

From rows at Windsor Horse Trials to suspension of the shares after a

THE DEALS THAT

The Serious Fraud Office moves in after a former Polly Peck executive tells of a massive share-buying operation that extends from a terraced house in Berkeley Square to letter-box companies at Geneva airport

INSIGHT

THERE was already deep pessimism in the City as the markets opened on Thursday. The morning headlines carried confirmation of what even the last few bullish spirits had by now reluctantly accepted: recession had arrived, not just in Britain but around the world.

Within minutes of opening, attention everywhere focused on a single stock: Polly Peck had tumbled 25p from 245p. Compared to the 462p high earlier this year, that was disastrous enough, but it was getting worse by the minute.

There was no obvious reason for the selling wave taking on panic propor-

tions. The rumours, wild enough to begin with, soon became absurd. Asil Nadir, the chairman of Polly Peck, was said to have shot himself; that soon changed to assassination by a Middle East gunman.

Panic and selling became wilder still when, shortly before 10.30am, a single block of 7.9m Polly Peck shares, worth £20m, was offered. The shares went into free fall, and by 11am the price was 180p, at which level a few brave spirits ventured back in, reckoning the bottom must be close. It wasn't.

By 2.21, when the shares were finally suspended at the company's request, an

incredible 36m shares had changed hands and the price was down to 108p. Polly Peck's market value had fallen by £560m in a single day, and £165m had been knocked off Nadir's personal fortune, the greatest share collapse due to lack of confidence in over a decade.

Only as the market closed did the truth filter through. Acting on a tip-off, a City analyst rang the Serious Fraud Office. A press officer confirmed there had been a raid the previous day on the Berkeley Square offices of South Audley Management, a company closely linked to Asil Nadir.

Suddenly the City realised it was on the edge of something that might turn into a Guinness-style scandal.

THE raid was launched the day after a visit to the SFO offices in Elm Street, central London, by a former Polly Peck executive.

He had evidence, he said, concerning the company which is known in Britain for brands such as Del Monte fruit, Russell Hobbs Tower electrical products and Sansui hi-fi equipment.

Robert Wardle, an SFO lawyer, and his colleague, David Morrison, an accountant, listened with growing interest as he took them through a story which would rival the script of the film Wall Street: of how a dynamic business tycoon wooed a young City stockbroker with money and power beyond his dreams; of how, in just three years, the broker rose from living in a run-down home in Essex to a Swiss villa and swapped his daily commuter grind for jetting between European capitals. And he alleged possibly illegal activities had taken place with Polly Peck money.

The business tycoon was Asil Nadir, the broker was Jason Davies, brought in to help run Nadir's private financial empire.

The SFO did more than listen. Following the raid, they spent three-and-a-half hours grilling Nadir.

For some weeks, well

A young City broker wooed with money and power beyond his dreams

before the SFO entered the scene, The Sunday Times Insight team had been investigating Nadir, Davies and their associates. It has uncovered how:

- for months Davies and others ran a share-buying operation to bolster the fortune and reputation of both Nadir and Polly Peck;
- a complex network of letter-box companies and foreign bank accounts was used to disguise the scheme and hide it from the prying eyes of City regulators.

Nadir in the flesh is charming, personable and articulate. His good looks and wealth have acted as a magnet for beautiful women. Profiles in glossy magazines described him as "enigmatic", the "man with the Midas touch".

But despite his wealth and success, he was always very much a City outsider, his extraordinary rise viewed with suspicion, and his profit figures openly questioned. Nadir was an anomaly: a Turkish Cypriot, a Muslim, and a man who seemed able to conjure enormous profits from the simple business of packing fruit into cardboard boxes.

He arrived in Britain in 1964, aged 22, to join his family, working 15-hour days including weekends. He built a cash-and-carry clothing firm in London's East End into a multi-million pound conglomerate dealing in citrus fruit, electronics and leisure. The shares of Polly Peck soared from 5.5p in February 1983 to more than 400p seven years later.

Anyone who had invested £1,000 at the beginning would have seen it increase to £1.3m. Nadir's personal fortune was, before last week's share collapse, estimated at £213m, ranking him Britain's 36th richest man. He owns a £3m home in Wilton Crescent, Belgravia, plus Baggrave Hall, a stately mansion in Leicestershire, as well as racehorses, a Ferrari and a private jet.

The events which led up to the SFO's raid began in May 1989, at the three-day horse trials at Windsor

Great Park. Nadir's top executives were entertaining top City bankers and stockbrokers.

The £150,000 Nadir had paid to sponsor the event was intended to mark his company's arrival in high society.

But on the first day of the horse trials the magic of the occasion was broken. A phone call from Martin Helme, finance director of Sunzest, one of Polly Peck's fresh-fruit subsidiaries: "I've been fired. Why?"

Helme was not the only senior executive to have been purged that day. Vi Jensen, financial controller, had also gone. So too had Martin Brown, another Sunzest executive. Even Fawcus's own secretary had been sacked.

Fawcus knew nothing about it, and as a senior board member, felt he should have been consulted, particularly about the secretary, Tony Reading, managing director, was even more shaken. Jensen was one of his most trusted employees. He complained that the sackings, carried out on the personal instructions of Nadir, undermined his executive responsibilities and were a personal rebuke to him. Reading, red-faced, stormed out.

Even today, the reason behind the sackings is not clear. Some said it was a purge of those suspected of plotting against Nadir. Jensen, it was suggested, had been attempting to introduce rigorous financial control that would have eroded the chairman's power.

The City took the news badly. There was a risk that Reading, who lent badly needed credibility to a company of which investors were traditionally cautious, might resign.

News of the bust-up sent the share price down by 10% — a serious matter for Nadir's ambitious plans. The previous October, Polly Peck had raised £136m through a rights issue, but was now preparing for an even bigger issue (£283m) to pay for the American food group Del Monte. The share-price fall could not have come at a worse time.

But the situation was worse for Nadir himself. His personal borrowing stood at well over a £100m, much of it secured against his 26% share stake in Polly Peck. His bankers could

not demand cash if the market value of shares held as collateral fell.

It was an anxious group that gathered to discuss the crisis in Nadir's flat in Aldford Street, Mayfair, on the Monday immediately after the Windsor Horse Trials. Other Polly Peck directors had been summoned over the bank holiday weekend to attend an emergency board meeting the following day.

In advance, Nadir had met his closest advisers to decide a plan of action. With him were Radar Reshad, head of Polly Peck's food division; Mark Ellis, head of corporate development; Anil Doshi, an Indian accountant and *de facto* financial controller, and Tim Wood, investor-relations officer.

It was clear from the outset that there were rifts within the company that would not heal. Reading's determination to control the company's spending did not go down well. His imminent departure, voluntary or otherwise, was inevitable. Nadir announced his job would be filled by Wood, but that raised fresh queries: wouldn't Reading's depart-

**London
houses and
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ture raise the inevitable problem of him speaking out of turn, to rivals or worse still, the press? What

secrets might he reveal?

Nadir turned to his most trusted ally, and according to one of those present remarked: "But I have done nothing wrong, have I Anil?"

TRY ASKING the Swiss telephone operator for a number for Gateway Investments in Geneva and you will be told politely that there is no such listing. Ask a taxi driver for the address and he will drop you outside a large, glass and concrete tower block by Geneva airport. Here mail for dozens of "letterbox" companies is dispatched throughout Europe.

The reason Gateway has no nameplate on the door, no secretaries or even telephones, is that the company's real headquarters is 500 miles away in London's West End. Gateway is among a string of Swiss companies run by Davies from 24 Berkeley Square.

Here, in an office on the first floor of the neat terraced house, Davies bought and sold Polly Peck shares, using the Swiss companies as fronts. Brokers were asked to book stock to, among others,

one-day fall of £560m... the saga of the Turkish Cypriot millionaire deemed to be an outsider

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DAMNED ASIL NADIR

Riverbridge Investments, also at PO Box 423 Geneva, and Tristan Ltd, at PO Box 131, Zurich.

South Audley Management described itself as a property-management company, but in reality, it looked after Nadir's extensive personal empire, including his publishing business in Turkey where he owns two daily newspapers and a weekly magazine. The company also bought, furnished and maintained his houses in Cyprus and Turkey.

On the second floor, in the office above Davies, worked Nadir's son, Birol. It was Birol, 28, who first introduced Davies to Nadir. Three years earlier, Birol had met Davies while he was working at Giles & Overbury, a London stockbroker which spectacularly collapsed in 1987.

At the time, Davies was living in Saffron Walden, Essex. He had just moved from a cramped flat to a terraced house on the Fairview estate, known locally as "the chicken shed" because of its shabby construction. Neighbours there remember that his career took off after he was discovered by "the Turkish man". "He'll be a millionaire by the time he's 30," said one.

When Davies was invited to become a director of South Audley Management in 1988, he jumped at the opportunity. He was to

assist Elizabeth Forsyth, Nadir's long-time associate, with whom he shared an office. He was also to take instructions direct from Nadir. In the months that followed, Davies became a frequent visitor to Polly Peck's headquarters, just across Berkeley Square at number 42.

Contrary to usual share-buying patterns, Davies bought Polly Peck shares most often at the end of an account period, usually on a Friday afternoon just before the markets closed. Unlike

long-term investors or ordinary share "punters", he would mop up "loose stock" which speculators had bought during the account period and didn't want to keep. He would often "cash and new", defer payment by paying interest to the brokers on the bill.

The purchases were made in blocks of typically a quarter of a million, ordering as many as 2.5m at a time. When everything went according to plan, the effect was to prevent the price of Polly Peck shares falling. But the knife-edged operation created huge organisational problems. Arranging payment was a nightmare. Sometimes Davies would pull up in a taxi, keep the driver waiting and rush into a broking house with a settlement cheque.

At least one broker became suspicious and closed the accounts of the Swiss companies, remarking: "To

us it seemed that the accounts were just not kosher."

EARLY in June, following the Windsor horse trials, stories of the boardroom sackings filtered through to the Stock Exchange. By Wednesday, June 14, the price had fallen to 264p, but then climbed steadily back towards 300p. Someone was picking up loose stock.

Davies's share-buying operation was an open secret among office staff at South Audley Management. "It was difficult not to know what was going on and no secret was made of the fact that Davies, under supervision of Forsyth, was dealing in Polly Peck shares," said one senior Polly Peck executive in a statement to Insight. "Davies's indiscreet and boastful remarks sug-

gested his actions were not always above board and they were often on behalf of offshore companies."

Those who asked questions were told the market underestimated Polly Peck's true value, measured in terms of what buyers would be prepared to pay if the company were split up and sold off. But at least one transaction in mid-June caused consternation. It is details of that transaction that are now being studied by the Serious Fraud Office.

According to evidence being studied by the SFO, Davies's buying spree fol-

lowing the June share-price slide landed him with a bill of around £7m. The hastiness of the deals was such that there was even less time than usual to arrange payment.

When stockbrokers became anxious, money was transferred from Polly Peck's account at the National Westminster bank at Bishopsgate, central London, to the account of Unipac, a Polly Peck subsidiary with an account in St Helier, Jersey. From there, the money went to the Industrial Bank of Cyprus, which held an account with the London branch of Midland Bank International.

The implications, that Polly Peck money was used to buy Polly Peck shares, were very serious. From Wall Street to Tokyo, stock-market regulators across the world are agreed on one thing: directors must not trade in their company's shares using company money or without declaring such transactions.

If they did so, it would send misleading signals to the market. Pension funds and trusts, which look after the savings of millions of ordinary people, as well as private investors and speculators, rely on share prices to guide their investment decisions.

They assume the price reflects thousands of inde-

➤ No nameplate, secretaries or telephones: the real HQ was 500 miles away

pendent decisions to buy, hold or sell. Financial assistance by a company for the acquisition of its own shares is therefore outlawed. If such concerns crossed Davies' mind last summer, then his hectic routine did not allow him to dwell on them.

His reward for a job well done was to be entrusted with the next stage of Nadir's corporate plan, the proposed move of Polly Peck's management to Switzerland.

Nadir had already been advised by his accountants, Rawlinson and Hunter, that in order to reduce his personal tax bill he should consider moving abroad.

Davies was sent out to set up a base and to look

for a company Nadir could use to establish residency.

But first of all there was the Del Monte bid to complete. Del Monte was a spin-off from the RJR Nabisco takeover, sold to Nadir for £557m in September 1989.

Overnight it made Polly Peck the third largest fruit distributor in the world, and the share price jumped by more than 100p to above 400p in just two days when it was announced. Polly Peck was listed for the first time on the FT-SE 100 index at over £1 billion.

HOWEVER, unknown to Nadir, dealings in the shares were now attracting some official attention. In his stuffy office in Holborn,

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central London, Richard Cook, an investigator at the Inland Revenue's Special Office, was already trying to work out who was behind the huge blocks of Polly Peck shares being quietly traded. All that appeared on the dealing notes was a company name and a post-box address in Switzerland.

The documents had been passed to Cook by Bob Wilkinson, head of the Stock Exchange surveillance department. Wilkinson had in turn been handed them by a London broker who had had extensive dealings with Davies and the Swiss companies. Wilkinson had also related to Cook a curious story, told to him by the broker.

In January 1988, the broker had phoned Forsyth to find out when he could expect payment for a large volume of Polly Peck stock, ordered by Davies in the name of one of the Swiss companies. Forsyth told him there should be no problems, but, as a precaution, gave the broker a number to ring "for comfort".

Forsyth told him she herself was flying to Switzerland to iron out administrative difficulties with the Swiss companies.

When the day came for the account to be settled, and no payment had arrived, the broker phoned the number Forsyth had given him. A female voice at the other end reassured him there was nothing to

worry about, the money was on its way. She identified herself as Nadir's personal assistant. Only then did the broker realise the number was that of Polly Peck's headquarters.

The reason that the story was so intriguing to Cook was that, if a UK resident was the true beneficial owner of the Polly Peck shares bought by the Swiss companies, then that person should be assessed for capital-gains tax on any profits from selling the shares.

But Cook was shrewd enough to know there were deeper implications, involving possible breaches of the Companies Act and the Financial Services Act. It was a job for the SFO.

FOR DAVIES the move to Switzerland was a dream come true: from a terraced house in Saffron Walden to a £2m villa in Founex, close to the shores of Lake Geneva. His Ford Cosworth he swapped for a Range Rover. In Switzerland, he started work establishing a new company, Nadir Investments. A £5m farm in the village of Givrins, just a few miles from Founex was chosen as headquarters.

At its first official meeting in April this year, board members were told the company was financed by SwFr4m (£1.6m) of interest-free loans from Asil Nadir and his mother, Safiye Nadir. All Nadir's

private expenses, including his house, car and servants were to be paid by the company. Nadir had obtained a Swiss residency permit, through his purchase of Alp Technology, a Swiss microcomputer firm.

Davies went on to explain that Nadir envisaged diversifying the company to provide advice and management services to his family. He saved the bombshell until last. Nadir's plan, Davies said, was to establish the management of Polly Peck International, in the district of Vaud. He, Davies, had already taken steps to locate a suitably prestigious building for Nadir and the company.

The preparations were part of a plan so secret that Nadir had not even told his fellow board members. Fed up with his low stock-market rating, and the carping of City institutions, he had decided to take the company private.

In Switzerland he could escape crushing taxes and the constant prying by regulatory authorities. It was an ambitious move and would mean borrowing heavily to finance the buy-back of his shares. But Nadir, assured of his own abilities, and confident of the support of his bankers, was determined to proceed. The only question was when.

ON SATURDAY, August 11 this year, David Fawcus telephoned Nadir to tell him a Sunday newspaper had got wind of an alleged share-support operation in Polly Peck.

Nadir reacted quickly. He told Fawcus he was calling a board meeting the following day, Sunday. With only 24 hours' notice, only seven of the 13 board members turned up. Nadir then outlined his plan to take the company private. During the tense discussion, he was asked to withdraw his letter of intention, but refused.

The benefits of the move became clear on Monday morning. Whatever follow-ups there may have been to The Sunday Times revelations of Nadir's links with the Swiss companies were submerged in a sea of headlines about Nadir's buyout plan. The share price rocketed to 417p.

But it was an ill-fated move. On August 24 the quotations panel of the Stock Exchange strongly criticised it, and passed its report to the Serious Fraud Office which added it to its growing file. Six days later Nadir abandoned the plan, and the shares fell 78p -

nearly a fifth of its value. But worse was to come.

IN HIS detached home in London's stockbroker belt last Monday, a tall, owl-looking man scanned the morning papers. He picked up the phone and dialled his lawyer. "It's concerning Polly Peck. I think I should speak to the Serious Fraud Office."

The next day he was in the SFO's office and a day later, acting on a search warrant obtained by the police, Barbara Mills, the newly appointed director of the SFO, instructed Morrison and Wardle to raid 24 Berkeley Square.

To the astonishment of the staff, the accountant and the lawyer took away box loads of documents and computer discs. They also interviewed Elizabeth Forsyth.

Over at Polly Peck's headquarters in Berkeley Square, Nadir lit another cigarette and stared out of the window at the grey drizzle that was beginning to soak the waiting photographers.

Then, flanked by his two trusted bodyguards, Hassan and Niazi, he walked out of the front entrance to the waiting car and an uncertain future.

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