."

A range of concerns were cited by the Committee in support of its view against adoption of the Directive. It was noted that the Directive did not satisfy the agreed criteria for subsidiarity and that individual Member States were already adopting rules dealing with takeovers. The proposal would not achieve its objective of harmonising law and practice across the Community and, moreover, did not address the real barriers to takeovers. The Committee was not satisfied that the Directive would guarantee adequate protection of minority shareholders. There might, however, be a risk of increased litigation and, furthermore, being subject to the Directive and interpretative rulings of the European Court of Justice, the Panel might not be able to apply the Code with sufficient certainty and flexibility. The Report of the Committee was subsequently debated and adopted by the House of Lords and by a Committee of the House of Commons.

Whilst it is gratifying to read such respected third party endorsement for our position, there is no room for complacency. The speed, flexibility and certainty of the non-statutory Panel system would be undermined and put in jeopardy if the draft Directive were to be adopted. If the Commission wishes to put forward proposals which would not damage the system in the United Kingdom, a Recommendation, not requiring legislative implementation, would be preferable.

The Panel has, for some twenty-five years, regulated the conduct of bids for listed companies resident in the Republic of Ireland. An Irish Takeover Panel has recently been established to take over that part of our work. We wish it every success.

In July 1997 John Goble retired as one of our Deputy Chairmen. He joined the Panel in November 1989, and so has served for almost eight years. During this time John has made a significant contribution to our work, and we are all grateful to him. The Governor of the Bank of England has appointed John Walker-Haworth, who was Director General of the Panel from 1985 until 1987, in his stead, and we welcome him.

Alistair Defriez, who was appointed Director General of the Panel for two years in March 1996, has accepted my invitation to him to continue for an additional year until March 1999. The continuing threat of European takeover legislation calls for continuity in senior executive posts. The Panel is accordingly fortunate to have secured Alistair's continued services.

Finally, it is sad to record the death last year of Lord Roskill, a former Chairman of the Panel's Appeal Committee. His contribution to the work of the Panel was considerable and was greatly appreciated.

SIR DAVID CALCUTT QC
23 JULY 1997

REPORT BY THE DIRECTOR GENERAL

Once again there were more takeover or merger proposals published in the last year than in the previous year – 171 against 156. This increase, coupled with the time spent opposing the possible Takeover Directive, has resulted in the Executive being very busy throughout the year.

PROPOSED TAKEOVER DIRECTIVE

During the year the Executive has continued to campaign against the adoption of the proposed Thirteenth Company Law Directive on Takeovers. It would not improve standards of investor protection throughout the European Union and it would adversely affect non-statutory systems such as those in Germany, the Netherlands, Sweden and the United Kingdom. The Executive's principal concern is that the Directive would give parties the opportunity to engage in time-consuming and damaging litigation in the courts, both domestic and European, causing harmful delays and uncertainties for the companies concerned, their shareholders, managements and employees.

The Executive has discussed the proposed Directive with the relevant authorities in virtually every Member State, as well as with representatives of the European Commission and members of the European Parliament. The Executive discovered no enthusiasm for this proposal anywhere outside the Commission itself, which would appear to be seeking to complete unfinished business begun in 1985 when, in contrast to the present position, the vast majority of Member States had no system of takeover regulation. This Directive would not improve or harmonise the existing framework of European takeover regulation. It would not remove barriers or impediments to cross-border takeovers. In the future, there might be a case for a genuinely harmonising measure but, given the enormous differences in the prevailing legal and economic structures and cultural attitudes to the ownership and control of equity capital across the Member States, much else would first need to be accomplished before it would be feasible or worthwhile to embark on such an exercise.

THE NEED FOR CONSULTATION WHEN MARKET SPECULATION OCCURS

Once again, because of certain events in the last year, the Executive emphasises the importance of making early announcements in the context of possible offers.

Rule 2 of the Code stresses the vital importance of absolute secrecy before an announcement and sets out the circumstances when an announcement is required. The responsibility

for avoiding a false market developing in the context of takeovers lies primarily with the companies involved and their advisers.

An immediate announcement may need to be made when a potential offeree company becomes the subject of rumour and speculation or there is an untoward movement in its share price. A movement of approximately 10% should be regarded as untoward. It is acknowledged that determining whether and when an announcement should be made is often difficult to assess. However, these are decisions for the Executive to take and it will not be in a position to make a proper and fair judgment if it is not consulted immediately and informed of all relevant facts. There can be no excuse for not consulting the Executive promptly where an announcement may be required under Rule 2.2.

MERGER BENEFITS STATEMENTS

At a Panel hearing during the course of the takeover of Forte plc by Granada Group plc, the Panel asked the Executive to examine whether there might be a need for specific requirements in respect of statements concerning the expected benefits of a takeover. Following this examination by the Executive, Panel Statement 1997/5 was issued on 3 April 1997 setting out specific Code requirements which needed to be satisfied if such statements were made in the course of takeovers.

These requirements (which apply whether or not the merger benefits are quantified) include: publication of the bases of the belief (including sources of information) supporting the statement; reports by financial advisers and accountants that the statement has been made with due care and consideration; an analysis and explanation of the constituent elements of the statement sufficient to enable shareholders to understand the relative importance of these elements; and a base figure for any comparison drawn. Furthermore, the requirements may be applicable to statements that an acquisition will enhance an offeror’s earnings per share where such enhancement depends in whole or in part on material merger benefits. Parties wishing to make merger benefits statements are asked to consult the Panel in advance. In practice, the Executive will not apply these requirements unless the benefits claimed are substantial.

In hostile offers, there are two principal reasons underlying the imposition of these additional requirements. Firstly, there is the concern that the offeror may not have sufficient information about the offeree's business and its prospects to make statements, satisfying Code standards of accuracy, about potential or expected improvements in the offeree’s future profits. Secondly, the absence of any explanation of the constituent elements of a merger benefits statement might make it difficult in practice for the offeree or a competing offeror to respond to the merger benefits claims of an offeror.

In recommended offers, absent a competing offer, the Executive will not normally insist on all of the additional requirements being complied with provided that the documentation contains a

reasonably detailed analysis and explanation of the constituent elements of the claimed merger benefits.

If, however, a competing offer subsequently emerges and the previously recommended offeror thereafter repeats its merger benefits statement (or if that statement otherwise thereafter becomes a material issue), the previously recommended offeror will then be obliged to comply with all of the additional requirements, as will any competing offeror (whether recommended or not) in relation to any merger benefits statements which it might make.

PROFIT FORECASTS

Rule 28.1 (which applies to both offeror and offeree companies) provides a very clear warning about the need to exercise caution when preparing profit forecasts. These must be compiled with scrupulous care and objectivity by the directors, who are solely responsible for them. The company's advisers must also be satisfied that the requisite standards have been applied.

During an offer period the board and its advisers will be mindful of the Code rules relating to profit forecasts. In particular, owing to the requirement to report on them, great care will generally be taken to avoid making statements which incur such an obligation where this is not the intention.

When no bid is in contemplation, the implications of this Rule are more likely to be overlooked. Directors of a company may, for example, make statements about future profits at an AGM or at the time of results announcements. These may be casual remarks or reflect no more than hopes or aspirations, but if a bid subsequently arises and they are deemed to be profit forecasts in Code terms, they will need to be reported on under Rule 28.6.

Directors should take care generally about their comments on prospects but particularly when they are aware of the possibility of an offer. Furthermore, practitioners are reminded of the Note on Rule 28.1 which requires that advisers check at the outset of a bid whether their client has a forecast on the record. Any necessary reporting procedures can then be put in train as soon as possible to avoid delay in the posting of documentation to shareholders.

USE OF QUOTATIONS

During the course of an offer it is essential that all information provided to shareholders satisfies the highest standards of accuracy. This key requirement is reflected both in General Principle 5 and Rule 19.1 and applies to all documents, advertisements and statements issued by or on behalf of the offeror or offeree.

Rule 19.1 is followed by a number of important notes expanding on the basic rule. Note 4 warns that where a company quotes third party views about itself, perhaps from a newspaper or stockbroker's circular, there is an implication that the comments quoted are endorsed by the board. It follows that they should not be quoted unless the board is in a position to substantiate them and expressly takes responsibility for them in the document. Furthermore, such comments must not be used out of context and their origin must be explained. Where the board is unable to corroborate a quotation, the Panel will in appropriate circumstances require a statement of retraction to be made.

Particular caution is required when referring to brokers' estimates. The effect of Note 4 is that if a company quotes profit estimate figures produced by analysts in relation to itself then these figures are implicitly endorsed by the board. Such a quotation therefore constitutes a profit forecast which must be reported on in full in accordance with Rule 28. Care should be taken to avoid triggering this requirement unintentionally. The Executive should be consulted where there is any doubt.

RULE 3.1 ADVICE

The Panel considers it to be in the best interests of shareholders, companies and advisers to have an objective standard for the advice given to the offeree company under Rule 3.1. It is accepted that under the Code an adviser does not incur absolute liability when giving Rule 3 advice but is expected to be able to demonstrate that in giving its advice it acted responsibly and reasonably.

The Panel acknowledges that there may be commercial judgements made by the directors which the advisers are not able to second-guess. In addition to the usual wording expressing the directors' view, and that they have been so advised by the financial adviser, the Rule 3 adviser is entitled (whether recommending acceptance of an offer or not) to add that "in providing advice to the directors the financial adviser has taken into account the directors' commercial assessments". Departure from or embellishment of that wording should not be with a view to escaping from the obligation on a Rule 3 adviser to use its professional expertise in considering the reasonableness of the directors' opinions. Particular cases might justify alternative wording, but the Panel believes that these would be exceptional and should be discussed in advance with the Executive.

DUE DILIGENCE

General Principle 3 of the Code requires that an offeror should only announce an offer after the most careful and responsible consideration and that such an announcement should be made only when the offeror has every reason to believe that it can and will continue to be able to implement the offer. Responsibility in this connection also rests on the financial adviser to the offeror. Where there has been an announcement of a firm intention to make an offer, the offeror

must, except with the consent of the Panel, proceed with the offer unless the posting of the offer is subject to the fulfilment of a specific pre-condition and that pre-condition has not been met.

The purpose of General Principle 3 is to prevent the creation of a false market in the securities of either the offeror or the offeree company. Subject to the need to maintain secrecy, parties and their advisers should therefore seek to address all potential concerns in relation to the offeree company before issuing an announcement of a firm intention to make an offer. To the extent that this is possible, these concerns should be identified in advance by undertaking appropriate due diligence. However, the scope for doing so will depend upon, in particular, whether or not the offeror has the co-operation of the offeree company board.

THE TEST OF RESIDENCE UNDER THE CODE

Paragraph 4(a) of the Introduction states that the Code applies to offers for all listed and unlisted public companies and some private companies which are considered by the Panel to be resident in the UK, the Channel Islands or the Isle of Man. Residence is determined by reference to the company's country of incorporation and to the location of its "head office and place of central management". The second of these criteria may on occasion require a judgement to be made by the Panel.

When considering the question, the Panel will look at the structure of the board, the functions of the directors and where they are resident. Sometimes it may also be necessary to look at other relevant major influences on the management of the company, for example, in the case of an investment trust, the identity and location of the investment manager.

CREST

Between the inauguration of CREST on 15 July 1996 and 31 March 1997, 38 offers were made which involved receiving agents establishing proof of ownership through CREST. The Executive understands that, in this regard, CREST has generally operated smoothly even when there have been large volumes of acceptances within a short space of time. This suggests that both shareholders and receiving agents have adapted to the amended requirements of an electronic system, although this still involves the completion of an acceptance form by the shareholder. Obviously the certificated system of acceptance continues to run in parallel for those shareholders who have not dematerialised their holdings.

It is worth noting that there are some differences between the certificated and CREST systems in determining whether or not purchases by an offeror can be counted towards satisfying an acceptance condition. As there are no share certificates (or other means of certification) to provide the relevant standard of proof, the Rules require that purchases made through CREST must

be registered before they satisfy the criteria in Rule 10 of the Code. The Executive believes that such purchases might therefore have to be made earlier than is the case when shares backed by certificates are acquired.

The role of the receiving agents in the takeover process is significant. Appointed by the offeror, it is the receiving agent's responsibility to ensure that acceptances are completed to an appropriate standard and that purchases meet the criteria laid down in the Code. The offeror is not permitted to declare an offer unconditional as to acceptances until it has received an appropriate certificate from the receiving agent confirming that acceptances and purchases meet the minimum level for the offer to be declared unconditional as to acceptances. The position of the receiving agent is therefore crucial and the Panel expects receiving agents to perform their duties as required by the Code: the receiving agent should only confirm to an offeror that an offer is capable of going unconditional as to acceptances after all relevant checks on the validity of acceptances and purchases have been made.

ACCOUNTS

In the year to 31 March 1997 income from document fees produced £3,769,000 compared with £3,453,000 in 1996; income from the contract levy was £641,398 against £1,998,176 for the previous year. Expenditure totalled £4,498,345, compared with £3,753,461 in 1996.

The Panel's objective is to maintain a surplus which would be sufficient to allow the Panel to continue operating for some time despite a sharp drop in income or an unexpected major expense. It is difficult to forecast the Panel's income with any degree of accuracy as the sources of income are volatile. Indeed, as indicated in last year's Annual Report, the high level of document fees prompted a rapid review of the contract note levy. This year's results reflect the first full year with the levy at 25p per relevant transaction which explains the considerable reduction in income from that source.

Three main factors are responsible for the increase in expenditure. First, the Panel had benefited from a substantial rate rebate in the year to 31 March 1996; secondly, legal and other fees increased substantially over the reporting period; and thirdly, a new edition of the Code was published in December 1996.

Alistair N C Defriez
23 July 1997

STATISTICS

The Panel held four meetings to hear appeals against rulings by the Executive. Two of these were successful. One appeal was heard by the Appeal Committee and that was not successful.

There were 171 (year ended 31 March 1996 - 156) published takeover or merger proposals of which 166 (151) reached the stage where formal documents were sent to shareholders. These proposals were in respect of 156 (145) target companies.

37 (37) offers were not recommended at the time the offer document was posted. 30 (32) of these remained unrecommended at the end of the offer period, of which 10 (8) lapsed.

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

A further 18 (20) cases, which were still open at 31 March 1997, are not included in these figures.

The Executive was engaged in detailed consultations in another 223 (241) 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.

OUTCOME OF PROPOSALS	**1996-1997**	**1995-1996**
Successful proposals involving control (including schemes of arrangement)	137	123
Unsuccessful proposals involving control (including schemes of arrangement)	14	16
Proposals withdrawn before issue of documents (including offers overtaken by higher offers)	5	5
Proposals involving minorities, etc	15	12
	171	156

ACCOUNTS FOR THE YEAR ENDED
31 MARCH 1997

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1997

	NOTE	**1997** £	**1996** £
INCOME			
Contract note levy		641,398	1,998,176
Document fees		3,769,000	3,453,000
City Code sales		34,840	31,522
Other income		6,065	4,175
		4,451,303	5,486,873
EXPENDITURE			
Personnel costs		2,980,497	2,874,883
Accommodation costs		532,452	267,863
Other expenditure		985,396	610,715
		4,498,345	3,753,461
(DEFICIT)/SURPLUS BEFORE INTEREST AND TAXATION		(47,042)	1,733,412
Interest receivable		379,152	390,986
Taxation	2	(123,149)	(100,737)
SURPLUS FOR THE YEAR		208,961	2,023,661
ACCUMULATED SURPLUS AT BEGINNING OF YEAR		7,547,492	5,523,831
ACCUMULATED SURPLUS AT END OF YEAR		7,756,453	7,547,492

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.

BALANCE SHEET
AT 31 MARCH 1997

	NOTES	**1997** £	**1996** £
CURRENT ASSETS			
Debtors and prepayments	3	549,097	449,521
Bank and cash		7,485,314	7,352,816
		8,034,411	7,802,337
CURRENT LIABILITIES			
Creditors and accruals	4	166,838	162,556
Corporation tax		111,120	89,762
		277,958	252,318
NET CURRENT ASSETS		7,756,453)	7,550,019
Deferred tax	5	-	(2,527)
Net assets		7,756,453	7,547,492
Representing:			
ACCUMULATED SURPLUS		7,756,453	7,547,492

The accounts on page 18 to 22 were approved by the Finance Committee on 8 July 1997 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

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1997

	NOTES	**1997** £	**1996** £
Net cash inflow from activities	6	(139,079)	1,840,285
Returns on investments and servicing of finance			
Interest received		375,895	383,765
Net cash inflow from returns on investments and servicing of finance		375,895	383,765
Taxation			
UK corporation tax paid		(104,318)	(66,007)
Increase in cash	7	132,498	2,158,043

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.

2. TAXATION	**1997** £	**1996** £
UK corporation tax payable on interest income		
received:		
Current	111,120	104,317
Prior year	14,556	-
Deferred	(2,527)	(3,580)
	123,149	100,737

Corporation tax is payable at a rate of 24% (1996: 25%) for the first £300,000 of taxable profit and thereafter at an effective rate of 35% (1996: 35%).

NOTES TO THE ACCOUNTS *continued*

3. DEBTORS AND PREPAYMENTS	1997 £	1996 £
Contract note levy accrued income	149,767	240,667
Document fees	170,000	30,000
Interest receivable	35,084	31,827
Other debtors and prepayments	194,246	147,027
	549,097	449,521

4. CREDITORS AND ACCRUALS	1997 £	1996 £
Personnel costs	64,197	43,458
Legal and professional fees	32,099	104,832
Other creditors and accruals	70,542	14,266
	166,838	162,556

5. DEFERRED TAXATION	1997 £	1996 £
In respect of short term timing differences:		
This is provided at 35% (1996: 35%)		
Provision at 1 April	2,527	6,107
Transfer to income and expenditure account	(2,527)	(3,580)
Provision at 31 march	-	2,527

6. NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	1997 £	1996 £
(Deficit)/surplus before interest and taxation	(47,042)	1,733,412
(Increase)/decrease in debtors and prepayments	(96,319)	113,076
Increase/(decrease) in creditors	4,282	(6,203)
Net cash (outflow)/inflow from operating activities	(139,079)	1,840,285

NOTES TO THE ACCOUNTS *continued*

		1997	1996
7.	RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN CASH	£	£
	Cash at bank and in hand as at 1 April	7,352,816	5,194,773
	Increase in cash in period	132,498	2,158,043
	Cash at bank and in hand as at 31 March	7,485,314	7,352,816

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

We have audited the accounts on pages 18 to 22.

RESPECTIVE RESPONSIBILITIES OF PANEL MEMBERS AND AUDITORS

As described on page 23 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 1997 and of its surplus and cash flows for the year then ended.

COOPERS & LYBRAND

Chartered Accountants and Registered Auditors, London

8 July 1997

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 1997. 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.

STATEMENTS ISSUED BY THE PANEL DURING THE YEAR ENDED 31 MARCH 1997

1996			
12	April	1996 / 4	RENTOKIL GROUP – BET *(Invalid comparison of market price with offer price)*
15	April	1996 / 5	REDLAND – ENNEMIX *(Dispute between parties over respective valuations of offeree's assets)*
19	April	1996 / 6	REDLAND – ENNEMIX *(Each party required to publish breakdown of respective valuation on an RICS approved basis)*
23	April	1996 / 7	SOUTHERN ELECTRIC INTERNATIONAL – NATIONAL POWER *(Statement did not prevent the making of an offer)*
25	April	1996 / 8	RENTOKIL – BET *(Complaint in respect of dealings by exempt market-maker connected to offeror)*
26	April	1996 / 9	RENTOKIL – BET *(Offer not to be announced unconditional as to acceptances pending outcome of complaint)*
26	April	1996 / 10	RENTOKIL – BET *(Complaint rejected by Panel Executive)*
30	April	1996 / 11	APPOINTMENT OF CARLTON EVANS AS SECRETARY *(Panel Executive appointment)*
28	May	1996 / 12	APPOINTMENT OF MICHAEL SHAW AS JOINT SECRETARY *(Panel Executive appointment)*
13	June	1996 / 13	DERIVATIVES *(Amendments to the Code)*
1	July	1996 / 14	APPOINTMENT OF TONY PULLINGER AS A DEPUTY DIRECTOR GENERAL *(Panel Executive appointment)*
10	July	1996 / 15	CREST *(Amendments to the Code)*
24	September	1996 / 16	KNIGHTSWOOD (PROPERTY & INVESTMENTS) – PCT GROUP *(Criticism of offeror, its directors and their advisers for breach of Rule 9)*
18	December	1996 / 17	NORTHERN ELECTRIC *(Purchases by advisers of offeree shares did not breach the Code)*
23	December	1996 / 18	NORTHERN ELECTRIC *(Bid timetable extended by Panel following receipt of relevant information from offeree adviser)*
23	December	1996 / 19	NORTHERN ELECTRIC *(Panel Executive investigation announced)*
23	December	1996 / 20	NORTHERN ELECTRIC *(Appeal Committee upheld Panel decision to extend bid timetable)*
30	December	1996 / 21	TRIPLEX LLOYD – WILLIAM COOK *(Bid timetable suspended pending MMC decision)*
1997			
2	January	1997 / 1	OPEN-ENDED INVESTMENT COMPANIES *(The Code does not apply to OEICs)*
4	February	1997 / 2	TRIPLEX LLOYD – STEEL CASTINGS – WILLIAM COOK *(Criticism of offeror and its public relations adviser for misuse of confidential information)*
19	February	1997 / 3	APPLIED DISTRIBUTION GROUP *(Duty of offeree to make an announcement following approach by an offeror)*
14	March	1997 / 4	DE ZOETE & BEVAN – NORTHERN ELECTRIC *(Criticism of adviser for failure to disclose all relevant facts)*

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