

Polly Peck: Asil's nadir

**Michael Gillard
and George
Walker-Jervis** report
on the questions that
must be answered
following last week's
dramatic events at
Polly Peck

ASIL NADIR, chairman of Polly Peck International, chose not to brave the attentions of a cluster of waiting journalists, massed in a damp huddle outside Polly Peck's Berkeley Square headquarters in Friday evening's drizzle.

An assortment of associates concocted a press release, gathered up their coats and vanished into the night. But no Asil. The statement, released at 8pm, was a brief affair.

It read in full: 'The board of directors of Polly Peck International plc met this afternoon and intends to make a more detailed statement early next week. It wishes to emphasise that it deplores the recent attacks on the chairman.'

Little or nothing was seen of Nadir on Friday or yesterday as Polly Peck's directors continued their crisis meetings. The man who in six weeks has seen his personal holding in Polly Peck fall in value by £370 million from £485 million was staying silent and out of sight.

The Stock Exchange, which was promised a statement not later than close of trading on Friday, does not expect to hear from Polly Peck until tomorrow. Meanwhile, Polly Peck's shares remain suspended 'temporarily'. This decision was taken on Thursday at the company's request when the price had crashed from 243p to 108p.

Also waiting to hear are the BZW offshoot de Zoete & Bevan and Lehman Brothers, who are joint brokers. De Zoete is understood to be considering its position this weekend, although it has declined to make any response until the full statement from Polly Peck becomes available.

De Zoete was not present at the crucial Sunday afternoon board meeting of 12 August, when Nadir first announced his intention to proceed with a £1.5 billion buy-out. There has been speculation that even before last week's dramatic events BZW was considering resigning.

Chartered West LB, the Standard Chartered offshoot which acts as financial adviser to the troubled fresh fruit to electronics conglomerate, is also certain to keep a close eye on Polly Peck this week.

One man who is not waiting is Gordon Brown, Shadow spokesman on trade, who has called for an immediate investigation by the Department of Trade and Industry of the events surrounding Nadir and Polly Peck.

Brown declares: 'It is now time Trade Secretary Peter Lilley shows he means business in ensuring proper City regulation by making a top-level inquiry into these events at Polly Peck.'

The failure of the Polly Peck directors to produce the promised statement highlights the dilemma faced by the company and its 23,000 shareholders, most of them (14,000) Nadir's army of loyal, small investors owning fewer than 1,000 shares.

Polly Peck is still today what it was 10 years ago — a one-man company. Former managing director Tony Reading was too independent, or was it too ambitious, and last year was gone. Investors have always bought Asil Nadir and his ability to pull off deals, first in northern Cyprus, then in Turkey and now farther afield.

This week it is Nadir's idiosyncratic, if not autocratic, style of management and his interlocking substantial private interests and alliances which are at the heart of Polly Peck's problems and lack of City credibility.

The inability of the directors — employees or non-executives hand-picked by Nadir — to calm the City by persuading the man who is Polly Peck to give up as chairman or chief executive is as much a non-surprise as that the only item on which they could agree was to deplore the recent attacks on their paymaster.

But deploring the attacks mounted by the Serious Fraud Office in the wake of those by the Inland Revenue and the Stock Exchange is hardly likely to reassure either shareholders or City regulators. What is needed are answers now to several highly pertinent questions, certain of which have already been asked by the SFO.

First, the £180 million-plus question: how have Nadir and his Jersey company Restro Investments financed the massive purchases of Polly Peck shares since 1988, and what is the current response of any banks which have loaned against shares bought at prices from 245p to 349p?

With the shares suspended any loans could be automatically repayable. At the suspension price Nadir faces losses totalling in excess of £100 million, including up to £25 million on the 16 million shares bought in the last two stock market

accounts as he vainly attempted to support the falling share price.

Why should Nadir, unlike Michael Green of Carlton Communications or George Walker of Brent Walker, whose shares have fallen equally out of favour, feel it so vital to spend millions supporting the share price?

Any bank or stockbroker lending against Nadir's purchases of Polly Peck's shares would have seen its security greatly diminished, triggering substantial margin calls for further cash. Speculation about possible forced selling helped start the landslide which resulted in the suspension on Thursday as the price headed south from 243p.

As none of the Nadir-controlled 123 million Polly Peck shares are registered in Restro's name and only some 35,000 in his own, the clear inference is that they may be held as security by banks or other lending institutions.

But for what purposes, other than market and rights issue purchases, have such huge amounts — assuming normal margin lending at a half to two-thirds of market value when the shares were above 300p — been borrowed? Nadir says his borrowings are 'less than 10 per cent' of his entire worth, which

he puts at £1 billion, but those are still onerous numbers at current interest rates.

Nadir employs the services of a multitude of banks in his dealings across the world — extending from the kettles concern of Russell Hobbs in the UK and the fruit farms of Cyprus to the Sansui consumer electronics offshoot based in Japan.

Two banking connections are represented indirectly on the Polly Peck board in the form of Sir Michael Sandberg, former chairman of Hongkong & Shanghai Bank, and Ulf Siebel of Arab Banking Corporation. Nadir has also done business with several Scandinavian banks such as KOPbank from Finland, which has been linked to certain of the offshore share-dealings now under investigation. Citibank and First Boston are other lenders.



Polly Peck: SFO poised to decide

How the crisis broke: The Observer, 2 September (above) and 9 September.

The SFO is still reviewing its options, which could include interviewing Nadir using its powers to compel answers. There is also the continuing Inland Revenue/Customs inves-

On the Sansui deal in October 1989 alone, Nadir felt obliged to muster a lengthy cast list which included Standard Chartered Bank, as it then was, well as Yamaichi and the Swiss bank Warburg Soditic, which is understood to enjoy particularly close links with him.

What will the consequences now be to Nadir of the suspension and the likely return at a price well below even recent depressed levels?

All these questions must be answered and answered soon if Polly Peck and Nadir are to begin to restore credibility.

So too must a number of questions relating to the SFO and Inland Revenue investigations.

What is the exact relationship between Nadir and South Audley Management, whose offices were searched by the SFO last Wednesday? Nadir now says SAM, owned by a Jersey trust, handles properties on behalf of family interests.

What is the role in Nadir's personal affairs of Elizabeth Forsyth, his former personal banker at Citibank, who runs SAM and a number of companies connected with Nadir private interests?

She is described as a personal adviser to Nadir. SAM and Forsyth have been linked to certain of the offshore companies which have dealt extensively in Polly Peck shares.

What exactly is the nature of the relationship between SAM and Nadir and the man at the centre of the investigations into those offshore dealings, Jason Davies, 27, the stockbroker who was a director of SAM and is still listed as a director of the Swiss company Nadir Investments?

Nadir has referred to Davies dismissively as an 'independent broker' who had but passing links with his companies. Others say Davies worked closely with Forsyth for a long time, until at least earlier this year, and was a friend of Nadir's eldest son Birol.

What connection do any Nadir private or family interests have with the maze of Cayman Island companies linked to Citibank/Citicorp which are suspected of substantial and timely purchases and sales of Polly Peck shares?

Family trusts linked to Birol Nadir and Asil Nadir's sister Bilge Nevzat have ties to Cititrust in the Caymans and its Swiss associate Confidas.

So do two of the offshore sharedealers, Tristan and Forum. Forsyth is a director of Demihaven, which controls Berkeley Media and the provincial newspapers, is run by former News International director Bruce Matthews. Demihaven is controlled by Brass Bell. This is yet another Cayman company registered by Cititrust which is to be found c/o Confidas in Zurich.

How does Nadir explain the long-term pattern of sizeable and timely dealings in Polly Peck by offshore companies which has attracted the attention of Stock Exchange investigators for a number of years and now the Inland Revenue and Customs? Dealings which have raised suspicions either of access to inside information or market manipulation or both.

The taxman and the VAT-man want to discover whether there may be UK residents behind the offshore companies who would be liable for tax on sharedealing profits or VAT on share transactions.

Since 1980 when he took control of Polly Peck, then a rag trade 'shell', Nadir has controlled the company through Restro. Until at least 1986 control of Restro rested in the Isle of Man with the Manx company Hillgate.

which own SAM, Hillgate is administered by the same firm of accountants. Restro is now managed by a local Jersey company administrator.

Nadir's wealth outside of Polly Peck appears to be based on a widely strewn and ill-defined (but interlocked with the public company) portfolio of investments and ventures in Turkey.

Among these is Impexbank, based in Istanbul, which he bought two years ago. Nadir already controlled a smaller bank in northern Cyprus. Both do business with Polly Peck.

Impexbank acts as adviser to Turkey Trust, an investment trust launched in the UK at the beginning of August which features Turkish stocks. Nadir is a director.

He is rumoured to have invested nearly \$100 million assembling newspaper empires in Turkey and Cyprus, including the Turkish dailies *Gunes*, *Tan* and *Gunaydin*.

Nadir's newspapers have swung behind Turkish President Turgut Ozal and Rauf Denktash, the leader of the Turkish Cypriots, both old friends whose political influence has been one of Nadir's and Polly Peck's greatest assets. Nadir has spoken by telephone to Ozal several times over the past few weeks. Denktash was a guest at the lavish celebrations for the opening last weekend of Polly Peck's latest hotel in Turkey.

It emerged last week that the Turkish Government has lobbied in London and Ankara for Nadir, claiming that he is the victim of a press campaign manipulated by Greek Cypriot propagandists.

When the veteran Turkish politician Suleyman Demirel once asked him why he wanted to buy newspapers, Nadir is reported to have replied that he wants to control up to 60 per cent of the Turkish press in order to show how news could be reported and published.

It is not just in Britain that Nadir has felt the cutting edge of press criticism. He has been the subject of attack in both northern Cyprus and Turkey from those concerned at his ever-increasing influence.

He sued the editor and two journalists on a left-wing weekly *Towards 2000*, claiming £100,000 for harming his honour and dignity in an article entitled 'The finger that stirs Turkey'. The journalists were each fined £1,600 earlier this year.

Nadir has also gone into the airline business with Noble Air, a charter operator. It began operations last year, with two Boeing 727-200s on a four-year lease flying from the UK and West Germany, home to the greatest number of expatriate Turks, to Turkey and Cyprus. Noble Air has plans for three more aircraft to provide extra services from Finland and Austria.

Noble Raredon, the leisure and textiles concern controlled by Nadir's sister Bilge Nevzat and her husband through Fairweather Investments, a Cayman-registered trust.

The Nadir family's involvement in quoted companies extends beyond Asil and Polly Peck. Apart from Bilge Nevzat's role in building up Noble Raredon, his son Birol has held stakes in Kewill and Harland Simon.

Turkey has increasingly become the crossroads where the public and private Nadir interests meet. In addition to hotels, Polly Peck has interests in agricultural produce and mineral water. Its other interests include a factory making video recorders in the city of Izmir.

Polly Peck is also part of a partnership with the French combine Peugeot-Citroen and Cukurova of Turkey regarding a \$200 million site near Izmir to manufacture up to 100,000 cars a year, including the 405 version of the Peugeot and a new Citroen range.

Polly Peck also holds an 82 per cent stake in Vestel, a publicly quoted Turkish consumer electronics combine. Half of Vestel's exports go to other companies within the Polly Peck sphere, including the Italian TV manufacturer Imperial.

Analysts have long been somewhat uneasy with the substantial Turkish component of Polly Peck's business. According to insiders, the company has borrowed heavily in strong currencies such as the Swiss franc and the Deutschmark, but reports a large slice of profits in the Turkish lire, which has depreciated by some two-thirds against the pound since the start of 1988.

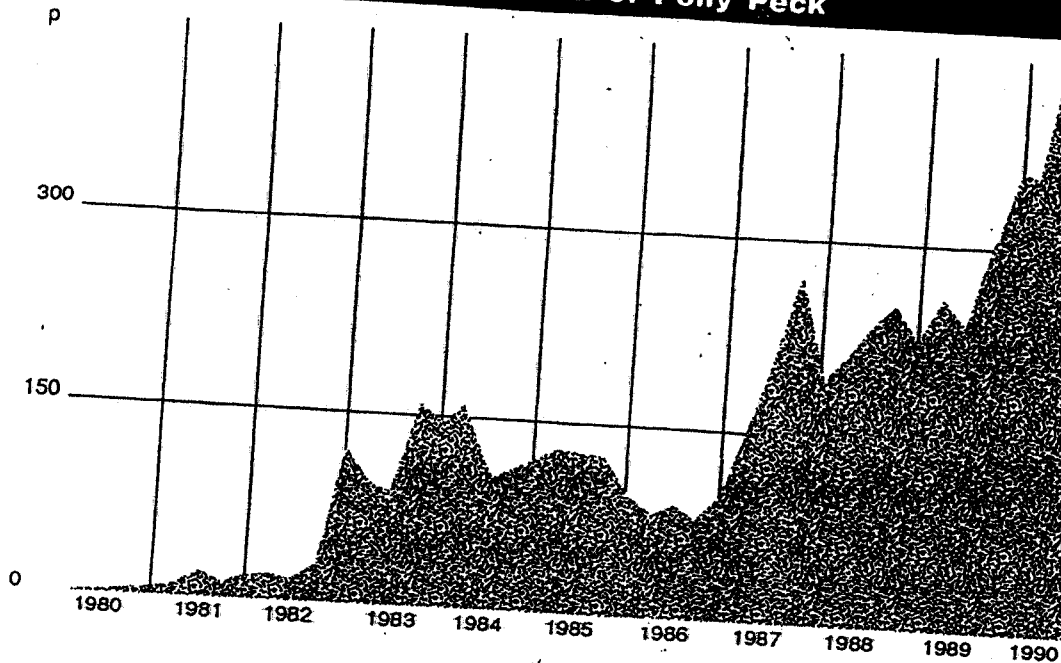
Polly Peck would also appear to earn a substantial amount from loans made in Turkey, where interest rates make those in London appear cheap. Last

year, it earned £68 million in interest compared with trading profits of £139 million. The downside is that it must keep taking substantial currency losses, but these come out of reserves, not profits.

Nadir, born 49 years ago in northern Cyprus of Turkish descent but a naturalised Briton, came to England in 1960. In Turkish, Asil means noble and Nadir means rare. His father, Irfan, created the Wearwell textiles enterprise with its headquarters in the rundown East End thoroughfare of Commercial Road.

As an overhang from the Wearwell days, Polly Peck still owns three properties in Commercial Road. Although sources maintain that the company intends to develop two of the sites, no planning applications are currently lodged with Tower Hamlets Borough Council.

The rise and fall of Polly Peck



Nadir bought the struggling Polly Peck in 1980 at a cost of £470,000. Boosted by tales of profits from the orange groves of far-off Cyprus, Polly Peck's quote was revitalised and became a stock market legend. It was the best-performing share of the Eighties. A thousand pounds invested had become a million by the end of the decade.

It made Nadir one of Britain's richest men with homes in London's Bishop's Avenue (Millionaires' Row), Park Lane and a country estate, Baggrave Hall, in Leicestershire.

But as Polly Peck gained prominence, the source of its expanding profits was bound to come under increasingly critical scrutiny.

There has always been a large body of City opinion which never 'bought' Nadir because of scepticism about exactly how the company's profits, £161 million last year and forecast to rise, were made in northern Cyprus and Turkey, first from such basic products as citrus fruit, mineral water and cardboard boxes and then from televisions.

In 1983, *The Observer* published the results of an extensive

investigation of Polly Peck's operations in northern Cyprus and Turkey which queried the basis for certain of the company's then current and projected profits. Nadir sued for libel.

However, when in 1986 the Law Lords refused to hear an appeal against a Court of Appeal ruling that would have meant he must provide full access to all Polly Peck's books he ceased to pursue the case.

Although there have been minor hiccups in the relationship between Nadir and the City since the crisis in 1983, his supporters appeared to have the upper hand until last month when news leaked out of the Inland Revenue investigation. Ironically, it was Nadir's ill-judged response to the disclosure of the tax probe that precipitated the current and greatest threat he has faced.

On 12 August, Nadir proposed a £1.5 billion buyout of the 74 per cent of shares he did not control. These plans were unveiled to stunned and incredulous directors on the day *The Observer* revealed that the Revenue was probing share dealings in Polly Peck linked to South Audley Management.

Five days later, Nadir withdrew his proposals. The buyout was barely credible, given that Polly Peck has debts of over £850 million. This news sent the share price plummeting 78p to 324p. It also brought in the Stock Exchange and ultimately the Serious Fraud Office.

On 24 August, Nadir was severely rebuked by the Stock Exchange's quotations panel, in unprecedented terms for the chairman of a major public company, for the precipitate nature of the buyback fiasco.

The share price continued to fall despite Polly Peck on 3 September reporting pre-tax profits for the half-year to end-June of £110.5 million (£64.4 million), some £10 million ahead of expectations.

With his credibility among City folk shot to pieces, it is unlikely that Nadir will be doing many more deals in the near future.