

THE TAKEOVER PANEL

Dunford & Elliott Limited

Profit forecast for the year ended 1st October, 1977.

In connection with the agreed and successful offer by Lonrho for Dunford & Elliott, Dunford & Elliott issued on 23rd February, 1977 a forecast for the year ending 1st October, 1977 which estimated profits before taxation of about £5,000,000. In the event the profits for the year to 30th September were £1,712,000.

As the shortfall was substantial, the Panel executive made enquiries but, as explained in a public statement issued on 1st August, 1978, further consideration was deferred because the Panel was informed that Lonrho was considering taking legal action in respect of the forecast. Subsequently the Panel was told that Lonrho had no present intention of litigating, and the Panel executive undertook a very detailed examination of the forecast with the assistance of a firm of accountants. The results of this examination came before the Panel at a meeting held on 15th May, 1980.

Companies are not obliged to make profit forecasts in connection with take-over offers, but, where forecasts are made, the Panel attaches the highest importance to directors preparing them with the greatest possible care.

The Panel was satisfied that the forecast issued on 23rd February, 1977 was based on information which had been systematically collected and examined by the various subsidiary companies. The business was largely dependent on a few major customers engaged in the manufacture of motor-cars or of car components. A large proportion of the orders were given at relatively short notice for early delivery and any forecast covering several months was dependent more on a view of the customers' longer-term prospects than on the actual order book at a particular time. The board of Dunford & Elliott were right in assuming that there would be a substantial increase in 1977 in the general public demand for cars. Like others (who in the event were equally mistaken), they made the assumption, and so stated in their forecast, that the trading results would not be affected by industrial disputes. They had expected that in the spring and summer of 1977, the UK motor industry would become sufficiently free of industrial relations troubles to be able to recover much lost production and meet a substantial part of the demand. This did not prove to be the case. The Panel is satisfied that the directors of Dunford & Elliott and their advisers acted in good faith and with appropriate care in the preparation of the forecast.

20th May 1980.