

MANTLE

PRELIMINARY VIEW OF AN'S EXPLANATIONS

Background

On 27 June 1991 the Administrators' were presented with 2 reports prepared by BDO Binder Hamlyn which provided the evidence to support AN's explanation that monies paid out of the Group were only so paid after at least equivalent sums had been deposited with Unipac.

The reports cover :

- 1) The SFO Charges against AN;
- 2) Answers to the questions raised by the Administrators at interview with AN;

Time has not permitted a thorough investigation but, superficially at least, the evidence appears to support basic contention. There are, however, a number of respects in which the quality of the evidence may be questioned.

Points Arising

1. The evidence consists solely of records of Unipac and Industrial Bank of Kibris - both of which were effectively controlled by AN. There is no external evidence.
2. In most cases, the money which it is said was provided to Unipac was deposited in cash by or on behalf of Mrs Safiye Nadir (AN's mother). Of the total of approximately £60m for which AN has provided explanations approximately £33m or TL112bn was deposited in this fashion:

We understand that the highest denomination TL banknote is TL50,000 [to check whether ever this has been available since 1988]. Assuming that cash was deposited in TL50,000 notes, this implies that over 2.2m banknotes were deposited over a two year period with up to 340,000 being deposited at one time.

If the deposits were made in notes of lower denomination or if there are similar explanations for transactions about which AN has not yet been asked, the number of banknotes will increase substantially.

*See attached letter from Turkish Law Office stating that he (AN) has no significant wealth*

3. No information is provided as to the source of Mrs Nadir's substantial wealth. It is difficult to see where a lady in her 60's is likely to have obtained at least £33m in cash over a two year period. Given the every high rates of inflation in TRNC it is surprising that she should have been content to hold such sums in cash, particularly as interest rates of 50-60% would have been available had she banked it promptly.

Whilst it might be argued that an unsophisticated resident of TRNC might have fears of the banking system it does seem improbable that the same person seems to have made considerable use of the Swiss banking system.

4. The records provided are insufficient to determine whether the annual accounts of Unipac are taken from them. There are however a number of instances where the evidence of the audit files does not appear to agree with that of the extracts from the books of account :-

- 1) According to Account E25/9/01 (AN Current) in the Unipac books AN was owed :

@ 31.12.88      £ 72,424

@ 31..2.89      £225,474

The SH review of the Erdal audit files for each of these years contain no indication that any amount is owed to AN. In 1988 when creditors were £5bn, a balance of this size might not be considered material, although a balance owing to a director might be expected to be identified regardless of size.

In 1989, however, creditors totalled only £616,000 of which all but £48,000 were described as trade creditors. In this context it would be normal that an amount comprising 36% of the balance sheet total would have been identified.

The letter signed by AN to confirm emoluments received in 1989 makes no mention of amounts due to him from Unipac.

2) The inter-company balances with PPI appear to agree with those included in the accounts for both 1988 and 1989. However there are aspects of each which may bring into question whether they do in fact agree :

- a) The 1988 balance of £143,097,272 owing to PPI noted in the consolidation package is brought forward to the 1989 ledger, immediately under that entry in the ledger is a further entry of £20,932,535 owing to PPI. Unlike every other entry in the account there is no cross reference to the other side of the entry or the journal voucher.
- b) The 1989 balance of £312,511,825 shown in the accounts package is that brought forward in the 1990 ledger. However the last ledger sheet we have for 1989 shows a balance carried forward of £261,145,631. It should be noted however, that we do not know whether this is the final page for 1989. Evidence that it may be is provided by the fact that the ledger sheet is balanced. This is not normally done at the bottom of a ledger sheet but is done at the end of a quarter.
- c) The BDO Binder Hamlyn report states that AN gave the benefit of the gains on exchange arising from the provision of funds in TL to Unipac.

According to the AN contra account these amounted to TL3bn (£900k) in 1988 and TL21.5bn (£5.75m) in 1989. The 1989 figure in particular is material to the accounts - there is, however, no indication in the accounts of any exchange gains.

- 5. The generosity of AN and his mother to Unipac is considerable. In 1989 the average month end balance owing to AN was £13m. The ledgers are only written up monthly so it is not possible to determine whether this is representative of the average daily balance. However, if it is assumed that it is, the interest AN has foregone from investing elsewhere is of the order of £1.3m. This combined with the exchange gains left in Unipac represents a gift of £7m to the company in 1989 alone.
6. AN told Denis Robertson of Stoy Hayward in 1989 that the Unipac 'banking' facility was used by wealthy third parties. In every case here it seems to be being used by AN or his mother.
7. It is interesting to note that although the 1988 private ledger has apparently been mislaid there is a complete copy of the AN current account for 1988 available.

WRHI

3/7/91