THE TAKEOVER PANEL

REPORT ON THE YEAR ENDED
31 MARCH 1999

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THE PANEL

AS AT 20 JULY 1999

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, WARBURG DILLON READ	DEPUTY CHAIRMAN Appointed by the Governor of the Bank of England
SIR CHRISTOPHER BENSON CHAIRMAN, ALBRIGHT & WILSON	Appointed by the Governor of the Bank of England
LORD 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
SANDY LEITCH CHIEF EXECUTIVE, ZURICH FINANCIAL SERVICES	Chairman, Association of British Insurers
ANDREW C BARKER DIRECTOR & HEAD OF US EQUITIES, FOREIGN & COLONIAL MANAGEMENT	Chairman, Association of Investment Trust Companies
ALAN J AINSWORTH DEPUTY CHAIRMAN, THREADNEEDLE INVESTMENT SERVICES	Chairman, Association of Unit Trusts and Investment Funds
ANDREW R F BUXTON FORMER CHAIRMAN, BARCLAYS BANK	President, British Bankers' Association
MARTIN F BROUGHTON CHAIRMAN, BRITISH AMERICAN TOBACCO	Nominated by Confederation of British Industry
DAME SHEILA MASTERS DBE PARTNER, KPMG	President, Institute of Chartered Accountants in England and Wales
DOUGLAS C P MCDOUGALL FORMER JOINT SENIOR PARTNER, BAILLIE GIFFORD & COMPANY	Chairman, Investment Management Regulatory Organisation
ANTONY R BEEVOR MANAGING DIRECTOR, SG HAMBROS	Nominated by London Investment Banking Association
MARK D SELIGMAN HEAD OF UK INVESTMENT BANKING CREDIT SUISSE FIRST BOSTON (EUROPE)	Chairman, London investment Banking Association Corporate Finance Committee
SIR JOHN KEMP-WELCH FORMER JOINT SENIOR PARTNER, CAZENOVE & CO	Chairman, London Stock Exchange
LYNN C RUDDICK MANAGING DIRECTOR, MERCURY ASSET MANAGEMENT	Chairman, National Association of Pension Funds Investment Committee
NICHOLAS J DURLACHER DIRECTOR, BARCLAYS CAPITAL	Chairman, Securities and Futures Authority

THE APPEAL COMMITTEE

AS AT 20 JULY 1999

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 20 JULY 1999

*PATRICK DRAYTON J HENRY SCHRODER & CO	DIRECTOR GENERAL
T PETER LEE	DEPUTY DIRECTOR GENERAL
NOEL P HINTON	DEPUTY DIRECTOR GENERAL
ANTHONY G B PULLINGER	DEPUTY DIRECTOR GENERAL
*J NICHOLAS CALLISTER RADCLIFFE CAMERON MCKENNA	SECRETARY
*MARK CURTIS SIMMONS & SIMMONS	SECRETARY
*CHRISTOPHER L SWIFT NORTON ROSE	SECRETARY
*NICOLA M MILLER ERNST & YOUNG	ASSISTANT SECRETARY
*CHARLES M CRAWSHAY TRAVERS SMITH BRAITHWAITE	ASSISTANT SECRETARY
*CHARLES D R C GROVES WARBURG DILLON READ	ASSISTANT SECRETARY
*JOHN A DOVEY DENTON HALL	ASSISTANT SECRETARY
*STEPHEN W P CHEUNG DELOITTE & TOUCHE	ASSISTANT SECRETARY
*ROGER D CLARKE ARTHUR ANDERSEN	ASSISTANT SECRETARY
* JAMES A DEANE PRICEWATERHOUSE COOPERS	ASSISTANT SECRETARY
*RUSSELL S H NEWTON KPMG	ASSISTANT SECRETARY
JANE M TAYLOR	MANAGER, SUPPORT GROUP
LEE M MANN	MANAGER, MONITORING SECTION
SUSAN POWELL	MANAGER, EXEMPT SYSTEM

* 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 whose shares 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 Competition Commission or the European 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 Financial Services Authority or the relevant self-regulating organisations or recognised professional bodies) and 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 certain senior industrialists have 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 keeps 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 and in some cases requires 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

In July 1997 I reported that bid activity during the previous 12 months had continued at a high level. One year later, in July 1998, I reported another busy year and one of increased takeover activity: the Panel Executive had handled 177 bids during that year. In the last 12 months, however, the level of bid activity has increased yet again, and dramatically so. In the year ended 31 March the Executive handled no less than 235 published takeover or merger proposals; and this figure does not, of course, include cases which did not eventually lead to a public bid, but which nevertheless involved the Panel in considerable work. Bid activity at this level has not been experienced since the late 1980s. Last year I paid tribute to the skill and dedication of the Executive, and I have no hesitation in repeating that tribute now. If the accolade was justified then, it is more than justified now.

Year by year I have written in this Statement about the proposed European 13th Company Law Directive on takeovers, and of the serious risk that any such Directive poses to the continued well-being of the Panel and its Code. On 21 June the Internal Market Council of Ministers reached political agreement on the text of the proposed takeover Directive, although the final vote on the Directive was delayed at the request of Spain in order to clarify how the Directive will be applied in Gibraltar.

The Directive is subject to co-determination procedures which means that both the Council and the European Parliament must approve the Directive. At the first reading of the Directive in 1997, the Parliament made many amendments. It seems quite likely, therefore, that the Directive will in due course be subject to conciliation procedures between the Council and the Parliament, in which case it would probably not be adopted before middle to late 2000. If adopted, the UK would have 4 years to implement the Directive into domestic law.

The Directive, if enacted, would put at risk the advantages of the current non-statutory system of takeover regulation in the UK, but without providing compensating benefits. The Directive contains (in Article 4.5) provisions which are designed to limit the damage which would be caused to the existing UK system of regulation by increased litigation. It would allow the UK to retain an administrative process of bid regulation, as presently provided by the Panel. The courts would be able to dismiss tactical litigation and prevent litigation affecting the outcome of a bid, thereby continuing the approach adopted by the Court of Appeal in the *Datafin* case in 1986. Further, in implementing the Directive, the UK government could ensure that the supervisory authority could not be sued for damages and that no new grounds for litigation would be created between the

parties to a bid. These provisions should minimise the scope for litigation. But the risk of increased litigation can only be eliminated by having no Directive at all.

Unfortunately, these damage-limitation provisions do not make for good practice. The draft Directive stipulates a minimum level of protection which is far inferior to that currently provided by the Code in the UK. Even though many of the Articles (for example those on general principles, mandatory bids and frustrating action) have, so we understand, taken the Code as their starting point, the text agreed in the Council reflects the lowest common denominator of what is capable of agreement between the member states. As has been the case since a Directive was first conceived by the European Commission, pressure from the capital markets will remain a far more effective and beneficial force for change than any legislation.

On 17 June the government introduced the Financial Services & Markets Bill to Parliament, following a long period of consultation.

Clause 114 of the Bill would allow the Financial Services Authority to continue to endorse the Code and the Rules Governing Substantial Acquisitions of Shares. Endorsement by the FSA is an important element of the underpinning of the Panel's regulation of takeovers. The current endorsement requires persons authorised under the Financial Services Act to comply with the Code. The Panel determines whether or not there has been a breach of the Code and the FSA may take action against an authorised person for breach of the Code at the request of the Panel.

Under the present regulatory regime, the self-regulating organisations have rules on, for example, cold-shouldering and co-operation, which support the Panel's functions. Although the FSA has not yet published its draft rules, the Panel expects these will be part of the new regime's rule book.

The FSA has published a draft Code of Conduct on Market Abuse. There is a potential overlap between this code and the Takeover Code. The extent and implications of this overlap are being discussed with the FSA.

In March 1999 the Panel said farewell to Alistair Defriez as its Director General. Exceptionally, his two-year period of secondment was extended for a further 12 months. The Panel and the whole of the community which the Panel serves has very good reason to be grateful to him. His enthusiasm and determination were an example to us all. In his place the Panel has welcomed Patrick Drayton from Schroders. He brings with him not only his experience as a merchant banker, but also the practical experience of an industrialist, as a former Finance Director of English China Clays. We wish him all success.

SIR DAVID CALCUTT QC

20 July 1999

REPORT BY THE DIRECTOR GENERAL

Once again the Executive has had an extremely demanding year. The number of takeover proposals published, 235, has been the highest for ten years. Activity in the current year continues to be very considerable and the office has not been so busy for many years.

PRE-CONDITIONAL OFFER ANNOUNCEMENTS

Under Rule 2.5 the announcement of a firm intention to make an offer should only be made when the offeror has every reason to believe that it can and will be able to implement the offer. Following such an announcement the offeror must proceed with the offer unless the posting of the offer document is subject to a pre-condition which is not fulfilled or Panel consent to the contrary is obtained. In certain circumstances a potential offeror may make an announcement that it is considering a possible offer at a time when it does not want to be committed to making that offer (a "possible offer announcement").

The Executive has reviewed the practice of possible offer announcements under Rule 2.4 which refer to certain pre-conditions to the making of an offer; and announcements made under Rule 2.5 which set out a number of pre-conditions which must be satisfied (or waived) before a potential offeror is committed to posting an offer document.

There have been a number of cases where potential offerors have made possible offer announcements under Rule 2.4 which have stated that they are considering making an offer subject to the satisfaction of certain pre-conditions. Such announcements may create a misleading or confusing impression about the intentions of the potential offeror, because shareholders may be unable to assess in what circumstances an offer may be forthcoming. Accordingly, it must be clear from the wording of any possible offer announcement referring to pre-conditions whether or not the pre-conditions must be satisfied before an offer can be made, or whether they are effectively waivable. It must also be made clear that, even if the specified pre-conditions are satisfied (or waived), an offer will not necessarily be made. The Executive must be consulted in advance if it is proposed to make a pre-conditional possible offer announcement.

Although there is no obligation to specify all the pre-conditions to the making of an offer, if a potential offeror does so and states that it will proceed with its offer if they are all satisfied or waived,

then any announcement must be structured as a pre-conditional Rule 2.5 announcement. It must, however, be made clear in such an announcement whether or not the pre-conditions are waivable. Such pre-conditions may, depending on the specific circumstances of the case, be subjective in form, in contrast to conditions to an offer which should, under Rule 13, normally be objective.

EQUALITY OF INFORMATION TO COMPETING OFFERORS

Under Rule 20.2 any information given to one offeror or potential offeror must, on request, be given equally and promptly to another offeror or bona fide potential offeror. This requirement usually only applies once there has been a public announcement of the existence of the offeror or potential offeror, whether named or unnamed. For example, an announcement that a company is in talks about a possible offer would constitute the public announcement of the existence of an offeror or potential offeror.

It would not be acceptable for an offeree to provide information covered by Rule 20.2 to one existing or potential offeror when it might be unable to provide this information to another existing or potential offeror on an equal basis. For example, if an offeree wishes to release information to one offeror or potential offeror that is subject to a confidentiality agreement with a third party, the offeree must ensure that it has authority to pass that information to any other offeror or bona fide potential offeror.

INVOKING CONDITIONS TO AN OFFER

Rule 13 normally prohibits offers being made subject to conditions which give discretion to the board of the offeror to decide whether or not a condition has been satisfied or which give the offeror board the power to choose whether or not to fulfil a condition. If such conditions were permitted it would create great uncertainty for the offeree, its shareholders and the market generally in circumstances where an offer would be open for acceptance.

However, even where a condition to an offer has been drafted in a form to satisfy Rule 13, offerors and their advisers should be aware that, as provided in Note 2 on Rule 13, it will not be possible to invoke such a condition so as to cause a bid to lapse unless the circumstances which give rise to the right to invoke the condition are of material significance to the offeror in the context of the offer. This is to prevent offerors from using widely drafted, albeit objective, conditions as a means of circumventing Rule 13. The Executive would expect to be consulted before any condition was invoked by an offeror.

RULE 37: PURCHASE OF OWN SHARES

Directors of a company are not normally presumed by the Code to be acting in concert unless their company is subject to an offer or they have reason to believe a bona fide offer for their company may be imminent. Under Rule 37, however, directors of a company will be presumed to be acting in concert from the time they resolve to seek shareholders' authority for a redemption or purchase of the company's own shares until the later of the date of the general meeting at which the resolution to grant such authority is considered, the expiry of the authority in question or the utilisation in full of that authority.

In practice many companies seek an annual authority from their shareholders to purchase or redeem their own shares. Directors of companies seeking such authorities will, together with shareholders who are acting in concert with them, be treated as acting in concert on an on-going basis irrespective of whether any offer or potential offer for their company has been received. Any shareholder which has appointed a representative to the board of the company in question will normally be treated as a director.

In the event that the combined holding of any such concert party could increase to 30% or more of the voting rights of the company in question (or, if already 30% or more but not more than 50%, might increase further) as a result of an exercise of the authority to purchase or redeem shares, the Executive should be consulted with regard to a waiver of the obligation to make a general offer. Subject to prior consultation, the Panel will normally waive any resulting obligation to make a general offer if there is a vote of independent shareholders and a whitewash procedure on the lines of that set out in Appendix 1 to the Code is followed.

RULE 9: AGGREGATION OF GROUP HOLDINGS

The Executive has a standard approach under Rule 9 to the treatment of holdings within different parts of multi-service financial organisations.

The Executive will aggregate all positions held by the group either as principal or on behalf of discretionary clients. Holdings of exempt market-makers and exempt fund managers will be included in the total aggregate holdings of the group. This is because exempt status is only relevant to rebut the presumption, which would otherwise arise under the Code, that market-making and fund management operations of a particular securities group will be acting in concert with a client advised by the corporate finance department of that group.

Compliance officers of securities groups should therefore monitor closely the total aggregate holdings of the group. Control of the relevant positions, whether they be held as principal or on behalf of discretionary clients, will effectively be in the hands of the overall group and it is, therefore, incumbent on that group to monitor the holdings so as to ensure that Rule 9 is not breached.

Following a merger of securities groups, a combined aggregate holding of the enlarged group in excess of 30% of the voting rights of a particular company might result. Where such circumstances arise, the Executive should be consulted although its general approach is to treat such events as the coming together of shareholders to act in concert and would therefore, in accordance with Note 1 on Rule 9.1, not require a general offer to be made under Rule 9. In such circumstances, however, the combined group will be subject to the prohibition which applies under Rule 9 on the acquisition of further voting rights in the company in question.

This approach on aggregation in respect of Rule 9 could operate onerously to restrict the market-making functions within securities groups. Therefore, in cases where the aggregate group holding approaches or exceeds 30%, the Executive may be prepared to permit market-making to continue subject to the relevant company not being in an offer period and the position of the market-maker not exceeding 3%.

LOAN NOTE ALTERNATIVES AND GENERAL PRINCIPLE 1

General Principle 1 requires all shareholders of the same class of an offeree to be treated similarly.

If it is proposed to make a loan note alternative available to accepting shareholders, all such shareholders (whatever the size of their shareholding in the offeree and, accordingly, the amount of loan notes to which they would be entitled) must be able to elect for loan notes. It would constitute a breach of General Principle 1 to disregard, or treat as invalid, a loan note alternative election from a shareholder on the grounds that it would result in such shareholder receiving less than a specified nominal value of loan notes (unless the resulting holding for such shareholder was *de minimis*).

Similar concerns under General Principle 1 will apply to any other form of consideration where the effect of the terms of the offer is to prevent the shareholder receiving that consideration because of the size of that shareholder's holding in the offeree.

ACCOUNTS

In the year to 31 March 1999 contract note levy receipts increased to £955,318 from £833,944 in the previous year; the total income from document fees was £6,192,500 compared with £4,747,000 in 1998. Expenditure at £5,544,917 was 6.7% higher than in the previous year.

As reported elsewhere, the volume of takeover activity has been exceptionally high. As a result, the total income from document fees showed significant growth which, combined with the sums raised under the contract note levy, would have led, without appropriate action, to a substantial increase in the accumulated surplus. The Panel therefore decided to rebate 40% of the amount levied in document fees during the year, reducing the recorded income from this source to £3,715,500.

The Panel seeks to maintain the accumulated surplus at a prudent level so that an unexpected major expense or a sudden and sustained reduction in revenue would not cause immediate financial concern. The Panel also believes that it should not allow the accumulated surplus to increase to unacceptable levels. The unpredictable nature of the Panel's revenue means that maintaining the correct balance is not easy, and the Panel will continue to make appropriate adjustments from time to time.

Patrick Drayton
20 July 1999

STATISTICS

The Panel held three meetings to hear appeals against rulings by the Executive. None of the appeals was successful. No cases were heard by the Appeal Committee.

There were 235 (year ended 31 March 1998–177) published takeover or merger proposals of which 231 (175) reached the stage where formal documents were sent to shareholders. These proposals were in respect of 221 (171) target companies.

38 (24) offers were not recommended at the time the offer document was posted. 24 (20) of these remained unrecommended at the end of the offer period, of which 12 (6) lapsed.

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

A further 38 (30) cases, which were still open at 31 March 1999, are not included in these figures.

The Executive was engaged in detailed consultations in another 219 (288) 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.

	1998-1999	**1997-1998**
OUTCOME OF PROPOSALS		
Successful proposals involving control (including schemes of arrangement)	181	145
Unsuccessful proposals involving control (including schemes of arrangement)	19	11
Proposals withdrawn before issue of documents (including offers overtaken by higher offers)	4	2
Proposals involving minorities, etc	31	19
	235	177

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1999

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1999

	NOTE	1999 £	1998 £
INCOME			
Contract note levy		955,318	833,944
Document fees	2	3,715,500	2,373,500
City Code sales		46,130	48,041
Other income		4,570	5,310
		4,721,518	3,260,795
EXPENDITURE			
Personnel costs		3,790,325	3,514,277
Accommodation costs		478,044	569,977
Other expenditure		1,286,548	1,110,062
		5,554,917	5,194,316
(DEFICIT) BEFORE INTEREST AND TAXATION		(833,399)	(1,933,521)
Interest receivable		437,453	491,645
Taxation	3	(109,047)	(127,201)
(DEFICIT)/SURPLUS FOR THE YEAR		(504,993)	(1,569,077)
ACCUMULATED SURPLUS AT BEGINNING OF YEAR		6,187,376	7,756,453
ACCUMULATED SURPLUS AT END OF YEAR		5,682,383	6,187,376

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 1999

	NOTES	**1999** £	**1998** £
CURRENT ASSETS			
Debtors and prepayments	4	540,097	532,536
Bank and cash		5,742,533	6,070,172
		6,282,630	6,602,708
CURRENT LIABILITIES			
Creditors and accruals	5	491,200	288,131
Corporation tax		109,047	127,201
		600,247	415,332
Net assets		5,682,383	6,187,376
Representing:			
ACCUMULATED SURPLUS		5,682,383	6,187,376

The accounts on pages 16 to 20 were approved by the Finance Committee on 6 July 1999 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 1999

	NOTES	1999 £	1998 £
Net cash (outflow) from operating activities	6	(654,359)	(1,782,260)
Returns on investments and servicing of finance			
Interest received		453,921	478,238
Net cash inflow from returns on investments and servicing of finance		453,921	478,238
Taxation			
UK Corporation tax paid		(127,201)	(111,120)
(Decrease)/Increase in cash	7	(327,639)	(1,415,142)

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.

2. DOCUMENT FEES

In the year to 31 March 1999 document fees generated £6,192,500 compared with £4,747,000 in 1998. The Panel decided to rebate 40% of the amount levied in the year to 31 March 1999 (1998: 50%). The figure shown in the Income and Expenditure Account is net of this rebate.

3. TAXATION

	1999 £	1998 £
UK corporation tax payable on interest income received:		
Current	109,047	127,201
	109,047	127,201

Corporation tax is payable at a rate of 21% (1998: 21%) for the first £ 300,000 of taxable profit and thereafter at an effective rate of 33.5% (1998: 33.5%).

NOTES TO THE ACCOUNTS *continued*

4. DEBTORS AND PREPAYMENTS	1999 £	1998 £
Contract note levy accrued income	292,012	289,433
Document fees	76,500	20,250
Interest receivable	32,023	48,491
Other debtors and prepayments	139,562	174,362
	540,097	532,536

5. CREDITORS AND ACCRUALS	1999 £	1998 £
Personnel costs	198,299	141,829
Legal and professional fees	79,430	6,500
Document fees	181,000	–
Other creditors and accruals	32,471	139,802
	491,200	288,131

6. NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	1999 £	1998 £
(Deficit) before interest and taxation:	(833,399)	(1,933,521)
Decrease/(Increase) in debtors and prepayments	(24,029)	29,968
Increase in creditors	203,069	121,293
Net cash (outflow) from operating activities	(654,359)	(1,782,260)

NOTES TO THE ACCOUNTS *continued*

		1999	1998
7.	RECONCILIATION OF NET CASH (OUTFLOW) TO MOVEMENT IN NET FUNDS	£	£
	(Decrease)/Increase in cash in period	(327,639)	(1,415,142)
	Change in net funds	(327,639)	(1,415,142)
	Net funds at 1 April 1998	6,070,172	7,485,314
	Net funds at 31 March 1999	5,742,533	6,070,172

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

We have audited the accounts on pages 16 to 20, which have been prepared under the historical cost convention and the accounting policies set out on page 18.

RESPECTIVE RESPONSIBILITIES OF PANEL MEMBERS AND AUDITORS

As described on page 21 the Panel Members are responsible for the preparation of 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 1999 and of its deficit and cash flows for the year then ended.

PRICEWATERHOUSECOOPERS

Chartered Accountants and Registered Auditors, London

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 1999. 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 1999

1998

2 April	1998 / 5	QUEBECOR PRINTING INC – WEBINVEST LIMITED – WATMOUGHS (HOLDINGS) PLC *(Bid timetable suspended pending receipt of competition authority clearance)*
16 April	1998 / 6	TEXAS UTILITIES COMPANY – PACIFICORP – THE ENERGY GROUP PLC *(Bid timetable suspended pending receipt of competition authority clearance)*
23 April	1998 / 7	TEXAS UTILITIES COMPANY – PACIFICORP – THE ENERGY GROUP PLC *(Extension of last date for posting a revised offer document)*
29 April	1998 / 8	TEXAS UTILITIES COMPANY – PACIFICORP – THE ENERGY GROUP PLC *(In connection with Rule 32.1 a procedure which permitted formula sealed bids would achieve the fairest and most orderly framework for possible revisions to competing offers)*
8 May	1998 / 9	CLEAR CHANNEL COMMUNICATIONS INC – DECAUX S.A. – MORE GROUP PLC *(Bid timetable suspended pending receipt of competition authority clearance)*
26 August	1998 / 10	RULE CHANGES *(Amendments to Code – removal of 1% purchasing freedom allowed under Rule 9)*
1 October	1998 / 11	HENLYS GROUP PLC – THE MAYFLOWER CORPORATION PLC – DENNIS GROUP PLC *(Bid timetable suspended pending receipt of competition authority clearance)*
10 November	1998 / 12	DISCLOSURE OF DEALINGS *(Amendments to Code – procedure for disclosure of dealings by connected exempt market-makers and exempt principal traders)*
17 December	1998 / 13	APPOINTMENT OF PATRICK DRAYTON AS DIRECTOR GENERAL *(Panel Executive appointment)*

1999

6 January	1999 / 1	THE GREAT UNIVERSAL STORES PLC – ARGOS PLC *(Notice of convening of a meeting of the panel to hear an appeal against procedural rulings of the panel Executive)*
14 January	1999 / 2	THE WOLVERHAMPTON & DUDLEY BREWERIES PLC – MARSTON THOMPSON & EVERSHED PLC *(Re-setting of 'Day 39' of bid timetable following announcement by the offeree of a bid for the offeror)*
3 February	1999 / 3	THE GREAT UNIVERSAL STORES PLC – ARGOS PLC *(Panel dismissed appeal against various procedural rulings of the Panel Executive)*
22 February	1999 / 4	THE GREAT UNIVERSAL STORES PLC – ARGOS PLC *(Panel dismissed appeal by offeror regarding statements made by the offeree)*
30 March	1999 / 5	APPOINTMENT OF CHRISTOPHER SWIFT AS JOINT SECRETARY *(Panel Executive appointment)*

For details of how to obtain copies of the Code, Panel Statements and Annual Reports contact:
Panel on Takeovers and Mergers,
P O Box No 226, The Stock Exchange Building,
London EC2P 2JX. Telephone: 0171 382 9026

Burrups Ltd, St Ives plc B489929