Who loses how much and who can recover what

By Richard Waters

POLLY PECK'S bankers have held the whip-hand in negotiations in recent weeks about the company's future. However, they are unlikely to be the ones who lose the most now that the company has decided to seek administration.

The biggest losses will be suffered by the company's shareholders, who owned a company worth more than £2bn just four months ago and now face a total write-off of their investments.

As one of Polly Peck's largest institutional investors, when asked about whether he expected to recover any money, said: "It doesn't look terribly promising, does it? It's almost academic, talking about whether to write it off."

The largest institutional shareholder, Friends Provident, has 4.5 per cent of the company, while Standard Life, Prudential and Legal & General each have more than 2 per cent.

The largest shareholder by far, though, is Mr Nadir himself, who now faces a total loss on his 24.22 per cent stake in the company. At one point his Polly Peck shares had been worth more than £400m.

Mr Nadir's personal bankers could also be nursing painful losses.

Many of his shares were pledged as collateral to banks to secure loans advanced to him.

These banks are already known to have dumped 16.65m shares in the lead-up to the suspension on September 20, but it is not known how many other shares are held as collateral.

The position of these banks – one of which is reported to be owed £20m – will now depend on Mr Nadir's ability to service, and eventually repay, his loans from his personal assets and business interests in the eastern Mediterranean.

Polly Peck's bank creditors, meanwhile, which are owed a net £1bn, could recover a substantial proportion of their money, although not quickly. The main doubt surrounds the administrators' ability to realise assets in Turkey and northern Cyprus.

At the front of the queue will be the banks whose loans are secured on the assets of subsidiary companies, and so will be repaid before unsecured creditors of the group. These include the syndicate of banks, led by Credit Suisse First Boston, whose loans are secured on the assets of PPI Del Monte.

Following these will be an assorted group of creditors, all of whom are unsecured: bankers, holders of the various issues of Swiss franc and D-Mark bonds, and commercial paper holders.

No single bank is thought to have an exposure large enough to cause it financial problems, although what losses there are come at a time when banks are already feeling the squeeze. Standard Chartered is believed to have the largest outstanding exposure, of about £50m, with two continental banks close behind.

As the administrator takes the helm the company wins protection from its creditors

An end to Nadir's decade of domination

By Richard Waters and David Barchard

ADMINISTRATION does not necessarily spell the death of Polly Peck International – although it signals the downfall of Mr Asil Nadir, its chairman and chief executive.

As with Chapter 11 protection in the US, administration gives a company protection from its creditors and allows its subsidiaries to continue to trade. It will protect Polly Peck, for instance, from the winding up petition already filed against it by the National Bank of Canada.

Unlike Chapter 11, though, control passes from the chief executive and board to an independent administrator appointed by the court. For Mr Nadir, that means the end of his personal control over a company whose fortunes he has dominated for a decade.

According to one of those closely involved with the Polly Peck administration: "If Chapter 11 applied here, Mr Nadir would have gone for it a long time ago. He doesn't want someone in there telling him what to do."

It seemed yesterday that that attitude had not changed. Mr Nadir's statement in Turkey, that Polly Peck's interests would be "specially protected from external interferences", and that "there is no question of their being financially affected by events in London", cast a serious question mark over his willingness to co-operate in the administration.

The Polly Peck operations in Turkey and northern Cyprus, where the group makes 70 per cent of its profits, are likely to cause the administrators particular difficulties. Cork Gully will inherit the difficulties that Coopers & Lybrand Deloitte, the accountancy firm of which it is a part, has already experienced in gaining access to Polly Peck businesses in the region. An injunction in northern Cyprus prevents any documents being shown to anyone outside the company until November 26.

Once access is obtained, Turkish lawyers said that they thought that the powers of a UK administrator would be recognised by the authorities in Turkey, though there seem to be no obvious precedents for Polly Peck's situation.

Selling Polly Peck's assets in Turkey may present considerable difficulties unless local buyers can be found. Several other Turkish industrial groups, as well as some international electronic companies, might be interested in acquiring the Vestel consumer electronics operation. The Sheraton Voyager Hotel is also likely to be attractive to a purchaser.

In northern Cyprus, where Polly Peck has no legal existence and the group is known as the Asil Nadir Group of Companies, things may be different. The court injunction issued on Monday has already demonstrated the kind of resistance which may be forthcoming.

There has been talk of a pre-emptive nationalisation operation. The Turkish Cypriot government, which has to fight against what is virtually a permanent international economic blockade, will certainly not allow Polly Peck's assets to pass into potentially hostile foreign hands.

The administrator's job is to ascertain the financial position of the group and its operating subsidiaries, and then to decide on a course of action which is in creditors' best interests – whether a reorganisation of the group or, more likely, an orderly disposal of its assets.

During this process, subsidiaries may follow their parent into formal insolvency. As in the case of Atlantic Computers, whose US operation opted for chapter 11 in the US after an administration order against the parent, PPI Del Monte Tropical Fruit may need to apply for chapter 11 while the affairs of its parent are being sorted out.

Polly Peck's wide geographic spread and complex corporate structure will complicate the administrator's job. He will need first to sort out any financial claims between subsidiaries within the group, and also between subsidiaries and the parent.

Once the group has been compartmentalised in this way, the creditors of each subsidiary are paid off first from the assets of the subsidiary. The creditors of the parent only benefit from what is left over.

The ring fences around subsidiaries can take time and expensive legal battles to establish. A case in point is likely to be the $32m of cash from PPI Del Monte which was used recently to reduce the parent's overdraft with Midland Bank. The syndicate of banks which lent money to PPI Del Monte secured against that company's assets argue that the money should be returned to Del Monte, while Midland argues that it acted properly in putting the money into the parent's account.

This means that it is likely to be a considerable time before the creditors of the parent company, and the group's shareholders, know how much of their money they will recover, if any.

Bitter taste as first crates are loaded in northern Cyprus

By Richard Donkin in Kyrenia

THE FIRST crates of the 1990 citrus crop were being loaded on board ship last night in Kyrenia, northern Cyprus, as local bankers were in talks with Polly Peck executives on the implications of administration for the company.

The crates were being stowed by workers from Sunzest, Polly Peck's citrus export company in Cyprus, on one of two cargo ships which quietly docked in Famagusta earlier in the week.

Dock officials would not say where the vessels came from, but they were not part of the Polly Peck fleet.

Sunzest management is understood to have reached an agreement with the northern Cypriot government late last week to release citrus farmers from their handling contracts on condition that Sunzest would be compensated for advance credit.

The farmers are expected to place their produce with Cyprufruvex, the state fruit exporting company that has hitherto been overshadowed by Sunzest.

Mr Namik Ramadan, the president of Kyrenia Rotary Club, conceded that the collapse would damage the northern Cyprus economy but that substitution of the government agency for the Polly Peck subsidiary would ease unemployment problems. "We did not have Asil before. We will survive", he said.

The greatest impact on the Polly Peck workforce in northern Cyprus if the fruit-handling operations are lost is expected to be among the 700-800 administrative staff employed there who may find it difficult to secure work outside the company.

According to the local business community Nadir's companies paid higher than normal rates. "His hotels were able to employ the best staff with rates between 50 and sometimes 100 per cent higher than those in other hotels," said one observer.

In the bars and restaurants around Kyrenia the middle-aged British residents – nicknamed "ancient Brits" by Turkish Cypriots – remained reluctant to criticise Mr Nadir, even though some have lost thousands of pounds as Polly Peck investors.

"He has been good for the island. He cleaned it up a lot," said one investor who admitted owning a share stake in the company of nearly £5,000. "We lost our money but I think it was worth it for what he did," she said.

While they seemed surprisingly restrained about their losses both Turkish and British residents were beginning to tire of claims that Polly Peck was the victim of a Greek Cypriot plot. "He expanded too fast," or "He was overborrowed," were the most repeated conclusions.

The influence of the Nadir family is pervasive across the northern part of the island. While bankers were meeting in London, Mr Nadir's mother, Safiye, was scheduled to be chairing a steering committee set up to establish a Cheshire home on the island. The meeting room in the Girne View Hotel, part of the Voyager chain, was loaned free of charge by Mr Nadir.

The mantle of corporate benevolence, however, was beginning to wear a little thin last night. The season's first crates of citrus fruit contained particularly bitter lemons.

Close ties with Turkey fail to bear fruit

By David Barchard

MR ASIL Nadir left last night's Polly Peck board meeting a tired and dejected man after what he ruefully described as a "rotten day".

Three weeks of non-stop shuttling in his private jet between Cyprus, London and Istanbul had produced virtually nothing in the way of financial support from Turkey, even though until very recently he was regarded there as the staunchest ally of President Turgut Ozal and the ruling Motherland Party.

One of Mr Nadir's first actions after the board meeting was to summon his Turkish associates to work at his side in London. Mr Metin Münir, the former Financial Times correspondent in Turkey who edits Güneş, Mr Nadir's Istanbul quality daily paper, was fired on the spot after refusing to answer the call.

Some of his key allies in the Turkish banking world seem to have left him, as business friendships have been shattered in the hours of frantic bargaining behind closed doors in Istanbul and Ankara for a rescue package that refused to coalesce.

Those close to him believe that Mr Nadir may now effectively close the chapter of his life which began when he arrived in London from Cyprus at the age of 17.

A decision to move out of the UK would be no surprise, though it would mean surrendering West End connections, which Mr Nadir clearly enjoys,

as well as Baggrave Hall, his Leicestershire country home.

Earlier this summer Mr Nadir was already telling associates that after years of being reviled in the UK press and the City, he believed he would never be accepted in the UK and was planning to move Polly Peck and his own home to Switzerland.

Even with Polly Peck International now about to be in the hands of administrators, Mr Nadir remains a force to be reckoned with in Turkey and, above all, in northern Cyprus.

In Turkey, he is still the owner – apart from his Polly Peck interests – of four national newspapers, an embryonic satellite television operation, a bank and several smaller businesses. But few of these are profit-making: until now they have apparently been subsidised out of his personal income.

"We are still alive in Turkey and northern Cyprus. We shall survive there and we shall fight," one of his aides said last night.

It is not yet clear whether this means that there will be a struggle to hold on to some of Polly Peck's core businesses, especially in the fruit trade which was the original source of Mr Nadir's rise to fame.

Last night a Polly Peck statement in Istanbul emphasised that the administrators would work together with the chairman of the group and board, rather than replacing them.

In the last few days, a note of growing bitterness against President Ozal has crept into some of Mr Nadir's Turkish publications, which have hitherto been staunch supporters of the president.

Though Mr Nadir – along with Turkish and Turkish Cypriot officials – has played up the idea that his troubles were brought upon him by a Greek Cypriot conspiracy, few ordinary Turks seem to be very concerned at his fate.

In a country where business success is more likely to attract jealousy than admiration, the Turkish media have generally downplayed the Polly Peck crisis in recent weeks, giving only modest amounts of attention to Mr Nadir.

Nevertheless if he can extricate himself from the Polly Peck débâcle in the UK, it is in Turkey that Mr Nadir's future almost certainly lies.

Repercussions for a community in panic

By Tony Jackson

OUTSIDE THE narrow world of the City, the Polly Peck affair might seem too bizarre to be relevant to the commercial life of Britain.

The circumstances are, after all, highly unusual. This is a company which, though nominally based in the UK, has almost no operations here. Its autocratic head is a Turkish Cypriot, whose downfall seems at least partly due to obscure machinations in his native island.

Nevertheless, Polly Peck's demise is bound to have wider repercussions. It comes at a time when the world banking community and world stock markets are in something of a panic over debt. On the day that Polly Peck's shares were suspended, the shares of several of the UK's more indebted companies nose-dived as well. Some have yet to recover.

Though Polly Peck's net debt on its last balance sheet was high, it was on the face of it more than covered by tangible assets. Accordingly, the stock market was quite unworried about the company until just three months ago.

On July 25, Polly Peck's market value in London hit an all-time peak of £1.94bn. Even at suspension a month ago the shares were worth £468m.

Just how much the banks then knew about the company's affairs is still unclear. Certainly, they know a great deal more now. But it remains significant that they should choose to blow the whistle on a company where the only problem, officially at least, was a temporary shortage of cash.

For the banks, the broader context is of a worldwide credit crunch.

The effect of this was shown a year and more ago in Australia, where bankers who had thrown money away on the likes of Mr Alan Bond took to closing down healthy businesses simply to claw some cash back.

Nothing so severe is likely in the UK banking system, which has avoided the worst excesses of over-lending. But the big UK borrowers these days are international borrowers; and after Polly Peck, no banker with any exposure to such companies will sleep as easily.

For the stock market, the effects of yesterday's events may in one sense have been discounted. Bewildering though the original collapse was, the market resigned itself some time ago to the fact that Polly Peck was never likely to come back.

But the fact remains that since the summer, one of the chief worries for markets in the UK and elsewhere has been the risk of this kind of collapse. The first thought of any fund manager caught with Polly Peck in his portfolio will be to dump any other stock which might do the same.

And above all, in times like these, if the banks are worried, the markets are too.

Nadir statement on investments

MR ASIL NADIR, chairman of Polly Peck International, issued the following statement in Turkish yesterday in Istanbul:

"There has been a great deal of speculation in the last few days, in the press and public opinion, about the situation of Polly Peck plc in London. Because of this, it has become necessary to make this announcement.

"Polly Peck International's investments in Turkey such as the Vestel Electronic Group, Meyna Agriculture Group, and the Sheraton Voyager Hotel are prime and essential for us and will be maintained in the most healthy form in the future with their high performance just as they are today.

"These investments of ours will be specially protected from external interferences and there is no question of their being financially affected by events in London. Furthermore no transfer abroad of resources from these operations of ours has been made up until now and no such transfer is being contemplated.

"My operations in Turkey and the Turkish Republic of Northern Cyprus, along with a healthy future for them, have always come before all else for me. Just as all my efforts until now have been aimed at continuing my group and personal investments in Turkey and Northern Cyprus in the most healthy fashion, so they will continue to be. I want all those who work for us to be reassured by the knowledge of this.

I am determined to continue my struggle, under whatever conditions, conscious of the international political calculations and expectations [which lie] behind the curtain of the events we are up against. I am conscious of the serious situation we would face regarding the national Cypriot cause should these [calculations and expectations] be realised.

I believe that Turkish public opinion will be able to make the soundest appraisals in this regard."

Latest in a long list of corporate failures

WILL POLLY Peck turn into the UK's largest corporate disaster? In simple numerical terms, with borrowings of £1bn plus, it already looks like doing so, though this year's **British & Commonwealth** is a close contender, writes **Nick Bunker**.

In terms of lasting fame, historical significance or notoriety though, Polly Peck is perhaps less likely to stand the test of time when compared with some fiascos of the past.

Best remembered of all is probably the 1971 collapse of **Rolls-Royce**. Behind it lay the huge costs of developing the RB-211 aero engine to power the new Lockheed Tristar jet at a time when inflation was taking off in the late 1960s and costs were soaring.

The 1960s and the early 1970s was the vintage era of corporate collapses in Britain, starting with the collapse of the **Rolls Razor** empire. The period then proceeded via the 1966 demise of the swindler Dr Emil Savundra's **Fire, Auto and Marine** insurance company to reach its apogee with the collapse of **Vehicle and General Insurance** in 1970. It was followed, in August 1974, by the fall of **Court Line**, the holiday group.

At that time government and the Bank of England were more prepared than today to come riding to the rescue. This was perhaps why in the mid-1970s, when inflation and recession were driving many to the wall, one of the biggest corporate fiascos never actually turned into a bankruptcy. This was the crisis at **Burmah Oil**, in January 1975, when the Bank of England had to step in to guarantee $650m of short-term borrowings.

The grandfather of them all, however, was 112 years ago, in 1878, when the quite extraordinarily fraudulent **City of Glasgow Bank** went bust.

Importance of Serious Fraud Office role now called into question

By Richard Waters

THE COLLAPSE of Polly Peck International throws the spotlight on the actions in recent weeks of the Serious Fraud Office and the International Stock Exchange, which have helped to precipitate the company's fall.

The SFO, in particular, will be under pressure to justify its raid on South Audley Management, a company linked to Mr Asil Nadir, which prompted the final collapse in the Polly Peck share price on September 20.

The authorities' investigations into Polly Peck first became apparent in August, although they had been under way in some quarters for a long time previously.

The Stock Exchange's insider dealing group had been looking into suspicious dealings in Polly Peck shares for many months, building up a picture of unusual transactions but unable to establish who was behind the deals, which had taken place through a number of "shelf" companies in Switzerland.

Much of the dealing had been carried out by Mr Jason Davies, a former director of South Audley Management, itself owned indirectly by a Nadir family trust.

The Inland Revenue had been looking into the same share deals, with a view to finding out whether any of the beneficial owners of the shares were resident in the UK, and so liable to tax in the UK on any capital gains they made.

These investigations proceeded behind the scenes until August 12, when two things happened: Mr Nadir approached his board about making a bid to take the group private, and reports surfaced of the Inland Revenue investigation. Events then moved fast.

After Mr Nadir had withdrawn his bid approach five days later, he was rebuked for his actions by the Stock Exchange's quotations panel, which added that it was forwarding its findings to "the relevant authorities" – later confirmed to be the Department of Trade & Industry and the SFO.

Coming on top of earlier reports on investigations into share deals, this statement prompted widespread comment. It also created divisions within the exchange itself, where some of those involved on the investigation believed the panel had made a mistake in revealing its hand publicly when investigations until then had been totally secret.

Further recriminations among the authorities came a month later, the day after the SFO raided the offices of South Audley Management and gave the first public sign of its investigation.

News of the raid leaked out to the stock market the following morning, sending the Polly Peck share price plummeting.

The SFO interviewed Mr Nadir the following day, but has since carried out its investigations away from the glare of publicity. However, its investigations are thought to have been largely stalled by its inability so far to interview the two people from South Audley Management most closely connected with the suspicious share deals: Mr Jason Davies and Ms Elizabeth Forsyth.

The SFO has tried for a month to contact them. Until it does, and unless it can carry its investigation forward, its part in the demise of Polly Peck will continue to haunt it.

Shareholders' eventful ride finishes with a forced landing

By Clay Harris and Richard Waters

MR ASIL Nadir gave shareholders in Polly Peck an eventful ride in the 10½ years since he took control of a small London rag trade company in March 1980. Over that decade, the share price rose by 1,300 times – a better performance, Mr Nadir still boasts, than any other quoted company in the world.

The course was never smooth, however, and was always dogged by City sceptics of Mr Nadir's style and by criticism of his role in the eastern Mediterranean.

Greek Cypriot complaints, and a brief souring of attitudes toward speculation, contributed to the first spectacular price collapse in 1983, when the shares lost more than a quarter of their value in a single day, and traded at a third of their then-peak value within a matter of weeks.

The company itself sometimes stumbled as well. In 1985, it reduced its profits forecast after the financial year ended, and then missed even the lower figure.

But Mr Nadir and a changing boardroom cast clawed their way towards respectability, with acquisitions like that of Russell Hobbs Tower, the UK toasters and irons manufacturer, and Capetronic, the Taiwan-based consumer electronics group

The apotheosis seemed complete late last year when Polly Peck paid £557m for the Del Monte fresh pineapples and bananas business and became the first non-Japanese group to take control of a Tokyo-listed group, the Sansui electronics concern.

In the last 10 weeks, however, everything fell apart.

Aug 11 Nadir calls board meeting at 24 hours' notice to announce his plan to bid for the company. Share price: 393p.

Aug 12 Board meets and later announces Nadir's bid approach, pushing share price up to 417p the following day. Newspaper reports reveal Inland Revenue investigation into Polly Peck share dealings.

Aug 17 Nadir announces decision not to bid. Shares fall to 324p.

Aug 24 International Stock Exchange's quotations panel criticises Nadir over bid approach and withdrawal, later forwards its findings to the Department of Trade and Industry and Serious Fraud Office.

Aug 31 Banks which hold Nadir's Polly Peck shares as collateral against loans advanced to him begin to sell in the market, an action not revealed until October 1.

Sept 19 SFO raids South Audley Management, a company owned indirectly by a Nadir family trust and linked to suspect share dealings.

Sept 20 Polly Peck shares fall from 243p to 108p and are suspended, as banks holding Nadir's shares as collateral dump them in the market. Nadir questioned by SFO.

Sept 27 Polly Peck stops repaying its debts, it emerges later.

Sept 28 Mr Nadir flies to New York to seek Turkish government rescue.

Oct 1 Company and Nadir admit publicly to their respective liquidity problems.

Oct 5 Bank creditors agree to a one-week standstill on debt repayments on promise that funds said to be on deposit in Cyprus will be paid to London.

Oct 12 Although the only money received is from the sale of a hotel, bank creditors agree to further standstill until November 9, provided again that money is repaid from Cyprus.

Oct 19 Following failure of money to appear from Cyprus, banks agitate for company to be put into administration.

Oct 24 After last-ditch attempts by Nadir to raise cash in Turkey and northern Cyprus, board decides to apply for an administration order.

Independent audit makes little progress

By David Barchard

THE INDEPENDENT audit of Polly Peck International's operations promised by the board on October 5 has failed to make any headway in Turkey or Cyprus, the two countries where more than 70 per cent of the group's profits were made last year.

Two British accountants, Mr Richard Stone and Mr Jim Truscott, flew back to London on Tuesday evening. It had become evident that there was little prospect of gaining access in the near future to Polly Peck's Cyprus operations as well as some in Turkey, including Meyna, the fruit export company which is believed to account for most of the group's profits.

Yesterday Coopers & Lybrand Deloitte said it had two teams of accountants in Istanbul, standing by to go into the group's operations in Turkey and Cyprus as soon as possible. However, the auditors face an interim court order which prevents them from going into any of the nine Polly Peck companies operating on the island.

Yesterday a Turkish Cypriot judge in Nicosia ruled that the ban should stay in force until the court's next hearing on November 26.

Even before the injunction was issued, the auditors had been refused access to the books of Meyna, the fruit and vegetable export company on the Turkish mainland.

Meyna's accounts are important for understanding Polly Peck's finances. Although the group has never divulged any detailed information about the operation, it is generally believed to be the only possible source of most of Polly Peck's extraordinary profits.