

THE TAKEOVER PANEL

JOHNSON AND FIRTH BROWN LIMITED ("JFB") /

BRITISH ROLLMAKERS CORPORATION LIMITED ("BRITISH ROLLMAKERS")

On Monday, 2nd May 1977, JFB announced its intention of making an offer for British Rollmakers. JFB first approached the Board of British Rollmakers in early March, 1977 and two further meetings were held between representatives of the two companies in early April but the companies failed to reach agreement. JFB stressed that they would not wish to take the matter further without the British Rollmakers Board's support. At a meeting on 13th April, JFB informed British Rollmakers of its intention to discuss with Davy International Limited ("Davy") the terms under which they would be prepared to accept a JFB offer for their 29% shareholding in British Rollmakers. JFB again indicated to British Rollmakers that it was its intention to seek a recommendation from the British Rollmakers Board for any proposed offer but declined to give an undertaking not to go ahead without such a recommendation.

On 13th April, JFB held approximately 9.9% of the British Roll-makers equity and towards the end of the month a rumour was circulating in the stock market that a shareholding of between 5% and 10% in British Rollmakers would soon have to be disclosed as a result of the new disclosure provisions of the Companies Act, 1976 coming into effect. The latest date for such disclosure was 4th May, 1977. JFB added to this shareholding by buying a further 200,000 shares on 14th April, 335,000 shares on 27th April and 50,000 shares on 29th April.

JFB approached Davy on 20th April and held a total of four meetings with them which culminated on 2nd May in agreement being reached as a result of which Davy gave JFB an irrevocable undertaking to accept JFB's offer of 19 JFB shares for every 20 Rollmakers shares owned by them. At 11.30 a.m. on 2nd May, JFB announced its intention of making an offer on these terms for the whole of the issued share capital of British Rollmakers not owned by it.

During the three weeks leading up to 29th April, the last dealing day before this announcement, the share price, as shown in the Financial Times, of British Rollmakers rose from 38½p to 40p, an increase of 27.3%: during the same period the Financial Times 30 Share Index rose by 7.4%. Rule 5 of the City Code includes the requirement that in any situation which might lead to an offer, a close watch should be kept on the share market and in the event of any untoward movement in price an appropriate announcement should be made immediately. The prime responsibility for this must belong to the board and advisers of the company in whose shares the market movement occurs. It is true that British Rollmakers and Robert Fleming & Co Limited, their advisers, were not involved in any negotiations after 13th April and were under the impression that their recommendation of an offer would be required by JFB should Davy wish to part with its shareholding to JFB and that they would therefore be brought back into any serious discussions which might result from JFB's approach to Davy. They were not aware that JFB was buying in the market. As regards the share price movement they point out that according to The Stock Exchange Daily Official List the rise in share price was not nearly so marked (although even by that measurement the share price over seven trading days within the period moved from 40p to 47p, an increase of 17½%); that they regarded it as attributable largely to the imminent disclosure requirements of the 1976 Companies Act and that throughout March the shares had been as high as 45p and never lower than 41p. They also point out that ever since the Monopolies Commission's recommendation in 1974 that Davy should not itself proceed with a bid for British Rollmakers and should dispose of its holding as soon as convenient, numerous approaches had been received and made and surges of speculative activity in British Rollmakers shares had occurred with regularity. Nevertheless, the Panel takes the view that in this instance the Board of British Rollmakers and its advisers, having been told by a potential bidder that it was making an approach to Davy with a view to negotiating terms, might have formed the view that a market rise of that order was not simply the product of the regular speculative activity in British Rollmakers' shares and that an appropriate announcement should therefore have been made.

As indicated by their joint statement of the 14th April, it is a general objective of the Panel and The Stock Exchange to initiate a new approach to the making of early announcements. This statement is published as an illustration of the kind of situation in which a warning announcement should have been made.

17th June 1977