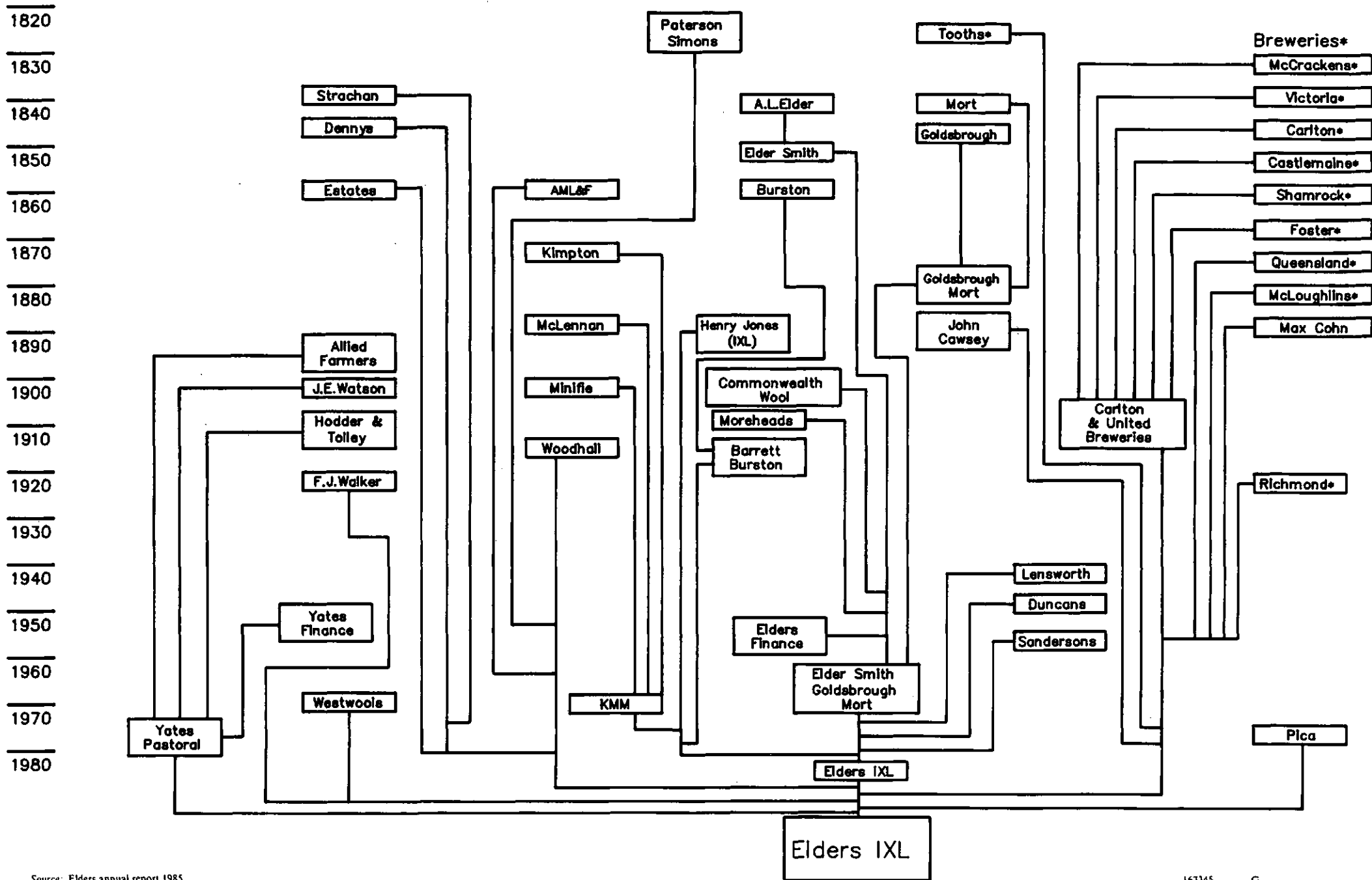


APPENDIX 2.1  
(referred to in paragraph 2.8)

History of Elders IXL





APPENDIX 2.2

(referred to in paragraph 2.29)

**Average annual employment within Elders IXL, year ended 30 June**

	1983	1984	1985	
Pastoral	4,980	5,020	6,009	
Carlton		6,704	6,764	
Finance	416	457	601	
International	3,445	6,632	6,181	
Corporate	111	118	129	
Construction and Engineering Division*	445	446	460	
Automotive Division	500	511	872	
				<i>Date business sold</i>
Hornibrook Division	2,300	1,989	1,528	1.7.85
Building Supplies	330	324		29.6.84
Elders Metals	310	301		29.6.84
Provincial Traders	507	†250		24.1.84
General Jones	650	†325		4.1.84
	<u>13,994</u>	<u>23,077</u>	<u>22,544</u>	

**Split between full-time and part-time employment**

		<i>Estimate December 1985</i>
Full-time		17,203
Part-time—Pastoral	1,992	
—Carlton	1,811	
	<u>3,803</u>	
		<u>21,006</u>

Source: Elders.

\* Became a division of Elders Resources in June 1985 (see paragraph 2.27).

† Average appears to fall because of sale at mid-year: actual levels did not change.

APPENDIX 2.3  
(referred to in paragraph 2.39)

**Elders' divisional activities**

	1982-83	1983-84	<i>A\$ million</i> 1984-85
<i>Revenue</i>			
Pastoral	2,390	3,060	3,330
Carlton	—	750	1,630
International	440	1,460	1,380
Finance	140	170	340
Investments and other business activities	10	140	310
Materials	360	—	—
Food	360	—	—
	3,700	5,580	6,990
<i>Profit before tax</i>			
Pastoral	12.1	32.7	32.0
Carlton	—	42.8	57.3
International	15.1	18.8	12.0
Finance	15.8	21.4	25.4
Investments and other business activities	7.6	10.0	6.7
Materials	9.8	—	—
Food	15.1	—	—
	75.5	125.7	133.4
Unallocated interest	—	(39.0)	—
Total per Table 2.4	75.5	86.7	133.4
<i>Capital employed at year end</i>			
	<i>1983</i>	<i>1984</i>	<i>1985</i>
Pastoral	186	190	221
Carlton	—	980	738
International	143	340	221
Finance	84	95	118
Investments and other business activities	110	190	177
Materials	169	—	—
Food	152	—	—
	844	1,795	1,475
Deferred tax benefit	(7)	(13)	(4)
Total capital employed per Table 2.2	837	1,782	1,471
<i>Return on year end capital employed</i>			
	<i>1982-83</i>	<i>1983-84</i> <i>(before</i> <i>unallocated</i> <i>interest)</i>	<i>per cent</i> <i>1984-85</i>
Pastoral	6.5	17.2	14.5
Carlton	—	4.4	7.8
International	10.6	5.5	5.4
Finance	18.8	22.5	21.5
Investments and other business activities	6.9	5.3	3.8
Materials	5.8	—	—
Food	9.9	—	—

Source: MMC, based on data provided by Elders.

APPENDIX 2.4

(referred to in paragraph 2.41)

**Elders: summary of funds statements**

	<i>A\$ million</i>			
	<i>Total</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>
<i>Sources</i>				
Funds from operations	425	102	132	191
Reductions in assets:				
Stocks (including properties held for resale)	150	54	(79)	175
Fixed assets sold	331	30	93	208
Increase in liabilities:				
Creditors	230	(7)	196	41
Non-current liabilities	172	153	30	(11)
Provisions acquired (excluding depreciation)	70	—	65	5
Other sources:				
Convertible bonds issue	168	—	168	—
Share issues (including premiums)	454	—	319	135
	2,000	332	924	744
<i>Application</i>				
Increases in assets:				
Debtors	50	(61)	69	42
Finance subsidiaries' net assets	46	13	(10)	43
Investments	350	42	362	(54)
Fixed assets acquired	1,235	40	1,085	110
Other non-current assets	38	(1)	29	10
Other applications:				
Goodwill on acquisitions	15	(1)	19	(3)
Dividends paid	103	29	32	42
Tax paid	41	11	16	14
Provisions paid	65	21	26	18
Extraordinary items	6	2	—	4
Reduction in minority interests in subsidiaries	12	3	9	—
	1,961	98	1,637	226
Reduction in borrowings (net of cash and deposits)	39	234	(713)	518

Source: MMC, based on data in Elders' published accounts.

## APPENDIX 3.1

(referred to in paragraph 3.6)

### Schedule of principal products of Allied-Lyons

#### Beer Division

##### *National beers*

Arctic Lite Lager  
Castlemaine XXXX\*  
Diamond Bitter  
Double Diamond Burton Export Ale  
Double Diamond  
Falcon Lager†  
High Life Lager  
Ind Coope Draught Burton Ale  
Ind Coope Light Ale and Brown Ale  
Long Life  
Lowenbrau\*  
Oranjeboom  
Skol Lager  
Skol Special Strength Pilsner Lager  
St Christopher alcohol-free Lager  
Trent Bitter and Mild

##### *Regional beers*

Alloa's Diamond Heavy and Alloa's Export  
Alloa Light and Pale  
Allsopp's Export Lager  
Ansells Bitter, Mild, Pale and Dark  
Arrols 70/-  
Aylesbury Bitter  
Barleycorn Pale Ale  
Benskins Bitter and Pale Mild  
Bergmans Lager  
Friary Meux Bitter, Drum Mild and Light Ale  
George's Best Bitter  
Harvest Bitter  
Holts Mild, Bitter and Entire  
Ind Coope Drum Mild, Pale and Bitter  
John Bull Bitter  
Romford Brewers Bitter  
Taylor Walker Bitter and Light Ale  
Tetley Falstaff, Mild, Pale, Imperial and Bitter  
Walker Mild, Bitter, Best Bitter and Brown Peter  
Wrexham Lager

#### Wines and Spirits Division

##### *British wines (made wines)*

Anglia†  
Armadillo  
Belgrove  
Cherry B  
Clan Dew  
Concorde

---

\* Brewed under licence.

† From the Victoria Wine Shops only.

Hudson & Cooper  
Pony  
QC  
Rougemont Castle  
Sanatogen Tonic Wine  
Vibrona Tonic Wine  
VP  
Whiteway's fruit wines

*Ciders*

Coates Festival Vat, Somerset, Special Farmhouse brand and Triple Vintage  
Gaymer's Lite, Norfolk Dry and Olde English  
Stag (Ireland)  
Whiteway's Cyder Royal and Export

*Cider vinegar*

Whiteway's

*Naturally sparkling perry*

Babycham

*Soft drinks*

Cidona (Ireland)  
Club soft drinks and mixers (Ireland)  
Cydrax, cyder shandy and Peardrax  
Looza fruit juices (Belgium, Netherlands)

*Speciality products*

Beachcomber Cream  
Calypso  
Country Manor table perry  
Country Satin  
Goldwell Snowball and cocktails

*Spirits and liqueurs*

Alfred Lamb's 100 rum  
Black Heart rum  
Carolans Irish Cream liqueur  
Curtis Scotch whisky  
De Keizer bitter and genever (Netherlands)  
Dimitri vodka\*  
Drie Sterren genever (Netherlands)  
Glen Rossie Scotch whisky\*  
Irish Mist liqueur  
Jules Freres French brandy\*  
King's Royal Scotch whisky  
Lamb's Navy rum  
Lemon Hart rum  
Mainbrace rum  
Mardi Gras  
Nicholson's London Dry gin  
Olifant genever (Netherlands)  
Phillips Old English alcoholic cordials  
Pollen fruit genever (Netherlands)  
Red Heart rum  
Romanoff vodka  
Santiago Dry White rum  
Stewarts Cream of the Barley Scotch whisky  
Teacher's Highland Cream Scotch whisky  
Teacher's Royal Highland 12-year old Scotch whisky

---

\* From the Victoria Wine Shops only.

Teacher's 60  
The Glendronach Single Malt 8- and 12-year old Scotch whisky  
Warninks advocaat  
Watson's Rum

*Wines*

Cantinecorrado Italian wines  
Cockburn's Special Reserve and other ports  
Del Colle Italian wines  
Don Cortez Spanish wines  
Espavino Spanish and Sparkling wines  
France Vin French wines  
Grandeza Montilla  
Grants of St James's wines  
Harveys No 1 Claret  
Harveys Specially Selected Moselle  
Harveys sherries including—  
    Bristol Cream, Club Amontillado, Fino Luncheon Dry, Finesse, Tico Mixer Sherry  
Italvini Moscato Spumante Italian sparkling wine  
Mackenzie sherries  
Martinez ports  
Montez white wine/brandy/citrus flavours blend  
Mosaic Cyprus sherries  
Ole sherries\*  
Piemontello Italian wine  
Regency sherries  
Sansovino Italian wines  
Showerings House wine  
Sommerfest EEC wine  
Templar Cyprus sherries\*  
Veronello Italian wines

**Agencies held in the United Kingdom as at 1 January 1985**

*Spirits and liqueurs*

Angostura aromatic bitters  
Appleton rums  
Ballantine's Finest Scotch whisky  
The Balvenie pure malt Scotch whisky  
Busnel Calvados  
Canadian Club  
Cles des Ducs Armagnac  
Cointreau  
Courvoisier cognacs  
Finlandia vodka  
Glenfiddich pure malt Scotch whisky  
Grand Marnier liqueurs  
Grant's Standfast Scotch whisky  
Hawker's Sloe gin  
Jim Beam Bourbon whiskey  
Jose Cuervo tequila  
Kirsch, Dettling  
Kontiki  
Milton Duff Malt whisky  
Regnier liqueurs  
Ricard aperitif  
Three Barrels French brandy  
Tia Maria liqueur  
Walkers de Luxe bourbon

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\* From the Victoria Wine Shops only.

### *Wines*

Barbero Asti and Moscato Spumante  
Beaulieu California wines  
Beringer California wines  
Commanderie St John  
Codorniu (Methode Champenoise) Spanish sparkling wines  
Crabbie's Green Ginger Wine (England and Wales only)  
De Neuville Loire wines  
Gatao Vinho Verde Portuguese wine  
Goldener Oktober German wines  
Jean Preiss Zimmer Alsace wines  
Keo Cyprus wines  
Lanson champagne  
Louis Jadot Burgundy wines  
Marques de Riscal Rioja and Rueda Spanish wines  
Nicolas French wines  
Paternina Rioja wines  
Raimat Spanish Quality wines  
Sterzi Italian wines  
Woodhouse Garibaldi marsala

## **Food Division**

### *Tea*

Hornimans (United Kingdom, International)  
Inyanga (Africa)  
Lyons (International)  
Lyons Orange Label  
Lyons Red Label  
Lyons Quick Brew (United Kingdom, Africa)  
Lyons Silver Label  
Tetley (United Kingdom, International)  
Windsor-Castle (Germany)

### *Ground coffee*

Brown Gold (United States)  
Bustelo (United States)  
El Pico (United States)  
Lyons  
Martinson (United States)  
Martinson Mr Automatic (United States)  
Medaglia D'oro (United States)  
Savarin (United States)

### *Instant coffee*

Brown Gold (United States)  
Bustelo (United States)  
Daybreak (Africa)  
El Pico (United States)  
Goldroast  
Lyons Emblem  
Lyons Hornimans  
Medaglia D'oro (United States)  
Savarin (United States)  
Topchoice

### *Cakes and confectionery*

Bussink (Netherlands)  
Delicia (Italy)  
Donut (Spain)  
Fullers

Gateaux (Irish Republic)  
Hales  
Lyons  
Molly O'Rourke (Irish Republic)  
Panrico (Spain)  
Parenti (Italy)  
Pepi (Italy)  
Sapori (Italy)  
Tinti (Italy)

*Biscuits*

AHO (Netherlands)  
Brink (Netherlands)  
Haust (Netherlands)  
Hille (Netherlands)  
Krispen  
Lyons  
Maryland Cookies  
Stereo (Netherlands)  
Symbol  
Yuppia (Netherlands)

*Ice-cream*

Baskin-Robbins (United States, International)  
Bertorelli  
Eldorado  
Lyons Maid (United Kingdom, International)  
Mister Softee  
Napoli (United Kingdom, Africa)  
Tonibell

*Food mixes*

Charles Dennery (United States)  
DCA (United States, International)  
Flavour Forces (United States)  
Golden Dipt (United States)  
Lyons  
Thomas A Steeves (Canada)

*Other groceries*

Appleford  
Dietade  
Flavorcharm  
Golden Dipt (United States)  
Lyons  
Lyons Good Day Breakfast Cereal (Africa)  
Lyons Ready Brek  
Margetts  
Papantoniou Pita Bread (United States)

*Meat products*

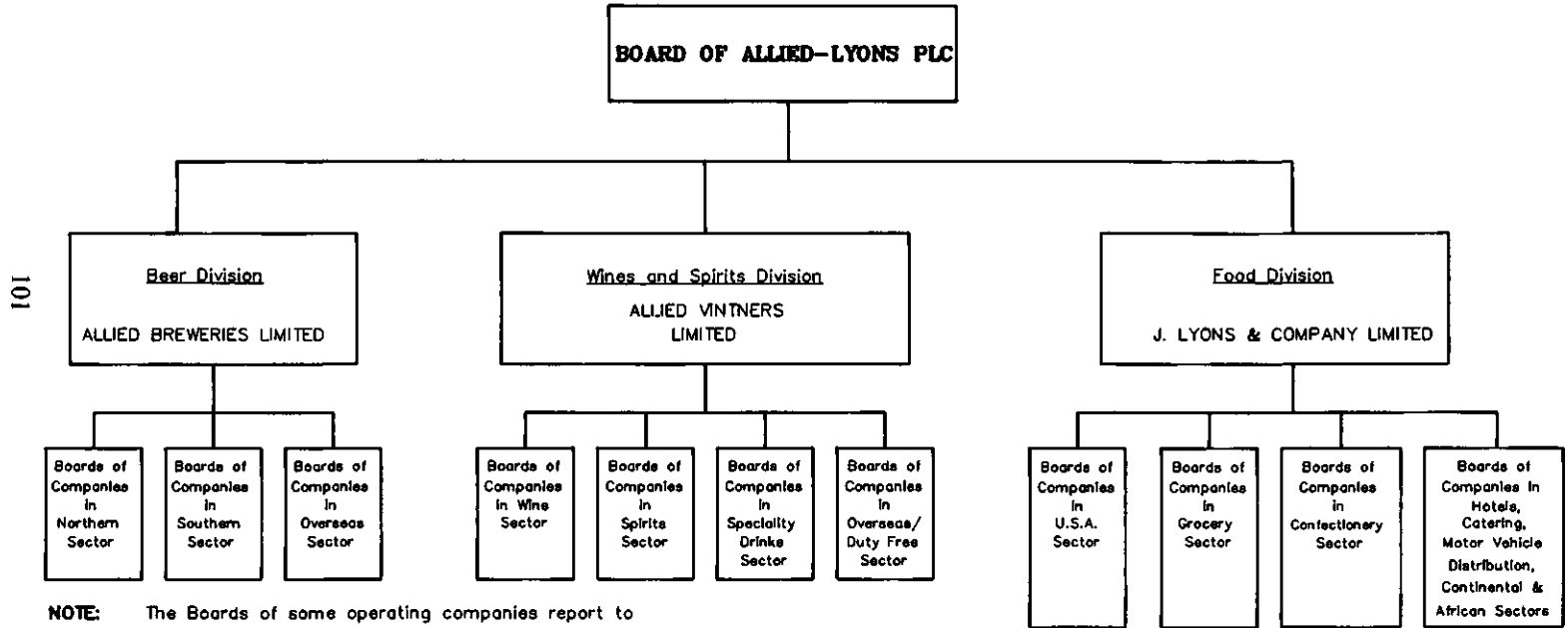
Beckers (Benelux)  
Jongmans (Benelux)  
Mulfric (Benelux)  
S&S (Netherlands)  
Vioc (Belgium)

Source: Allied-Lyons.

APPENDIX 3.2

(referred to in paragraph 3.15)

Outline management structure



**NOTE:** The Boards of some operating companies report to intermediate boards who in turn report to the divisional boards: the intermediate levels are not shown.

APPENDIX 3.3

(referred to in paragraph 3.29)

**Allied-Lyons: operating subsidiaries' profits, average net assets employed and returns on net costs for the last five years**

	1981-82	1982-83	1983-84	1984-85	1985-86
<i>Profit on ordinary activities before taxation (£ million)</i>					
Operating subsidiaries:					
Allied Breweries	57.8	76.3	85.0	94.5	115.8
Allied Vintners	61.8	61.6	69.2	70.5	82.6
J Lyons	33.0	37.1	50.1	59.0	74.5
Parent company:					
Allied-Lyons	(11.4)	(15.4)	(9.4)	(5.0)	(3.4)
	<u>141.2</u>	<u>159.6</u>	<u>194.9</u>	<u>219.0</u>	<u>269.5</u>
<i>Average net assets employed (£ million)</i>					
Operating subsidiaries:					
Allied Breweries	661.5	675.4	747.8	841.5	1,099.8
Allied Vintners	241.5	270.0	273.4	277.8	289.0
J Lyons	144.7	186.3	224.3	266.5	297.4
Parent company:					
Allied-Lyons	(109.2)	(139.4)	(107.3)	(85.7)	(66.5)
	<u>938.5</u>	<u>992.3</u>	<u>1,138.2</u>	<u>1,300.1</u>	<u>1,619.7</u>
<i>Operating subsidiaries' returns on average net assets (per cent)</i>					
Allied Breweries	8.7	11.3	11.4	11.2	10.5
Allied Vintners	25.6	22.8	25.3	25.4	28.6
J Lyons	22.8	19.9	22.3	22.1	25.1

Source: Allied-Lyons.

Notes:

- As shown in Appendix 3.2, Allied Breweries comprises the beer division businesses, Allied Vintners the wines and spirits division, and J Lyons the food division.
- Average net assets are stated after deducting provisions.
- The trend of returns on average net assets is affected by the property revaluations referred to in paragraph 3.22.

APPENDIX 3.4  
(referred to in paragraph 3.30)

**Allied-Lyons: summary of funds statements**

£ million

	Total	1981-82	1982-83	1983-84	1984-85	1985-86
<i>Funds from trading operations</i>						
Profit before taxation	984	141	160	195	219	269
Payment for retirement benefits	(43)	(7)	(6)	(7)	(22)	(1)
	<u>941</u>	<u>134</u>	<u>154</u>	<u>188</u>	<u>197</u>	<u>268</u>
<i>Adjustment for items not involving the movement of funds</i>						
Depreciation	319	49	55	59	76	80
Profit on disposal of assets	(95)	(18)	(16)	(12)	(22)	(27)
Related companies	(85)	(15)	(16)	(18)	(21)	(15)
Surplus on debenture and bond redemptions	(1)	—	(1)	—	—	—
	<u>1,079</u>	<u>150</u>	<u>176</u>	<u>217</u>	<u>230</u>	<u>306</u>
<i>Funds from other sources</i>						
Shares issued	63	2	9	4	31	17
Disposal of assets	331	37	35	31	46	182
	<u>1,473</u>	<u>189</u>	<u>220</u>	<u>252</u>	<u>307</u>	<u>505</u>
<i>Application of funds</i>						
Dividends paid (including dividends to minority shareholders)	223	34	39	43	49	58
Expenditure on fixed assets (less grants)	655	87	117	123	148	180
Investments and acquisitions	149	15	12	10	40	72
Increase in loan capital	14	1	9	(34)	(46)	84
Increase in trade loans	3	(3)	—	9	(1)	(2)
Taxes paid	185	27	28	38	44	48
Closures, redundancies and reorganisations	73	7	16	—	7	43
Increases in stocks and debtors less creditors	59	21	(27)	47	28	(10)
	<u>1,361</u>	<u>189</u>	<u>194</u>	<u>236</u>	<u>269</u>	<u>473</u>
Reduction in short-term borrowings	112	—	26	16	38	32

Source: Allied-Lyons.

## APPENDIX 4.1

(referred to in paragraph 4.15)

### Australian beer market

1. As a result of mergers and takeovers beer production in Australia is now dominated by two brewers—the Carlton and United Breweries Ltd (CUB) of Elders IXL Ltd, and Swan Brewery Company Ltd and Castlemaine-Tooheys Ltd (SCT) both of Bond Corporation Holdings Ltd. Between them these two account for about 92 per cent of the Australian market (see paragraph 2.11).

2. The beer market in Australia has been regional rather than national. For example, SCT has about 90 per cent of the market in Western Australia, whereas in Victoria CUB's share is about 95 per cent of sales. The only states in which both of the two major breweries have large shares are New South Wales and Queensland.

3. After a marked increase in the late 1960s and early 1970s average beer consumption per head in Australia has now been declining for some years. In 1974–75 it reached about 247 pints per person per year, but it is now 18 per cent less at about 202 pints.

4. There has been a noticeable decrease in the share accounted for by draught beers. In 1970 the share of draught beers was about 55 per cent, with bottled beers accounting for 38 per cent and cans for the remaining 7 per cent. By 1981 the share of draught beers had fallen to about 40 per cent, and the share of canned beers had risen to 22 per cent. Draught beer now accounts for about 31 per cent of the market.

5. The average strength of beer is 5.0 per cent alcohol content by volume, but there has been a recent trend towards lower alcohol beers, and light beers (ie those with an alcohol content of between 0.5 per cent and 4.0 per cent) now account for about 14 per cent of all beer sales. A number of new lower-alcohol beers have been marketed in the last few years, and some indicate the strength clearly in their brand names. Examples include CUB's Carlton LA 2.1, SCT's Swan's Special Light and Tooheys 2.2, and the South Australian Brewing Company's West End Light.

Source: MMC.

**APPENDIX 4.2**  
*(referred to in paragraph 4.27)*

**THE BREWERS' SOCIETY**

**CODE OF PRACTICE  
ON  
TENANTS' SECURITY  
(AS AMENDED)**

42 PORTMAN SQUARE  
LONDON W1H 0BB

MAY, 1981

## PART I—PRELIMINARY

### Section 1. Objects and General Principles

1.1. This Code makes recommendations as to the practice to be followed by brewery companies in dealing with the public houses which they let to tenant-licensees.

1.2. Its objects are to assist in promoting good relations between companies and their tenants and in creating conditions which will ensure that persons of high calibre are attracted to enter and remain in the retail trade as tenants of brewery-owned houses.

1.3. To achieve these objects, the Code recommends that tenants who possess the necessary qualities should have the assurance of security of tenure in accordance with the recommendations of this Code, and the opportunities to pursue a full and satisfactory career in the trade; and that, to give tenants this assurance, a tenant who is not in breach of his agreement should not be given notice except in the cases mentioned in this Code; if he is to be given notice, due account should be taken of the human problems involved; he should, if at all possible, be offered a reasonable alternative tenancy; and, if he is not offered such a tenancy or does not accept it or accepts the tenancy of a house with less potential, he should be given fair and reasonable compensation.

### Section 2. Meaning of Certain Expressions used in the Code

2.1. References in this Code to the termination of a tenancy should be taken as applying both to the termination of the tenancy by notice in accordance with the terms of the tenancy agreement and to the company declining to renew the tenancy on its expiry.

2.2. References in this Code to the termination of a tenancy for breach of the tenancy agreement are intended to include cases where the tenancy is terminated under a provision of the tenancy agreement which entitles the company to terminate the tenancy following the tenant's conviction for an offence.

## PART II—RECOMMENDATIONS

### Section 3. General Arrangements

3.1. Companies should ensure that their arrangements for selecting houses for tenancy, and for selecting tenants for these houses, are such as to give efficient tenants of the company a firm expectation of a full career in the licensed trade, and reasonable prospects, if the tenant so wishes, of moving to better houses (within the tenant's capabilities and financial resources) when they become available.

3.2. Companies should consider offering three years' security of tenure in all suitable cases. They should make it clear to their tenants that on the expiry of a three-year period of security the tenant could, in the ordinary course and provided his performance had been satisfactory, expect to receive a renewal of the three-year period (on terms to be negotiated).

3.3. If a tenant dies during the tenancy, his widow should be allowed the "widow's year". At the end of the year, every effort should be made to enable her to continue in the licensed trade as a tenant of the company, if she wishes to do so, provided she has shown that she has the necessary qualities to be treated as a tenant in her own right. In the case of a female tenant, this paragraph should be applied as if references to the widow were references to the widower.

3.4. If the company decides to terminate any tenancy (except for breach of the tenancy agreement or in the special cases mentioned in section 6), the tenant should be informed of the decision and the reasons therefor, personally by a Director, before written notice is given.

3.5. Where the company requires houses for management or redevelopment, every effort should be made to take account of vacancies arising from natural causes (e.g. death or retirement) before removing tenants.

3.6. Before selling a public house with a sitting tenant to a purchaser who is not a brewery company, the company should inform the tenant of the proposed sale and give him the option of surrendering the tenancy. If the tenant does so surrender, section 5 should be applied as if the company had terminated the tenancy.

3.7. Whenever a tenancy is terminated, the company should, if so required by the tenant, purchase the tenant's approved trade fixtures and fittings and stock at valuation.

#### **Section 4. Termination of Tenancy for Breach of Agreement**

4.1. The company should not give the tenant notice of termination for breach of the tenancy agreement unless in all the circumstances of the case it is reasonable to do so. In particular, it should not give such notice unless—

- (a) in the case of a breach which is capable of remedy, it has given the tenant written notice calling upon him to remedy the breach and the tenant has failed to do so; or
- (b) in the case of a breach which is not capable of remedy, the breach is a serious one or the tenant has been given written warning in respect of an earlier breach of the tenancy agreement.

4.2. Any breach of the tenant's purchasing obligation under the tenancy agreement is a serious breach within the meaning of paragraph 4.1(b) unless the tenant shows that in all the circumstances of the case it is not.

#### **Section 5. Compensation and other benefits where tenancy is terminated by the company**

5.1. If the company terminates a tenancy (except for breach of the tenancy agreement or in the special cases mentioned in paragraph 6.1) then, subject to paragraph 5.2, the company should pay the tenant compensation in accordance with a scheme formulated by the company, which should provide for payments not less than those payable under s.37(2) of the Landlord and Tenant Act, 1954.

5.2. Paragraph 5.1 does not apply—

- (a) if the tenant accepts an alternative tenancy under paragraph 5.3; or
- (b) if the tenant has persistently failed to comply with his obligations under the tenancy agreement.

5.3. If a tenant whose tenancy is terminated (except for breach of the tenancy agreement or in the special cases mentioned in paragraph 6.1) has been a satisfactory tenant, and wishes to have another house, every effort should be made to find him a reasonable alternative tenancy.

5.4. If such a tenant accepts an alternative tenancy of a house of less potential than his former house, he should be paid such proportion of the compensation that would have been payable if the case fell under paragraph 5.1 as in all the circumstances is reasonable.

5.5. Any tenant whose tenancy is terminated (except for breach of the tenancy agreement or in the special cases mentioned in paragraph 6.1) should be paid an allowance towards relocation expenses.

5.6. Where a tenancy is terminated because an authority possessing compulsory powers has initiated proceedings for the acquisition of the premises, the company is entitled, in applying the recommendations made in this section, to take account of any payments or other benefits (other than a home loss payment under the Land Compensation Act) which the tenant may receive from the acquiring authority.

5.7. In this section, a reasonable alternative tenancy means an alternative tenancy which, whether or not the house is of equal potential to the previous house, it is in all the circumstances of the case reasonable to offer the tenant.

## **Section 6. Special Cases**

6.1. The recommendations in paragraphs 3.4, 5.1, 5.3 and 5.5 do not apply to cases where the tenancy is terminated—

- (a) by notice under paragraph 7.5 of this Code; or
- (b) in pursuance of a company policy (of which the tenant has had at least three years' notice) of requiring tenants to retire on grounds of age; or
- (c) while the tenant is a new tenant on a trial period.

6.2. The recommendation in paragraph 3.4 is also inapplicable in cases where the tenancy is terminated—

- (a) in pursuance of a company policy (which was notified to the tenant before the commencement of the tenancy) of moving tenants to different houses at periodic intervals; or
- (b) because an authority possessing compulsory powers has initiated proceedings for the acquisition of the premises.

## **Section 7. Rent Revisions**

7.1. Where a rent revision is proposed, the matter should be fully and frankly discussed with the tenant with a view to securing a settlement satisfactory to both parties. The tenant should be advised of all the relevant factors so that he can make his own appreciation of the reasonableness of the company's proposals and raise any relevant points he might wish to make.

7.2. If a dispute arises, every effort should be made to reach a fair and reasonable settlement by negotiation.

7.3. If this cannot be achieved, a fair rent should be determined by some independent means of an arbitral nature. Companies should establish suitable arrangements which can be used for this purpose.

7.4. For the purposes of paragraph 7.3, a fair rent means the rent which a prospective tenant-licensee might reasonably be expected to offer for the tenancy in the open market having regard to the terms of the tenancy agreement proposed.

7.5. A company should not give notice of termination of a tenancy for the purpose of initiating or expediting the settlement of negotiations with the tenant for a revision of rent, unless the tenant has failed to co-operate in applying the procedure recommended in this section.

7.6. Except where special circumstances make it appropriate (such as where structural alterations have been made to the premises), a revision of rent should not come into operation during the course of a three-year period of security.

## **Section 8. Disputes under Sections 4 and 5**

8.1. Where a tenant is given notice of termination of the tenancy for breach of the tenancy agreement and a dispute arises between the company and the tenant—

(a) as to whether the breach occurred; or

(b) as to whether in all the circumstances of the case it was reasonable for the tenant to have been given notice;

the tenant should be permitted to refer the dispute to the Panel.

8.2. Where a tenancy is terminated and a dispute arises between the company and the tenant—

(a) as to whether compensation is payable under paragraph 5.1; or

(b) as to whether the tenant has been a satisfactory tenant for the purpose of paragraph 5.3; or

(c) as to the proportion of compensation payable in pursuance of paragraph 5.4

the tenant should be permitted to refer the dispute to the Panel.

8.3. In this section, "Panel" means the appropriate regional Panel and/or the Central Panel, as the case may be, and referring a dispute to the Panel includes referring the dispute to the Central Panel by way of appeal from a regional Panel in cases where this is permitted by or under the Rules of the Central Panel.

## PART III—SUPPLEMENTARY

### **Section 9. Notification to Tenants of Adoption of Code**

9.1. Every company should notify its tenants of this Code and advise them of its effect in relation to company practice.

### **Section 10. Legal Effect**

10.1. Companies should make their own arrangements for giving such legal effect to the provisions of the Code, in their tenancy agreements and otherwise, as they may think appropriate.

## APPENDIX 4.3

*(referred to in paragraph 4.29)*

### **Main provisions of EEC regulation No 1984/83 in respect of beer supply agreements**

#### **Background**

1. The Commission regulation which affects the brewery tie is regulation 1984/83 on exclusive purchasing agreements. It grants a block exemption from the competition rules in Article 85(1) to purchasing agreements which do not impose restrictions on either party that go beyond those specified in the Regulation. It contains special provisions for on-licence sales of beer and other drinks, and supply of petrol in service stations.

#### **Timing**

2. The Regulation came into force on 1 July 1983. Agreements concluded after 1 January 1984 must comply fully with the Regulation. Transitional arrangements apply to agreements in force before 1 January 1984, but these must be brought into line by 1 January 1989. Guidance notes were published by the Commission on 30 December 1983 to help undertakings bring their agreements into line, and to ensure that the regulation was applied uniformly in all member states. These were amended on 13 April 1984.

#### **Beer supply provisions**

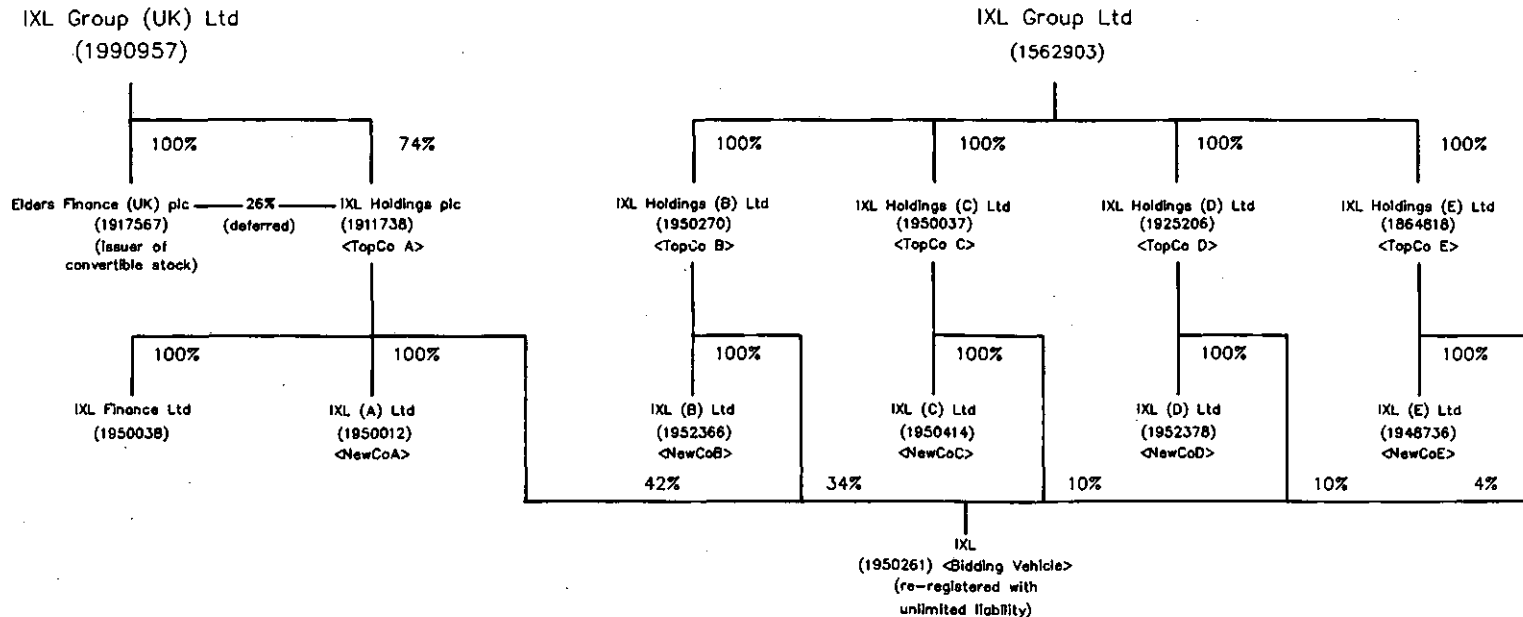
3. The beer supply section of the Regulation sets a maximum duration of 10 years for an exclusive tie for beer supply alone and a maximum duration of five years for an exclusive tie relating to the supply of both beer and other drinks. If the premises where the product is sold are subject to a tenancy agreement, the exclusive tie can run for the same length of time as the tenancy agreement, even if this is longer, but special rules are provided in respect of supplies of non-beer drinks from third parties. The tenant may use alternative sources of supply for all drinks except beer where he can obtain more advantageous conditions which are not matched by the supplying party under the agreement. The tenant is also free to expand his product range to cover other drinks apart from beer which are not supplied under the agreement.

4. In respect of beer sales the regulation allows the re-seller to sell other types of beer, but these sales can be restricted to packaged beer unless the sale of such beer in draught has been tolerated in the past or is necessary to satisfy a sufficient demand from the re-seller's customers. A demand is deemed sufficient if it can be satisfied without a simultaneous drop in the sale of beer specified in the exclusive agreement.

5. The owner of a tied house is allowed to refuse permission for the installation of amusement machines or to limit the types allowed on the grounds that it may impair the character of the premises. The owner may draw up a list of approved suppliers as long as the criteria for becoming an approved supplier are qualitative and are applied in a non-discriminatory manner. He is not permitted, however, to limit the tenant to renting the machines from a particular undertaking nor to stop the tenant buying the machine.

**APPENDIX 5.1**  
(referred to in paragraph 5.17)

**Structure of the IXL Group**



**Note:** As explained in paragraph 5.18, Elders at present indirectly owns 49 per cent of IXL Group (UK) Ltd and IXL Group Ltd, the other 51 per cent being owned by Goodmayes (see paragraph 5.3). However, a wholly-owned subsidiary of Elders has a call option by the exercise of which it can acquire Goodmayes' 51 per cent interests in IXL Group (UK) Ltd and IXL Group Ltd at any time at nominal cost. Elders told us that it intended to exercise that option before any renewed bid for Allied-Lyons was made so that at the time of such bid IXL and the other companies in the IXL Group would all be wholly-owned subsidiaries of Elders.

Source: Elders

## APPENDIX 5.2

(referred to in paragraph 5.17)

### **Note by Elders on the roles of the companies in the proposed bidding structure and its proposals for a tax reconstruction of Allied-Lyons**

1. IXL, the company formed to make the bid for Allied, is an English company having unlimited liability. The reason for its having unlimited liability is that Elders intends to capitalise its investment in Allied as soon as practicable and would otherwise incur United Kingdom capital duty of 1 per cent of, approximately, the total consideration paid for Allied (ie approximately £20 million of capital duty).

2. IXL has five shareholders. Elders proposes a tax reconstruction of the Allied businesses so as to divide the brewery business and the wines, spirits and soft drinks businesses away from the food businesses and to partition the food businesses into a number of logical economic units which reflect the interest of purchasers for the Food Division businesses. There will be one 'shareholder' in IXL for every economic unit of Allied in the tax reconstruction: the particular percentage interest of each of these shareholders in IXL is not relevant and has been arbitrarily arrived at. The sole purpose for the reconstruction is to achieve a tax neutral disposition of the Allied food businesses without giving rise to capital gains tax in respect of prior unrealised capital gain. Put another way, Elders wishes to acquire a drinks business with a base cost equal to its acquisition cost. The Inland Revenue have already given unqualified clearances for this tax reconstruction of Allied, although it will be necessary to apprise the Inland Revenue of any altered facts since the application for clearance was made.

3. The companies identified on the attached structure diagram<sup>1</sup> as 'Newcos' exist for the sole purpose of becoming holding companies of the various economic units of Allied pursuant to the tax reconstruction. They have not traded and will not do so prior to the reconstruction. None of these companies has given, or will give, security to Elders' bankers. The legislation applicable to the tax reconstruction does not permit the 'Newcos' to be shareholders in IXL and, accordingly, the 'Topcos' identified on the attached diagram were created in order to hold IXL and the 'Newcos' pending the reconstruction. But for the legal requirements that the applicants for the tax clearances for the reconstruction should be the actual 'Newcos' (so that therefore they must be in place at the time of applying for tax clearance) it would have been possible to dispense with the 'Topcos' and the 'Newcos' from the bidding structure, and to have proceeded merely with the bidding company.

4. IXL Finance Ltd has a key role in relation to the offer for Allied. Under the lapsed offer Allied shareholders were offered 100 per cent cash collateralised loan notes as consideration, in order to permit them a degree of deferral of United Kingdom capital gains tax. IXL Finance effectively provided a cash alternative to Allied shareholders by offering to acquire those IXL loan notes at par for cash. Any renewed bid is expected to be structured in a similar fashion although alternative forms of consideration will also be introduced.

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<sup>1</sup> See Appendix 5.1.

5. Elders Finance (UK) PLC exists for the purpose of being the issuer, under an Elders IXL subordinated guarantee, of the subordinated guaranteed convertible loan stock. Its positioning in the structure results in its being part of the same United Kingdom tax group, after the tax reconstruction, as Allied Breweries Ltd.

*Source: Elders.*

## APPENDIX 6.1

(referred to in footnote to paragraph 6.24)

### Foreign investment policy in Australia

1. Australian Government policy towards foreign investment (including takeovers) may be briefly described as follows.<sup>1</sup> The Government recognises the important contribution that foreign capital can make to economic growth and development but believes that Australians should be given every practicable opportunity to take part in that development. Accordingly, a balance must be struck, and proposals for foreign investment are examined to match the economic benefits with the potential disadvantages of high levels of foreign ownership and control.

2. Proposals are examined by the Foreign Investment Review Board (FIRB), which makes recommendations to the Treasurer of the Government. The range of proposals requiring scrutiny include the establishment of new businesses and projects over \$10 million, certain real estate acquisitions, and takeovers of existing businesses.

3. There are specific equity guidelines for new mining projects (viz minimum 50 per cent Australian) and some other industry sectors. For takeovers there is no limit on the shareholding which a foreigner may acquire, subject to satisfying the Government that the proposal is consistent with policy.

4. Acquisitions of less than 15 per cent of the issued share capital of a corporation are regarded as of a portfolio nature; only acquisitions above that level are required to be notified to the FIRB.

5. Apart from special cases, the Government will not normally intervene in takeover cases involving companies with assets of less than \$5 million. (This threshold has recently been raised from \$2 million, and a requirement that the seller had to show that Australians had been given the opportunity to bid for the target business has been scrapped.)

6. For takeovers of companies with total assets of more than \$5 million, a full submission is made to the FIRB arguing the economic and other benefits of the proposal. Providing the Government is satisfied that the likely national benefits outweigh the loss of Australian equity, approval is given for 100 per cent foreign ownership. If the claimed benefits are not considered sufficient, approval may be given to less than 100 per cent foreign ownership or subject to condition that Australian equity be reintroduced in the future.<sup>2</sup>

7. The FIRB is an advisory body and its recommendations to the Government are confidential. In the case of major proposals, the Treasurer normally issues a press statement announcing his approval or refusal and the relevant policy considerations.

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<sup>1</sup> The Australian authorities announced on 28 July a major relaxation of their foreign investment policy, to make it easier for foreign investors—both in partnership with Australian firms and on their own account—to engage in direct investment. The policy changes in the manufacturing sector are as follows: 'The present requirement for investors to satisfy economic benefits and Australian equity tests for acquisitions of existing manufacturing businesses and for the establishment of new businesses is to be suspended. Under the terms of the policy suspension, investment proposals will be automatically approved unless they are judged to be contrary to the national interest'.

<sup>2</sup> ie 'naturalisation'.

8. Naturalised status is granted to a company that is 51 per cent or more Australian-owned, provides in its Articles of Association for a majority of Australian citizens on its Board and reaches a general understanding with the Government and major shareholding interests about the exercise of voting powers in respect of business in Australia. Short of this, a company can obtain the benefits of 'naturalisation' by achieving Government recognition as a 'naturalising' company. The criteria for this are a minimum 25 per cent Australian equity, a majority of Australian citizens on the Board, and a public commitment to increase Australian equity to 51 per cent; the Government would seek to agree a timetable for achieving majority Australian equity. The benefit of naturalisation is essentially the facility to participate in new projects and ventures.

9. In the case of takeovers there is no threshold significance in foreign equity holdings exceeding 25 per cent and, in most sectors (viz other than mining, farming and certain real estate projects), no presumption that holdings of 50 per cent or more will not normally be approved. The procedure is to weigh the loss of equity and control against the claimed economic benefits of the proposed takeover. In cases where the benefits are clearly substantial, majority holdings, including 100 per cent, may be approved. Where the national (as opposed to direct commercial) benefits are of lesser significance, approval might be granted for a 50 per cent or some lesser acquisition.

## **A note on the use of capital gearing and interest cover ratios**

### **Introduction**

1. The relationship between borrowings (debt) and capital base (shareholders' funds or equity) in a company's capital structure is sometimes expressed as a ratio (debt:equity ratio) and sometimes as a percentage (capital gearing). For example, if a company had borrowings of £10 million and shareholders' funds of £20 million, its debt:equity ratio would be 0.5:1 or, to put it another way, its capital gearing would be 50 per cent.

2. Interest cover (or income gearing) measures the extent to which interest on borrowings is covered by profits before interest and taxation. It is usually expressed as the ratio of profits before interest and taxation to interest payable.

3. Both these ratios are used by accountants, financial analysts and others in looking at corporate financing plans and in assessing company exposure to financial risk. Many of the witnesses before the Commission, including the main parties, prayed such figures in support of their arguments about the merits of the proposed merger one way or another. It may therefore be useful to consider in somewhat more detail how these ratios are constructed, what they represent and how the situation in the United Kingdom compares with that in other countries.

### **A United Kingdom definition**

4. In its evidence to us the Bank of England defined capital gearing as net debt (ie debt less cash and deposits) expressed as a percentage of shareholders' funds; and interest cover (or income gearing) as the ratio of profits before tax and interest to net interest payable. While these definitions may be generally accepted in British financial circles, they still leave scope for different interpretations, especially in the case of capital gearing. A company's gearing level might be substantially affected by its accounting and financial policies, for instance its policy on asset revaluations or the extent to which it resorted to off-balance sheet financing by the non-consolidation of finance subsidiaries or the use of associated companies.

5. There are also different ways of treating such items as redeemable preference share capital and convertible loan stock. In deciding on the proper treatment of these it will be necessary to consider the terms of redeemability or convertibility (eg whether the arrangement is long-term, and if so how long, whether there is an absolute right to redeem on the subscriber's part, and if so when), but even that will not necessarily result in unanimity of view. The potential differences, particularly in the case of capital gearing, can be significant, as in the case of the latest proposals outlined to us by Elders for its projected acquisition of Allied-Lyons (see Chapter 8).

### **The practical usefulness of ratios**

6. Accordingly, it would be unsafe to regard projected capital or income gearing as offering objective yardsticks by which the soundness of a financing scheme may be assessed. As Table 1 shows, there have been wide variations in the capital gearing of leading United Kingdom companies and there is no consensus

as to what constitutes unacceptably high capital gearing. (See paragraph 7.10 for the Bank of England's view of acceptable levels.) What might appear unsafe in certain economic and market conditions might in others not appear unduly risky, especially if there were firm evidence that it was of a temporary nature. All that can be said is that while high capital gearing does not in itself indicate that a company is in difficulty, it does indicate that its finances are likely to require careful management.

TABLE I Capital gearing of 20 largest United Kingdom companies by turnover

	<i>per cent</i>				
	1981	1982	1983	1984	1985
Allied-Lyons	40.86	40.16	37.63	31.97	34.98
BAT Industries	23.06	30.02	21.62	46.27	42.72
Berisford S & W	127.41	136.34	166.69	152.71	190.19
British Petroleum	53.28	53.02	39.26	36.82	31.73
BTR	48.00	49.54	88.29	62.86	69.97
Dalgety	81.70	67.38	57.38	57.38	50.06
Esso Petroleum	288.64	149.04	3.65	10.52	—
Ford Motor Co	22.11	15.24	7.73	14.53	9.09
Gallaher	36.18	32.70	38.08	67.75	53.46
GEC	-26.21	-44.96	-39.77	-41.41	-32.57
Grand Metropolitan	74.70	55.75	59.76	58.52	54.06
ICI	40.32	42.02	28.97	27.53	31.45
Imperial Group	32.17	28.89	11.24	6.25	15.18
Marks & Spencer	0.35	-0.54	0.41	2.94	-1.98
Rio Tinto-Zinc	28.33	42.87	34.31	44.46	68.23
Sainsbury J	4.09	5.52	6.56	6.72	25.86
Shell Transport	33.81	29.64	18.84	25.02	18.13
Thorn EMI	35.66	39.33	47.18	48.26	55.20
Ultramar	44.04	55.30	64.56	68.67	42.46
Unilever	20.59	17.71	16.23	32.41	28.89

Source: Bank of England, based on data supplied by Datastream Ltd.

Note: These figures are based on the ratio of all identified debt, less cash, to share capital and reserves, less intangibles (goodwill etc).

7. So far as interest cover is concerned, Table 2 shows that this has also been subject to considerable variations and no absolute guidelines can be established; but an interest cover of below 1:1 would point to the possibility, at very least, of a negative cash flow.

### International comparisons

8. As the Committee to Review the Functioning of Financial Institutions (the 'Wilson Committee') noted, 'international comparisons of capital gearing are not straightforward'.<sup>1</sup> Financial and accounting systems in, for instance, the European countries and Japan differ markedly from those in the United Kingdom and United States in such matters as the treatment of asset revaluations; as will be seen in Tables 3 and 4 they therefore generate differences in ratios which reflect these factors and are not easily comparable. But it is clear even so that in Japan, for instance, a level of capital gearing might be acceptable that would cause concern in the United Kingdom. International comparisons may not therefore be a great deal of help, although it is worth remarking that the average capital gearing in Australia seems fairly close to that in the United Kingdom, perhaps a little higher.

<sup>1</sup> Cmnd 7937 (June 1980), paragraph 523.

**TABLE 2 Interest cover of 20 largest United Kingdom companies by turnover**

	1981	1982	1983	1984	1985
Allied-Lyons	2.76	3.31	3.64	4.84	4.35
BAT Industries	6.52	6.28	8.31	6.38	5.19
Berisford S & W	4.26	2.70	1.79	2.07	1.63
British Petroleum	4.72	4.32	5.69	7.09	7.27
BTR	5.04	5.09	3.69	4.24	3.75
Dalgety	1.72	2.37	2.66	3.12	3.12
Esso Petroleum	5.57	2.87	20.69	33.96	—
Ford Motor Co.	7.67	5.41	5.14	2.46	4.27
Gallaher	13.11	5.58	10.63	7.64	5.67
GEC	10.77	13.93	18.23	22.70	33.49
Grand Metropolitan	2.93	2.51	3.35	3.65	3.65
ICI	2.58	2.14	4.19	6.53	5.30
Imperial Group	2.60	4.64	7.18	9.39	6.23
Marks & Spencer	15.85	19.82	14.29	19.02	17.14
Rio Tinto-Zinc	4.25	3.31	4.39	4.22	4.89
Sainsbury J	66.12	95.69	36.39	44.33	18.57
Shell Transport	11.52	12.07	2.18	16.13	14.02
Thorn EMI	3.29	3.36	3.40	4.87	2.93
Ultramar	7.93	9.05	7.78	4.60	6.93
Unilever	6.03	5.84	6.49	6.20	6.04

Source: Bank of England, based on data supplied by Datastream Ltd.

Note: These figures are based on the ratio of profit before interest and tax to interest paid.

**TABLE 3 International capital gearings of non-financial companies**

	per cent		
	1971	1977	1982
UK	*	37	32
USA	45	37	38
Japan	*	220	207
France	103	127	145
Italy	192	170	176

Source: OECD Financial Statistics Part 3, 1984. (Non-financial enterprises' financial statements.)

\* Not available

**TABLE 4 International interest cover ratios of non-financial corporations**

Country	Average 1970-1979	1980	1981	1982	1983
United States	4.3	3.1	2.9	2.4	3.1
Canada	2.7	2.5	1.8	*	*
United Kingdom	2.5†	2.4	2.9	3.3	4.8
Japan	2.0	1.9	1.9	1.9	1.8
Germany	4.5	3.8	3.0	3.0	*
France	2.4	1.9	1.4	1.3	1.3
Italy	1.0	1.1	0.8	0.9	*
Belgium	5.6	3.7	3.0	3.4	*
Netherlands	*	2.8	2.7	2.8	2.9
Finland	1.4	1.6	1.4	1.4	1.9
Norway	*	3.3	3.2	2.9	3.0
Portugal	*	1.1	1.0	*	*
Sweden	0.8	1.3	0.9	1.2	1.7

Source: OECD, *Economic outlook*, December 1985, p 48.

\* Not available.

† Average 1974 to 1979.

## Summary

9. Despite the difficulties outlined above one cannot ignore the importance that the financial community attaches to these ratios as indicative of tendencies which it regards as abnormal and potentially risky. If put under unexpected pressure, a company with high capital gearing and/or low interest cover is likely to find it harder to weather the storm. This is the meaning of risk, and it is as a norm that the ratios have value. While there is no absolute validity in the figures as such, acceptable levels in a given market are to a large extent what that market perceives to be normal. But the ratios should be applied with regard to the underlying circumstances of the company concerned.

APPENDIX 8.1

(referred to in paragraph 8.34)

**Forecasts of capital gearing and interest cover ratios<sup>1</sup>**

1. We discussed with Elders and Allied-Lyons forecasts of the merged group's capital gearing on 1 January 1987 (assumed for the purposes of these forecasts to be the date on which the merger would take place) and its interest cover ratios for the year 1987.

**Capital gearing**

2. Capital gearing forecasts at 1 January 1987 on various bases are set out in Table 1, which also shows on the same bases Elders' forecasts of its gearing one year later, by which time it expects to have received the proceeds of the sales of the food businesses.

TABLE 1 Capital gearing forecasts

Basis	At 1 January 1987				
	<i>Assets less liabilities other than borrowings</i>	<i>Debt (net of cash)</i>	<i>Capital base</i>	<i>Gearing</i>	<i>Gearing at 31 December 1987 after sale of food businesses</i>
	£m	£m	£m	%	%
1	4,262	(2,266)	1,996	114	79
2	4,262	(2,627)	1,635	161	114
3	4,262	(3,451)	811	426	297

Source: MMC, based partly on data supplied by Elders.

Note: These forecasts are made on the following bases:

*Basis 1.* This assumes a hypothetical bid for Allied-Lyons at £2.85 per ordinary share financed as described in paragraph 8.27; and the revaluation of Allied-Lyons' net assets on acquisition to a figure £224 million in excess of the acquisition cost. It treats Elders' £810 million investment in BHP and the borrowing to finance that acquisition as 'on balance sheet' items, but revalues that investment to £970 million, Elders' calculation of its value at the end of June 1986. It takes account of BHP's subscription of A\$140 million (£67 million) for Elders' ordinary shares on 17 July 1986, and also the conversion of the A\$110 million (£52 million) convertible bonds held by BHP into Elders' ordinary shares. It includes Elders' £524 million redeemable preference share capital and its proposed issue of £300 million convertible subordinated loan stock in its capital base.

*Basis 2.* This assumes a hypothetical bid price for Allied-Lyons of £3.85 per ordinary share. For the purpose of the forecast we assume that the extra cost would be financed as to one half by the issue of ordinary shares and one half by further borrowing, and that there would be no further asset revaluation apart from that referred to in the note on Basis 1. It is otherwise as for Basis 1.

*Basis 3.* This treats Elders' £524 million redeemable preference share capital and its proposed issue of £300 million convertible subordinated loan stock as debt instead of as part of the capital base. It is otherwise as for Basis 2.

3. Allied-Lyons provided us with different calculations based on Elders' forecasts (which, it pointed out, it was in no position to verify). In particular Allied-Lyons:

- (a) disregarded the revaluation of Allied-Lyons' assets to a figure £224 million in excess of the cost to Elders of acquiring Allied-Lyons; and
- (b) excluded £33 million minority interests from Elders' capital base because, it said, these did not represent assets generally available to meet the indebtedness of the group at large.

4. If allowance is made for these differences, the forecasts stated in paragraph 2 become as shown in Table 2.

<sup>1</sup> For the purposes of conversion we have taken, as throughout this report, a rate of A\$2.1:£1 (see footnote to paragraph 2.1).

TABLE 2 Amended capital gearing forecasts at 1 January 1987

Basis	<i>Assets less liabilities (other than borrowings) and minority interests</i>	<i>Debt (net of cash)</i>	<i>Capital base</i>	Gearing %	<i>Gearing at 31 December 1987 after sale of food businesses</i>
	£m	£m	£m		%
1	4,005	(2,266)	1,739	130	89
2	4,005	(2,627)	1,378	191	133
3	4,005	(3,451)	554	623	398

Source: MMC, based partly on data supplied by Elders and Allied-Lyons.

5. Allied-Lyons pointed out, however, that these forecasts make no allowance for its planned acquisition of Hiram Walker Spirits, with net assets of £583 million, at a cost of £1,222 million, which acquisition is to be funded in the first instance by borrowings. If allowance is also made for this acquisition (but not for any revaluation of Hiram Walker Spirits' assets following acquisition<sup>1</sup>) the forecasts become as shown in Table 3.

TABLE 3 Capital gearing forecasts further amended to show the effect of the planned acquisition of Hiram Walker Spirits at 1 January 1987

Basis	<i>Assets less liabilities (other than borrowings) and minority interests</i>	<i>Debt (net of cash)</i>	<i>Capital base</i>	Gearing %	<i>Gearing at 31 December 1987 after sale of food businesses</i>
	£m	£m	£m		%
1	4,588	(3,488)	1,100	317	230
2	4,588	(3,844)	739	521	361
3	4,588	(4,673)	(85)	infinite	4,881

Source: MMC, based partly on data supplied by Elders and Allied-Lyons.

### Interest cover ratios

6. Elders provided us with an interest cover ratio forecast for 1987, and adapting this on various bases we arrive at the forecasts shown in Table 4.

<sup>1</sup> See footnote to paragraph 8.36.

**TABLE 4 Interest cover ratio forecasts for 1987**

<i>Basis</i>	<i>Profits before interest and tax</i>	<i>Net interest payable</i>	<i>Interest cover</i>
	£m	£m	
A	467	249	1.9
B	586	249	2.4
C	467	285	1.6
D	586	285	2.1

Source: MMC, based partly on data supplied by Elders.

**Note:** These forecasts are made on the following bases:

*Basis A.* This, like *Basis 1* of Table 1, assumes a bid for Allied-Lyons at £2.85 per ordinary share financed on the basis described in paragraph 8.26. It takes account of interest at 13 per cent on the borrowings to finance the investment in BHP and an estimated dividend of £45 million receivable on it.

*Basis B.* This takes account of the Elders' share of BHP's pre-tax profits on an equity accounting basis.<sup>1</sup> It is otherwise as for *Basis A*.

*Basis C.* This, like *Basis 2* of Table 1, assumes a hypothetical price of £3.85 per share and provides for interest at 10 per cent on the borrowings of £361 million, which we assume would finance half the additional bid cost. It is otherwise as for *Basis A* in that it includes Elders' estimated dividend of £45 million from BHP, not its share of BHP's pre-tax profits.

*Basis D.* This includes Elders' share of BHP's pre-tax profits. It is otherwise as for *Basis C*.

7. Allied-Lyons provided us with interest cover forecasts which allow for interest at 17 per cent on borrowings to finance the investment in BHP, include dividends of £43.8 million (not £45 million) on that investment, provide for interest at 12 per cent on the £361 million assumed to be required to finance half the cost of increasing the hypothetical bid price from £2.85 to £3.85 and include the effect of the planned Hiram Walker Spirits' acquisition by bringing in its estimated profits (before tax and interest) of £142 million and interest on borrowings to finance the acquisition of £147 million. If allowance is made for these factors, interest cover ratio forecasts are changed to those shown in Table 5.

**TABLE 5 Amended interest cover ratio forecasts for 1987**

<i>Basis</i>	<i>Profits before interest and tax</i>	<i>Net interest payable</i>	<i>Interest cover</i>
	£m	£m	
A	608	426	1.4
B	728	426	1.7
C	608	470	1.3
D	728	470	1.5

Source: MMC, based partly on data supplied by Elders and Allied-Lyons.

<sup>1</sup> In the United Kingdom the relevant Statement of Standard Accounting Practice (SSAP) on accounting for associated companies states that an investing group should include in its consolidated financial statements its share of before-tax profits of associated companies. An associated company is defined as a company where the investing group's interest is effectively that of a partner in a joint venture or consortium, or is for the long term and is substantial and where, having regard to the disposition of other shareholdings, it is in a position to exercise a significant influence over the company in which the investment is made. The SSAP further states that where the interest of the investing company is not effectively that of a partner in a joint venture or consortium and amounts to less than 20 per cent of the equity voting rights of the company in which the investment is held, it should be presumed that the investing company does not have the ability to exercise a significant influence unless it can clearly demonstrate otherwise. Elders' investment in BHP amounts to less than 20 per cent of the latter's equity share capital.

**Reservations as to the hypothetical bid prices**

8. Elders and Allied-Lyons both entered caveats about the hypothetical bid prices of £2.85 and £3.85 on which these various forecasts are based. Elders made it clear that they did not indicate the price at which it might be prepared to bid. Allied-Lyons emphasised that they should not be taken as implying a price at which control of Allied-Lyons would necessarily pass.