

THE TAKEOVER PANEL
REPORT ON THE YEAR ENDED
31 MARCH 2004

THE TAKEOVER PANEL
2003 – 2004 REPORT

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THE PANEL
AS AT 15 JULY 2004

PETER SCOTT QC	CHAIRMAN Appointed by the Governor of the Bank of England	SIR GEORGE MATHWSON CHAIRMAN, THE ROYAL BANK OF SCOTLAND GROUP	President, British Bankers' Association
JOHN L WALKER-HAWORTH FORMER MANAGING DIRECTOR, UBS INVESTMENT BANK	DEPUTY CHAIRMAN Appointed by the Governor of the Bank of England	MICHAEL J OLIVER COMPANY SECRETARY, BOOTS GROUP	Nominated by Confederation of British Industry
ANTONY R BEEVOR FORMER SENIOR ADVISER, INVESTMENT BANKING, SOCIETE GENERALE	DEPUTY CHAIRMAN Appointed by the Governor of the Bank of England	PAUL B DRUCKMAN MANAGING DIRECTOR, ORANGE CONSULTING	President, Institute of Chartered Accountants in England and Wales
SIR DAVID LEES CHAIRMAN, GKN	Appointed by the Governor of the Bank of England	LINDSAY P TOMLINSON VICE CHAIRMAN EUROPE, BARCLAYS GLOBAL INVESTORS	Chairman, Investment Management Association
ANTONY P HICHENS CHAIRMAN, D S SMITH	Appointed by the Governor of the Bank of England	DAVID J CHALLEN VICE CHAIRMAN, EUROPEAN INVESTMENT BANK, CITIGROUP	Nominated by London Investment Banking Association
SIR IAN ROBINSON CHAIRMAN, HILTON GROUP	Appointed by the Governor of the Bank of England	SIMON P DINGEMANS MANAGING DIRECTOR, GOLDMAN SACHS	Chairman, London Investment Banking Association Corporate Finance Committee
RICHARD J HARVEY GROUP CHIEF EXECUTIVE, AVIVA	Chairman, Association of British Insurers	ALAN C D YARROW VICE CHAIRMAN, DRESDNER KLEINWORT WASSERSTEIN	Chairman, London Investment Banking Association Securities Trading Committee
ALEX HAMMOND-CHAMBERS CHAIRMAN, ALEX HAMMOND-CHAMBERS	Chairman, Association of Investment Trust Companies	KENNETH E AYERS CONSULTANT, FRANK RUSSELL COMPANY	Nominated by National Association of Pension Funds Investment Council
G MARK POWELL CHAIRMAN, RATHBONE INVESTMENT MANAGEMENT	Chairman, Association of Private Client Investment Managers and Stockbrokers		

Sir Brian Stewart, Chairman of Scottish & Newcastle, and J Martin Taylor, International Adviser, Goldman Sachs are alternates to Sir David Lees, Antony Hichens and Sir Ian Robinson.

THE APPEAL COMMITTEE
AS AT 15 JULY 2004

THE RT HON SIR ANDREW LEGGATT FORMER LORD JUSTICE OF APPEAL	CHAIRMAN OF THE APPEAL COMMITTEE Appointed by the Governor of the Bank of England	THE RT HON SIR MARTIN NOURSE FORMER LORD JUSTICE OF APPEAL	DEPUTY CHAIRMAN OF THE APPEAL COMMITTEE Appointed by the Governor of the Bank of England
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THE PANEL EXECUTIVE

AS AT 15 JULY 2004

*RICHARD A MURLEY GOLDMAN SACHS	DIRECTOR GENERAL
NOEL P HINTON	DEPUTY DIRECTOR GENERAL
ANTHONY G B PULLINGER	DEPUTY DIRECTOR GENERAL
NICOLA M MILLER	SECRETARY
CHARLES M CRAWSHAY	SECRETARY
*SELINA S SAGAYAM SIMMONS & SIMMONS	SECRETARY
*IAN R MOORE KPMG	ASSISTANT SECRETARY
*STUART D BANKS CLEARY, GOTTlieb, STEEN & HAMILTON	ASSISTANT SECRETARY
*AMANDA J PATERSON DELOITTE & TOUCHE	ASSISTANT SECRETARY
*CHRISTOPHER J DANIELS CITIGROUP	ASSISTANT SECRETARY
*NICKY S WICKREMA ERNST & YOUNG	ASSISTANT SECRETARY
*ROBERT E ADAM BAKER & MCKENZIE	ASSISTANT SECRETARY
*DIPIKA SHAH MERRILL LYNCH	ASSISTANT SECRETARY
*JONATHAN M AINSWORTH PRICEWATERHOUSE COOPERS	ASSISTANT SECRETARY
JANE M TAYLOR	MANAGER, SUPPORT GROUP
LEE M MANN	MANAGER, MONITORING SECTION
CRAIG G ANDREWS	DEPUTY MANAGER, MONITORING SECTION
SUSAN POWELL	MANAGER, EXEMPT SYSTEM
BARBARA A MUSTON	CODE REVISION
ANTONIA F STEWART	CODE REVISION
JOHN A DOVEY	CODE REVISION

*SECONDED

INTRODUCTION TO THE TAKEOVER PANEL

The Takeover Panel is the regulatory body which 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. The maintenance of fair and orderly markets is crucial to this objective.

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. These characteristics are important 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 and to reporting the offender's conduct to another regulatory authority (for example, the Department of Trade and Industry or the Financial Services Authority), 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 sponsor, and the Governor appoints the Chairman, the Deputy Chairmen and three independent members, who are industrialists. To ensure that industry is represented at all meetings, many of which have to be arranged at short notice, certain other industrialists act as alternates to the industrialist members.

The three independent members appointed by the Governor are appointed for three years. There is no limit to the number of terms that can be served. Members of the Panel and the Executive are asked to suggest names of suitable candidates. Once a list of candidates has been compiled, it is considered by a Nominations Committee of the Panel which compiles a short-list. The Committee then submits recommendations to the Governor.

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

THE CODE COMMITTEE

The role of the Code Committee is to keep under review and, where appropriate, put forward, consult upon and make amendments to the substantive provisions (such as the General Principles and Rules) of the Code and the Rules Governing Substantial Acquisitions of Shares (“SARs”).

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 and his deputy will usually have held high judicial office.

THE EXECUTIVE

The Executive is headed by the Director General, usually an investment banker on secondment. Some of the Executive are permanent, providing an essential element of continuity. They are joined by lawyers, accountants, stockbrokers, investment 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

The level of bid activity has increased somewhat this year, although it is uncertain whether this will develop into a continuing and sustained upturn. The number of transactions dealt with by the Panel remains in spite of this increase below the annual average of just under 200 transactions, since the Panel's inception.

During the year the Executive has in addition to dealing with current and proposed transactions assisted the Code Committee on a wide number of issues relating to the City Code. The Committee's function of reviewing the Code, keeping it clear, succinct and appropriate for current conditions is crucial to the Panel's success, and I am very grateful to Donald Brydon and his colleagues for the time and skill which they devote to this task. I am also very grateful to those who respond to the consultation papers issued by the Committee. These responses are invaluable when assessing what is in the interests of shareholders, practitioners and the public generally.

One major task of the Panel this year has been to address the implications of the Takeover Directive which finally emerged from the European Community after interminable negotiations. The result is hardly a triumph for harmonisation since the contentious areas remain a matter for Member States to decide for themselves. It is also hard to see within it any significant improvement to the principles or methods by which takeovers and mergers are conducted in the United Kingdom under the City Code. As the Director General indicates, the Panel considers it is now vital to ensure that any legislation needed to implement the Directive (in particular to appoint the Panel as the body to implement its terms) should be carefully worded to preserve the independence of the Panel and the strengths of the present system. Our preliminary discussions on this with the Government and others have already been greatly helped by representations of shareholders, practitioners and others who have provided strong support for this approach.

Appeals heard by the Panel from decisions of the Executive have now achieved a pattern which is intended to accommodate any concerns about human rights. Whilst necessarily involving in almost every case written submissions from the parties (including the Executive) supplemented by an oral hearing it has been possible with the co-operation of the parties concerned to retain the Panel's reputation for speedy determination of disputes. For example, in one case this year, the Panel received notice of an appeal at 5.00 p.m. on a Thursday. The Panel was convened, and heard and determined the appeal after hearing all parties in time to enable an EGM of the company concerned to be held on the basis of the Panel's decision at 2.00 p.m. on Friday (the following day). I am particularly grateful to Panel members who have attended appeals often at short notice, and Panel meetings during the past year.

Since the year end, the Panel has moved after a stay of more than 30 years in the Stock Exchange Building in Old Broad Street, to the new Stock Exchange Building in Paternoster Square. While a number of properties were considered, it was finally decided that a floor in the new Stock Exchange Building met the Panel's requirements better than any of the alternatives. I am glad to report that the move went smoothly and the Executive has now settled into its new premises. I

would also like to thank the Stock Exchange for their help in this regard. The Stock Exchange has been a considerate and helpful landlord for the last 30 years and we are sure that they will continue to be so.

This statement would not be complete without referring to Lord Shawcross who died last year. If in 2004 the Panel is a widely-respected institution, it is due in no small part to the authority wielded by Lord Shawcross as Chairman of the Panel from 1969 to 1980. Obituaries and other tributes to Lord Shawcross revealed the breadth of his talent; he is principally remembered by the Panel as the person who so firmly and successfully empowered the principles which guide the Panel today and which have stood the test over many years of eventful progress.

Lord Shawcross worked with a number of Directors General but his first was Sir Ian Fraser, who also died last year. Sir Ian, seconded to the Panel from S G Warburg, spent two years as Director General when there was some willingness to test the authority of the comparatively new regulator. In tandem with Lord Shawcross, Ian Fraser worked very successfully to establish the framework of regulation which is the foundation of today's Code.

Finally, I would like to thank Richard Murley and the Executive for their skilful efforts during the past year. It has been a real pleasure to work with them.

PETER SCOTT QC

15 July 2004

THE CODE COMMITTEE

AS AT 15 JULY 2004

DONALD BRYDON CHAIRMAN	CHAIRMAN, AXA INVESTMENT MANAGERS
CHRIS CHEETHAM	GLOBAL CHIEF INVESTMENT OFFICER, HSBC ASSET MANAGEMENT
JOHN D COOMBE	CHIEF FINANCIAL OFFICER, GLAXOSMITHKLINE
HEYDAR KAHNAMOUYIPOUR	FORMER MANAGING DIRECTOR, UBS INVESTMENT BANK
ALAN D PAUL	PARTNER, ALLEN & OVERY
THOMAS M ROSS	DIRECTOR, ROYAL LONDON MUTUAL INSURANCE SOCIETY
CHRISTOPHER SMITH	MANAGING DIRECTOR, CAZENOVE & Co. CORPORATE FINANCE

CHAIRMAN OF THE CODE COMMITTEE'S STATEMENT

The Code Committee has continued in its task of keeping the Code and the SARs under review and considering, consulting on and making amendments where appropriate. In February 2004, the Committee welcomed as a valuable new member, Chris Cheetham of HSBC Asset Management.

The Committee has met four times during the year under review and has published five new Public Consultation Papers ("PCPs") and three Response Statements ("RSs"). The Code has been amended to reflect the results of these consultation exercises and also to effect some minor amendments, which did not require public consultation because they were made as a consequence of changes to relevant legislation or rules.

Matters leading to a possible amendment might arise from a specific experience, from market developments or from particular concerns of those operating within the markets. Normally, once it has agreed that an issue should be pursued, the Committee's practice is to delegate preparation of a draft PCP to the Executive, who consult as appropriate with parties who have a particular interest or relevant expertise in the subject matter. Once the Committee has approved the PCP, it is published and made available on the Panel's website. Consultation periods usually vary between one and two months, depending on the complexity of the subject. The Committee will then reach conclusions taking account of all responses to the PCP and those conclusions are published, with the final Code amendments, in a Response Statement. Each RS is also available on the website.

A full list of the PCPs and RSs published during the year can be found on page 25. The Committee's first publication of the year (RS 12) contained its conclusions on the responses to PCP 12, which proposed extending the scope of Rule 31.9 so that generally no material new information could be released by the offeree company after Day 39 of the offer period. Respondents

were supportive of the proposals and the Code was duly amended in April.

Next, PCP 13 proposed a number of technical changes to the Code arising from a change in company law allowing companies to hold certain types of share “in treasury” for resale at a later date. Those responding to the PCP supported the changes in general but, during the consultation period, some further technical queries were raised about the application of the proposed new legislation, which had implications for the Code amendments. Publication of RS 13 was therefore delayed while further discussions with the DTI took place. Following resolution of these matters, the Committee concluded that a further amendment to the Code was required and the full set of amendments was published in November, coming into force at the same time as the new legislation at the beginning of December.

The two minor amendments proposed in PCP 14 to require the disclosure of relevant share capital by parties to a takeover bid were also supported by respondents. Following this consultation, the Committee adopted some suggested clarifying changes to its proposals and published its conclusions in RS 14 in July. The Code was amended accordingly at that time.

In the light of the Executive’s recent experience in a number of offers, the Committee went on to discuss the Code treatment of “offeree protection conditions”: those conditions to an offer included for the benefit of offeree shareholders, rather than, as is usual, for the benefit of the offeror. This consultation exercise raised a number of important issues, which have led the Committee to reconsider its proposals. It will be reconsulting on this matter in due course.

In December, the Committee published some amendments to update the Code, bringing it into line with the requirements of the rules of the Royal Institute of Chartered Surveyors in relation to asset valuations. It also amended relevant provisions in the Code to reflect recent developments both in company law and the Listing Rules in relation to the disclosure of information about directors’ service contracts. As mentioned above, these amendments did not require public consultation.

Early in 2004, the Committee addressed itself to a number of problems that were arising in the context of announcements of possible offers, made under Rule 2.4. In PCP 2004/1, relating to “‘Put up or shut up’ and no intention to bid statements” the Committee sought views on the approach that the Panel should take in relation to the situation where a potential offeror announces a possible offer but is not in a position to commit to making a firm offer and the offeree company requests the Panel to intervene by imposing a deadline by which the offeror must clarify its intentions. PCP 2004/2 at the same time considered the consequences that should apply when a party making a possible offer announcement includes information relating to the terms on which an offer might be made, such as the price being considered. The Committee is considering the responses to these proposals and will be announcing its conclusions shortly.

Finally, it is important to mention that the Committee has been considering for some time a number of market-related issues. This work recently culminated in the publication of PCP 2004/3, on which the Committee looks forward to receiving comments.

Experience of the last three years has shown that new issues for the Committee’s consideration are arising all the time. The Committee is indebted to the individuals and professional bodies who continue to participate in the consultative process, providing responses of a consistently high

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standard, which, as this report shows, have a great influence on the Committee's deliberations.

As Chairman, I am also personally indebted to the members of the Committee and the excellent Executive team, whose commitment to its work continues to be a fundamental feature of its success. Ian Salter, who has been a member of the Committee since its inception, announced on 14 July that he was standing down. I therefore want to thank him in particular for his thoughtful contribution over the last three years.

DONALD BRYDON
15 July 2004

REPORT BY THE DIRECTOR GENERAL

The number of takeover proposals which were resolved (became unconditional, were withdrawn or lapsed) during the year, 136, represented an increase over the previous year's figure of 108. However, this figure is still well below those for earlier years and it is still too early to be able to report signs of a sustained increase in activity.

TAKEOVER DIRECTIVE

The 13th Company Law Directive on takeovers finally passed all its stages and came into force on 20 May 2004. Member States are required to implement the Directive within two years of this date.

Some of the proposals in drafts of the Directive had proved extremely contentious during the 14 years of negotiation of the text. In particular, a number of Member States were strongly opposed to proposals contained in Articles 9 and 11 of the draft published by the Commission in October 2002. The draft Article 9 prohibited, without prior shareholder approval, frustrating action by boards of directors of offeree companies; the draft Article 11 contained the so-called "breakthrough" provision which entitles a bidder who had bought 75 per cent of the equity of a target to override multiple voting rights and other similar provisions.

Ultimately the log-jam was broken by the introduction of a new provision, Article 12, which allows Member States to opt out of complying with either or both of the contentious Articles. If a Member State chooses to opt out of an Article, individual companies within that country may opt in again i.e. elect to be bound by the relevant Article. Member States accepted this compromise and the Directive was accordingly enacted with Articles 9 and 11 unchanged, but optional.

It remains to be seen how individual countries will apply Article 12. In the United Kingdom, Article 9 is very similar in its effect to General Principle 7 and Rule 21.1 of the Code, so the Panel believes that it is essential that the UK opts in to this provision. A number of parties have represented strongly to the Government that to opt in to Article 11 would lead to very undesirable consequences; the Panel is watching this debate closely.

The Directive as enacted represents, at best, only a very modest step towards its original objective of a level playing field for takeovers in the European Union. There are some minor measures which will help to promote a uniform approach, such as additional disclosure requirements and a prescribed regime for mandatory bids and the squeeze-out of minorities. However, the key liberalising measures are, as mentioned above, only optional. The Directive will add very little of benefit to the UK system so the Panel believes overall that the enacted text represents a disappointing outcome for UK companies and investors.

The Panel is working closely with the DTI the process to implement the Directive in the UK. The Panel has indicated that its view is that implementation will require primary legislation and understands that a consultation process will take place before any measures are tabled before Parliament. In the run-up to this process the Panel will be working to ensure that the current strengths of the Panel system are maintained under the new regime. In particular, the Panel will wish to see that its independence continues and that its ability to offer speed, flexibility and certainty to shareholders and practitioners is not damaged.

PRACTICE STATEMENTS

Previous Annual Reports by the Director General have contained comments as to how the Executive applies individual provisions in the Code, along with other items of guidance for practitioners. The Executive has decided that it would be more useful to publish such comments from time to time throughout the year and so announced on 12 February that it would in future publish such comments through Practice Statements.

These Statements do not form part of the Code or the SARs. Accordingly, they are, like comments in previous Annual Reports, not binding on the Panel or the Executive. In particular, they are not a substitute for consulting with the Executive to establish how the Code and the SARs apply in a particular case.

During the year, the Executive published four Practice Statements on:

Rule 20.1 – Equality of information

Rule 20.2 – Site visits and meetings with management

Rule 20.2 – Controlled auctions

Rule 21.2 – Inducement fees

The text of these Statements is available on the Panel's website, www.thetakeoverpanel.org.uk..

ACCOUNTS

A surplus of £2,778,752 was recorded this year, compared to a surplus of £1,494,817 in the previous year. Income grew from £8,796,955 to £10,355,916, reflecting the increase in announced bids and a rise in the average size of bids in the year. Expenditure was £7,662,274 compared with £7,351,470. A fall of some 14 per cent in personnel costs was offset by a sharp rise in legal fees (due to work on the implementation of the Takeover Directive) and by the first tranche of costs associated with the move to new offices.

The Panel continues to monitor its costs carefully and to adjust staffing to reflect the low volume of bid activity. The current year will involve more substantial non-recurring relocation costs, as well as further significant legal costs in relation to the Directive. As a result, the Panel believes that the year ending 31 March 2005 is unlikely to result in a significant further surplus in the absence of a sharp rise in bid activity.

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The Accumulated Surplus rose to £5,152,854. This is still below the level which the Panel regards as a prudent protection against a sharp fall in income or major unexpected costs, particularly in view of the outlook for this year.

RICHARD MURLEY
15 July 2004

**ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2004**

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2004

	NOTE	2004 £	2003 £
INCOME			
Contract note levy		3,907,108	4,297,823
Document fees		5,852,000	4,089,000
City Code sales		254,333	303,512
Exempt income		340,000	105,000
Other income		2,475	1,620
		<u>10,355,916</u>	<u>8,796,955</u>
EXPENDITURE			
Personnel costs		4,965,947	5,766,297
Accommodation costs		779,114	577,867
Other expenditure		1,917,213	1,007,306
		<u>7,662,274</u>	<u>7,351,470</u>
SURPLUS BEFORE INTEREST AND TAXATION		2,693,642	1,445,485
Interest receivable		106,388	56,918
Taxation	2	(21,278)	(7,586)
SURPLUS FOR THE YEAR		<u>2,778,752</u>	<u>1,494,817</u>
ACCUMULATED SURPLUS AT BEGINNING OF YEAR		<u>2,374,102</u>	<u>879,285</u>
ACCUMULATED SURPLUS AT END OF YEAR		<u><u>5,152,854</u></u>	<u><u>2,374,102</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 2004

	NOTE	2004 £	2003 £
CURRENT ASSETS			
Debtors and prepayments	3	1,650,336	1,579,340
Bank and cash		4,578,114	1,435,675
		<u>6,228,450</u>	<u>3,015,015</u>
CURRENT LIABILITIES			
Creditors and accruals	4	1,054,318	629,529
Corporation tax		21,278	11,384
		<u>1,075,596</u>	<u>640,913</u>
Net Assets		<u>5,152,854</u>	<u>2,374,102</u>
Representing:			
ACCUMULATED SURPLUS		<u>5,152,854</u>	<u>2,374,102</u>

The accounts on pages 16 to 19 were approved by the Finance Committee on 15 June 2004 and signed on behalf of the Members by:

PETER SCOTT QC

The Chairman, Panel on Takeovers and Mergers

ANTONY BEEVOR

The Chairman, Finance Committee

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2004

	NOTE	2004 £	2003 £
Net cash inflow from operating activities	5	<u>3,047,435</u>	<u>668,266</u>
Returns on investments and servicing of finance			
Interest received		<u>106,388</u>	<u>56,599</u>
Net cash inflow from returns on investments and servicing of finance		<u>106,388</u>	<u>56,599</u>
Taxation			
UK Corporation tax paid		<u>(11,384)</u>	<u>(25,030)</u>
Increase in cash	6	<u><u>3,142,439</u></u>	<u><u>699,835</u></u>

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) Expenditure relating to the new premises is written off in the year in which it is incurred.
- d) Income and expenditure is accounted for on an accruals basis.

	2004 £	2003 £
2. TAXATION		
UK Corporation tax payable on interest income received:		
Current	<u>21,278</u>	<u>7,586</u>
	<u><u>21,278</u></u>	<u><u>7,586</u></u>

Corporation tax is payable at a rate of 20% (2003: 20%) for the first £300,000 of taxable profit and thereafter at an effective rate of 32.5% (2003: 32.5%).

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NOTES TO THE ACCOUNTS *continued*

	2004	2003
	£	£
3. DEBTORS AND PREPAYMENTS		
Contract note levy accrued income	1,000,000	1,224,263
Document fees	300,000	135,000
Exempt income	70,000	20,000
Other debtors and prepayments	280,336	200,077
	<u>1,650,336</u>	<u>1,579,340</u>
	2004	2003
	£	£
4. CREDITORS AND ACCRUALS		
Personnel costs	272,823	194,112
Legal and professional fees	233,712	104,395
New premises costs	197,721	0
Provision for contract note levy repayable	318,000	318,000
Other creditors and accruals	32,062	13,022
	<u>1,054,318</u>	<u>629,529</u>
	2004	2003
	£	£
5. NET CASHFLOW FROM OPERATING ACTIVITIES		
Surplus before interest and taxation	2,693,642	1,445,485
Increase in debtors and prepayments	(70,996)	(675,103)
Increase/(Decrease) in creditors	424,789	(102,116)
Net cash inflow from operating activities	<u>3,047,435</u>	<u>668,266</u>
	2004	2003
	£	£
6. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS		
Increase in cash in period	3,142,439	699,835
Change in net funds	3,142,439	699,835
Net funds at 1 April 2003	1,435,675	735,840
Net funds at 31 March 2004	<u>4,578,114</u>	<u>1,435,675</u>
	2004	2003
	£	£
7. PENSION SCHEMES		

During the year, the Panel operated two defined contribution pension schemes. Contributions to these schemes are charged to the profit and loss account in the year in which they arise. The cost of these schemes for the year was £177,761 (2003: £139,197).

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

We have audited the accounts which comprise the income and expenditure account, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in Note 1.

RESPECTIVE RESPONSIBILITIES OF PANEL MEMBERS AND AUDITORS

The Panel Members' responsibilities for preparing the accounts in accordance with applicable accounting standards are set out in the statement of Panel Members' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Panel Members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The maintenance and integrity of the Takeover Panel web site is the responsibility of the Panel Members; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

BASIS OF AUDIT 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 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.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with 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 2004 and of its surplus and cash flows for the year then ended.

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants and Registered Auditors, London

8 July 2004

THE TAKEOVER PANEL
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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 2004. 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 of the appeals was successful. No cases were heard by the Appeal Committee.

There were 136 (year ended 31 March 2003 – 108) resolved takeover or merger proposals of which 134 (106) reached the stage where formal documents were sent to shareholders. These proposals were in respect of 127 (105) target companies.

25 (12) offers were not recommended at the time the offer document was posted. 19 (7) of these remained unrecommended at the end of the offer period, of which 2 (2) lapsed.

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

A further 18 (18) cases, which were still open at 31 March 2004, are not included in these figures.

The Executive was engaged in detailed consultations in another 183 (182) 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.

	2003-2004	2002-2003
OUTCOME OF PROPOSALS		
Successful proposals involving control (including schemes of arrangement)	110	85
Unsuccessful proposals involving control (including schemes of arrangement)	10	6
Proposals withdrawn before issue of documents (including offers overtaken by higher offers)	2	2
Proposals involving minorities, etc	14	15
	<u>136</u>	<u>108</u>

**STATEMENTS ISSUED BY THE PANEL
DURING THE YEAR
ENDED 31 MARCH 2004**

2003

9 April	2003/10	CELLTECH GROUP PLC – CAMBRIDGE ANTIBODY TECHNOLOGY GROUP – OXFORD GLYCOSCIENCES PLC <i>(Offer timetable extended)</i>
3 June	2003/13	AWG PLC – BREAM INVESTMENTS LIMITED <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 18 June 2003)</i>
20 June	2003/14	NEW OPPORTUNITIES INVESTMENT TRUST PLC – JUBILEE INVESTMENT TRUST PLC <i>(Requirement to clarify statement by 24 June 2003)</i>
17 July	2003/15	2003 ANNUAL REPORT <i>(Extracts from the Report by the Director General contained in the 2003 Annual Report)</i>
17 July	2003/16	CORDIANT COMMUNICATIONS GROUP PLC <i>(Criticism of Mme Ojeh for breach of Rule 8)</i>
21 July	2003/18	HANOVER INTERNATIONAL PLC – TREFICK LIMITED <i>(Acceptance condition)</i>
24 July	2003/19	CHELSEA VILLAGE PLC <i>(Response to announcement by the Financial Services Authority)</i>
22 August	2003/21	NEWPORT HOLDINGS PLC – STRUCTADENE LIMITED <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 22 September 2003)</i>
1 October	2003/22	CALEDONIA INVESTMENT PLC – CAYZER CONTINUATION LIMITED – CALEDONIA REALISATION LIMITED <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce withdrawal of proposals 17 October 2003)</i>
14 October	2003/23	DEBENHAMS PLC – LARAGROVE LIMITED – BARONESS RETAIL LIMITED <i>(Procedure under Rule 32.5)</i>
14 November	2003/24	FUSION OIL & GAS PLC – STERLING ENERGY PLC <i>(Offer timetable extended)</i>
21 November	2003/25	CANARY WHARF GROUP PLC <i>(Reasons for the Panel dismissing an appeal against a ruling of the Executive)</i>
22 December	2003/27	CHORION PLC – ENTERTAINMENT RIGHTS PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 4 January 2004)</i>
22 December	2003/28	DERWENT VALLEY HOLDINGS PLC – WINTEN LIMITED <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 16 January 2004)</i>

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2004

15 January	2004/1	CANARY WHARF GROUP PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 13 February 2004)</i>
30 January	2004/2	RONSON PLC <i>(Panel decision on Ronson Appeal)</i>
3 February	2004/3	ASK CENTRAL PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 13 February 2004)</i>
4 February	2004/4	RONSON PLC <i>(Reasons for the Panel dismissing an appeal against a ruling of the Executive)</i>
12 February	2004/5	PANEL EXECUTIVE PRACTICE STATEMENTS <i>(Issue of Practice Statements 1 to 4)</i>
13 February	2004/6	ASK CENTRAL PLC <i>(Extension to the requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 13 February 2004)</i>
17 February	2004/7	OFFER BY SILVESTOR UK PROPERTIES LIMITED FOR CANARY WHARF GROUP PLC <i>(Clarification in respect of certain statements reported in newspapers)</i>
2 March	2004/9	TRANSCOMM PLC <i>(Criticism of Nabarro Wells & Co Ltd for breach of Note 1 on Rule 2.2)</i>
30 March	2004/10	OFFER BY MGM MIRAGE INC FOR WEMBLEY PLC <i>(Clarification in respect of certain statements made by MGM Mirage)</i>

**STATEMENTS ISSUED BY THE CODE
COMMITTEE DURING THE YEAR
ENDED 31 MARCH 2004**

2003

16 April	2003/11	CODE COMMITTEE – RESPONSE STATEMENT 12 AND CODE AMENDMENTS <i>(Response Statement 12 and Code amendments)</i>
30 April	2003/12	CODE COMMITTEE – PUBLIC CONSULTATION PAPERS <i>(Issue of Public Consultation Papers 13 and 14)</i>
21 July	2003/17	CODE COMMITTEE – PUBLIC CONSULTATION PAPER <i>(Issue of Public Consultation Paper 15)</i>
24 July	2003/20	CODE COMMITTEE – RESPONSE STATEMENT 14 AND CODE AMENDMENTS <i>(Response Statement 14 and Code amendments)</i>
28 November	2003/26	CODE COMMITTEE – RESPONSE STATEMENT 13, CODE AMENDMENTS AND PUBLIC CONSULTATION PAPER 15 <i>(Response Statement 13, Code amendments and Public Consultation Paper 15)</i>

2004

25 February	2004/8	CODE COMMITTEE – PUBLIC CONSULTATION PAPERS <i>(Issue of Public Consultation Papers 2004/1 – 2004/2)</i>
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For details of how to obtain copies of the Code, Panel Statements and Annual Reports contact:

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10 Paternoster Square,
London EC4M 7DY.
Telephone: 020 7382 9026

or available on our website at www.thetakeoverpanel.org.uk

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