UK COMPANY NEWS – POLLY PECK COLLAPSE

Difficulties in spotting investments in Turkey and northern Cyprus ● Possible break-up values of divisions ● Individual shareholder anger

Trouble looms in identifying cash assets in Turkey and Cyprus

By David Barchard

PROBABLY THE most daunting task awaiting the three administrators of Polly Peck International lies in identifying the cash resources in the group's Turkish and Turkish Cypriot operations and if possible releasing them to pay creditors of the group in the rest of the world.

The problem is complicated by three things:

● Polly Peck has virtually no difficulties with its six banking partners in Turkey and its Turkish operations appear to be insulated from the financial crisis in the rest of the group. There seem to be no Turkish voices among the group of 60 creditor banks in London.

● Though Polly Peck's Middle Eastern and Near Eastern subsidiaries, which are assumed to mean its operations in Turkey and northern Cyprus, contributed £107m to group profits last year, virtually nothing is known about them.

The main cash generator for the group, Meyna, a citrus exporter based in Mersin, refused to disclose information to auditors from Coopers & Lybrand Deloitte last week. A court injunction in northern Cyprus looks set to impose a ban on all disclosure of information on the group's companies, at least until November 26 when a further court hearing is due.

● Mr Asil Nadir, in an emotional valedictory note to his Turkish employees in Istanbul yesterday, apparently pledged himself to resist all future attempts to transfer resources from the Turkish companies.

The first step for the administrators will be to get their qualifications recognised by the Turkish authorities. This will probably mean applying to a Turkish Commercial Court. There are 21 main Polly Peck subsidiaries in Turkey (to be carefully distinguished from the businesses privately owned by Mr Nadir himself) and the process may have to be repeated in each case.

The attitude of the Turkish authorities will be crucial in ensuring whether or not this process can be achieved swiftly.

When the government is eager for a quick result in Turkey, it can usually be attained.

Left to themselves, bureaucratic processes can prove almost infinitely slow even when there is no desire for positive obstruction.

Yesterday there was an almost thunderous silence in Ankara as the authorities tried to digest the consequences of Wednesday's decision to put Polly Peck into administration.

The development taken by itself is not wholly unfamiliar locally: over the last decade a number of large corporate groups have gone into liquidation.

Others have been discreetly rescued behind the scenes, often by the intervention of the state bank: something which – perhaps because of the glare of international publicity – was evidently not on offer for Polly Peck.

In general, the Turkish authorities have always tried to prevent even obsolescent factory plant being closed down, and if a plausible purchaser emerges who is capable of taking on operations such as Vestel, the group's consumer electronics division, and running them effectively the government will be delighted.

President Turgut Ozal has some experience of finding suitable international partners, usually from western Europe, for such ventures.

Other Polly Peck operations, such as the Turkish franchise for Pizza Hut, or the new Sheraton Voyager Hotel in Alanya (reputed to be suffering severe cash flow problems of its own), will probably not have much difficulty in finding a buyer.

When it comes to northern Cyprus, the picture is likely to be very different. Though similar legal formalities in commercial courts will apply, the going will almost certainly be very much harder. Because of the contest with the Greek Cypriots in the south of the island, President Denktash and his government in the self-proclaimed Turkish Republic of northern Cyprus cannot afford to let the Polly Peck investments pass into foreign hands unless they are very sure of whom they are dealing with.

Mr Nadir has managed to project his industrial empire, at least to the Turkish Cypriot political establishment, as something of a national cause. It may also be surmised that any dirty linen the group has is probably to be discovered in Cyprus.

A wearying and time-consuming task may lie ahead for the administrators in northern Cyprus. Just possibly an outright confrontation may emerge.

The Turkish Cypriot state is recognised by no one except Turkey and as a result can afford to be less co-operative in its attitude.

Asil Nadir (left), who will resist attempts to transfer resources from the Turkish companies, and Rauf Denktash, wary of the foreign hands Polly Peck investments might fall into

Dilemma of Polly Peck echoed in Nadir court petition

By Richard Waters

THE PETITION for bankruptcy against Mr Asil Nadir raises questions which parallel Polly Peck's own dilemma: what are his assets worth, how much does he owe to his personal bankers – and can he raise enough cash to avoid being forced into bankruptcy?

Mr Nadir's personal holding in Polly Peck was worth over £400m only three months ago, and earlier this month, with the value of that holding reduced to £100m, he was still suggesting that his net worth was £1bn. It is not known how many shares have been pledged as security against loans from banks, but the sale by banks of 16.5m shares belonging to Mr Nadir during September hint at a considerable indebtedness.

Mr Nadir admitted to having personal financial problems on October 1, at the same time the company owned up to its own liquidity crisis. Since the beginning of September, when Polly Peck announced interim results, he had bought about £35m of the shares. By the time payment fell due, the shares had plunged in value and been suspended by the International Stock Exchange.

Barclays de Zoete Wedd, which filed the petition yesterday, bought £3.6m of shares for Mr Nadir during September. When payment fell due in early October, he defaulted, it said. He took up his full allocation of shares in Polly Peck rights issues in 1988 and 1989, which cost him over £85m.

In addition, he has bought loss-making newspapers in Turkey, which are reputed to have cost some £55m; Impex Bank, a small loss-making bank in Istanbul; land in northern Cyprus and Turkey, including a small island in the Aegean; the Mercury newspaper group in Bristol, which sacked most of its staff last week; Baggrave Hall in Leicestershire; and Burley on the Hill, a country house hotel overlooking Rutland Water.

Labour renews inquiry demand

By Philip Stephens, Political Editor

THE LABOUR Party renewed its call yesterday for a full investigation into the collapse of Polly Peck as some Conservative MPs voiced concern that the losses faced by shareholders might rebound on the government.

Mr Gordon Brown, Labour's shadow trade and industry spokesman, said that the Department of Trade and Industry should launch a full inquiry into the events leading up to this week's administration order.

The DTI has so far resisted any such inquiry, arguing that the matter was in the hands of the Serious Fraud Office, but Mr Brown said that the affair raised much wider implications than those being looked at by the SFO.

He said that it had had significant implications for the regulatory framework for the City and for the relationships between shareholders and the boards of public companies.

There was little evidence of immediate political fall-out yesterday, with ministers taking a low-key approach to the affair.

Some Labour MPs also acknowledged privately that as the administration order had not resulted in immediate large-scale redundancies in Britain the political sting had gone out of the affair.

But with the collapse of the investment company Barlow Clowes still relatively fresh in political memories, some Conservatives were privately voicing concern about the implications for the Government.

One senior MP commented: "I do not know whether the authorities or the DTI should have acted earlier, but we need to be sure early on that the blame is not going to fall on us further down the road."

Mr Anthony Beaumont-Dark, the Conservative MP for Selly Oak, echoed Labour's call for a full investigation by saying that DTI inspectors should be sent in to Polly Peck to ascertain exactly what had happened.

Others acknowledged that the affair would lend strength to Labour's persistent claim that the Government had taken a lax approach to City regulation.

Worst estimates for fire sale total £750m

By Daniel Green

FOUR WEEKS ago, City analysts put a break-up value of £1.7bn on Polly Peck, compared with net debt of about £1.1bn. But since then the climate for selling businesses has become distinctly chillier.

The lack of buyers for large companies has forced the City's worst-case estimates of how much money could be raised by a fire sale of assets to well below the £1bn mark.

Analysts say that shareholders' hopes of salvaging cash from the wreckage of their investment lies in the Turkish and northern Cypriot fruit businesses. Many of them have suggested it may not be possible to repatriate cash from their sale. A month ago, estimates of their value was about £500m.

Although other operations may be easier to sell, their estimated values have fallen over recent months.

● One victim has been Del Monte Fresh Fruit which Polly Peck bought for $875m in September 1990 from RJR Nabisco, the US tobacco and food group. At the time the sterling price was £557m, but with the now weaker dollar, that equates to £447m.

There are rival assets on the market: Dole Food of the US, the world's largest trader and marketer of fresh fruit and vegetables, is already looking for a buyer. Its parent, Castle & Cooke of Los Angeles, put Dole up for sale in February 1990. If Del Monte had to be sold quickly, few analysts think it would fetch much more than £400m, and some are prepared to talk of £300m. The US and European food distributors could fetch another £70m.

● The easiest operations to sell would be the larger electronics companies. Vestel Elektronik, 82 per cent owned by Polly Peck, made pre-tax profits of £7m last year and £18.9m in the first half of this. Exports are making up the bulk of the growth and should attract the interest of foreign companies.

Analysts say that Thomson Consumer Electronics of France is a possible buyer. Thomson subsidiary Videocolor entered into a joint venture with Polly Peck in March for the erection of a colour television tube factory near Istanbul. Analysts are putting Vestel's likely value at about £200m.

● Polly Peck's 72 per cent stake in Sansui of Japan is thought to be worth another £220m.

London analysts are impressed by the fact that Japanese companies command high multiples, and say that the injection into the company of Capetronic and Imperial have taken the company into profit this year.

● The 409-room luxury Sheraton Voyager hotel in the Turkish Mediterranean resort of Antalya cost more than £50m to build. Analysts suggest it may fetch £30m-£35m.

● Valuations of Cypriot hotels are dogged by political uncertainty and the difficulties of repatriating payment. For the same resons, some analysts leave the huge Turkish/northern Cyprus fruit businesses out of their valuations entirely. These assets' value had been estimated at up to £500m.

● A few million pounds may be raised from the sale of the loss-making Russell Hobbs Tower electrical hardware brand and the Pizza Hut franchise in Turkey.

● Most of the £200m-plus difference between the company's gross debt of about £1.3bn and the net debt figure is cash deposits with banks in northern Cyprus.

If the administrators do manage to recover these deposits, the process is likely to take months rather than days.

At worst, therefore, the total value of the assets is estimated at about £750m, which would leave shareholders, and not a few creditors, out of pocket.

In the best case – now rather less likely than a month ago – the estimated value of the assets remains about £1.7bn. Analysts insist that their estimates are largely based on flexible multiples of unverifiable profits estimates. And any price, they point out, is only what a buyer is prepared to pay.

Polly Peck is not in liquidation, however, so sales are not inevitable. If anything goes, however, the City consensus is that it is likely to be Del Monte Fresh Fruit, Vestel or Sansui.

Maximum share price fall for Sansui in Tokyo

By Ian Rodger in Tokyo

SHARES OF Sansui, the Japanese consumer electronics subsidiary of Polly Peck International, plunged Y100 to Y475 on the Tokyo Stock Exchange yesterday, the maximum one-day fall permitted under exchange rules, in reaction to the news of its parent company being put into receivership.

Polly Peck holds 72 per cent of Sansui's shares. It bought a majority interest in the troubled audio equipment specialist early this year and subsequently injected two of its profitable subsidiaries, Capetronic and Imperial, into Sansui.

At the closing price, Sansui is valued at about Y77bn (£306m), valuing Polly Peck's stake at £220m.

Mr Koichi Enomoto, a director of Sansui, said yesterday that Polly Peck's failure should not haveany influence on his company.

There were no trading relations between them and Sansui was now, because of the injection of Capetronic and Imperial, on the way to becoming profitable after four years of losses. It was able to look after its own capital needs.

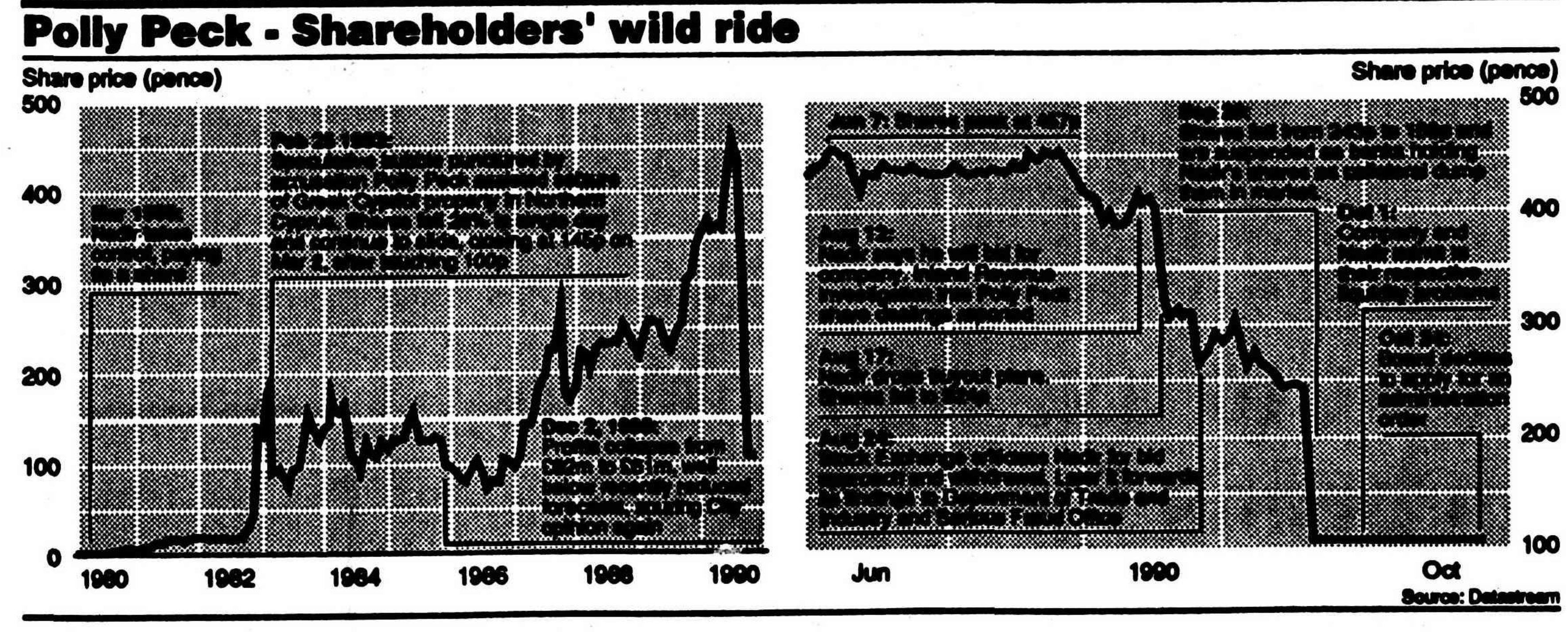
Moreover, the companies had independent marketing channels. Imperial's main markets were in Italy and Germany while Capetronic's were in the US and western Europe.

The only concern, Mr Enomoto said, was whether the bankruptcy would have any impact on the confidence of the technicaland marketing communities on which Sansui depends.

He also doubted that the shares would fall their full limit again today.

Approximately 470,000 shares traded hands yesterday before the limit was reached, but at that point sell orders for only10,000 more were outstanding.

Polly Peck - Shareholders' wild ride



Frustration of small holders

By Andrew Jack

WHETHER THEY bought into Polly Peck early or late in its spectacular decade-long performance, individual shareholders were last night expressing frustration and anger at events over the past few weeks that have wiped out their investment.

"I'm quite infuriated by what has happened," said Mr Richard Kite, a pensioner who holds about 3,500 Polly Peck shares. "I have been deeply concerned for weeks now. It appears the small shareholders are pawns in the system."

"But this was a first class investment that crashed," he said.

"The potential looked very good when I bought them in May. I paid a reasonably high price and sold very good shares to buy these."

Individual shareholders of the company run the gamut from English pensioners to people close to President Turgut Ozal of Turkey.

The company's collapse has stung rich investors as well as poor. "I have seen the company rise over the 1980's to enter the Footsie index, and collapse with even more rapidity than it rose," said Mr Brian Beazer, the wealthy chairman of Beazer, the building and development company. He was "obviously deeply disappointed," but had left his investment decisions to his advisers.

"I feel so sad about the whole business," said one pensioner, over half of whose portfolio was in Polly Peck. "I held the investment for so long. I kept the faith and never traded. I was interested in a rags to riches story. I am still hoping that they can salvage something."

"I don't play the market, and I realise that investments can go down as well as up," she added. "But the change was so dramatic, I truthfully didn't think this would happen."

She said she still had faith in Mr Asil Nadir. "He seems a very nice man, and I admire the fact that he is a workaholic. But I feel very disappointed with the non-executive directors," she said. "They are the guardians of the shareholder, yet we haven't had any communication with them at all."

One city financier who sounded very tired and confused by the Polly Peck fiasco added: "I bought the shares some years ago, knowing they were risky. I really don't know what's going on. I still think in a year's time the cash flow will probably cover its loans. It's all extraordinarily messy. Reports and accounts should carry health warnings on them."

"I don't mind losing money on the stock market," said Mr Kite. "The big institutions can take the loss on the chin, but I am retired and can't afford it. I believe the board has not been open. There has been no communication with shareholders."

"I feel so isolated," said Ms Violet Goff, who, as a member of a local investor club, bought shares in Wearwell, which reversed into Polly Peck in 1980. She has spent some £4,000

"Nobody tells us anything," she said. "The shareholders lent money to the company, so we should have some say. Someone should encourage a meeting of shareholders to take place. We are the ones who are the real losers."

"Suddenly you find yourself absolutely isolated," she added. "You can't talk to your ordinary friends: they cannot understand and do not even sympathise."

Insolvency barons enter the fray

WHENEVER THE economy enters a recession, the insolvency barons come into their own. Polly Peck's three administrators, Mr Michael Jordan, Mr Richard Stone and Mr Christopher Morris, are already prominent, writes **Emma Tucker**.

Mr Morris, 48, described by one colleague as "a cool customer" and by a newspaper profile as "slightly foppish", is head of insolvency at Touche Ross. He is best known for his work on Laker Airways, where he was liquidator in 1982.

He pursued Laker's airline rivals, arguing that their behaviour had forced Laker out of business. Following out-of-court settlements, he was able to find enough money to pay back each of Laker's 14,500 ticket holders, nearly all of the creditors and – according to a Touche Ross colleague – even had some left for Freddy Laker, head of the airline.

Mr Morris became a liquidator after qualifying as a chartered accountant in 1967. Other liquidations to his credit include IOS and Banco Ambrosiano. This year Mr Morris has tackled Rush & Tompkins as joint receiver of the failed development group.

His sense of humour, say his rivals, verges on the rumbustious. Mr Jordan has, according to Mr Nigel Hamilton of Ernst and Young, a more sardonic wit.

Mr Jordan, 58, is the chairman and senior partner of Cork Gully, the insolvency arm of Coopers & Lybrand Deloitte.

He has recently taken over from Sir Kenneth Cork as elder statesman of the insolvency profession.

His track record includes Barlow Clowes, where he was joint liquidator, the Isle of Man Savings and Investment Bank, Learfan, Acrow, and Norton Villiers Triumph.

He started practice as an accountant in Cardiff but moved to London to head an insolvency firm that eventually merged with Cork Gully.

A few eyebrows were raised over the appointment of the third administrator, Mr Stone, who as one rival put it "has been out of the insolvency world for a while."

Mr Stone generates few anecdotes – Mr Hamilton describes him as "serious and rather good at his job." At 47, he is head of corporate finance at Coopers & Lybrand.

Mr Stone qualified with Cork Gully in 1968, but left almost immediately to join Outwich, a South African investment bank. In 1974 he returned to Cork Gully and became a partner in Coopers & Lybrand when the two merged in 1980.

Like Mr Jordan, he played a leading role in the winding up of Norton Villiers Triumph, the motorcycle manufacturer.

He has a reputation for being able to turn a troubled company around, deriving from his insolvency work in the Midlands during the manufacturing recession of the early 1980s.

'Achievable survival' behind court's administration order

By Raymond Hughes, Law Courts Correspondent

A HIGH court judge yesterday made an administration order against Polly Peck International after being told that it was the company's best hope of survival.

The order had been sought by the company's directors, backed by a large body of creditors.

Their barrister told the court they believed that "survival is achievable".

Three highly experienced insolvency accountants were appointed to take charge of the company.

They were Mr Michael Jordan and Mr Richard Stone of Coopers & Lybrand Deloitte and Mr Christopher Morris of Touche Ross.

Mr Jordan and Mr Stone will be responsible for the general administration. Mr Morris's function will be to handle any claims made against Mr Nadir personally.

The only hiccup in yesterday's proceedings concerned the identity of the administrators. Originally the Polly Peck directors had suggested Mr Robin Addy of Coopers as the third member of the team.

However, as Mr Simon Mortimore, counsel for the directors explained to Mr Justice Morritt, it had been discovered that Coopers acted as Mr Nadir's personal tax accountants.

"This was something my clients did not know about until this morning, and it does not seem to have been appreciated by the suggested administrators."

"At the moment there is nothing in the evidence to suggest there is any claim against Mr Nadir, although it is perfectly possible there may be. It is also perfectly possible, although there is no evidence, that Mr Nadir may be the subject of a report in relation to directors' disqualification – but that is pure speculation."

The solution suggested by the directors was to substitute a wholly-independent accountant, Mr Peter Phillips of Buchler Phillips for Mr Addy, Mr Mortimore said.

However, Mr Christopher Brougham, QC, for National Bank of Canada, which earlier this week filed a petition for the compulsory winding-up of Polly Peck, was not happy with that.

He said that any potential claims against Mr Nadir personally might have "an international flavour or ramifications" requiring an independent administrator from an accountancy firm with an international practice and facilities.

Mr Brougham suggested that Mr Christopher Morris fitted the bill better than Mr Phillips. He stressed that that was no reflection on Mr Phillips' ability or integrity.

Mr Justice Morritt agreed that the possibility of claims against Mr Nadir personally made it essential that there be an independent administrator with no conceivable conflict of interest and with the appropriate background support to enable him to pursue any claim.

Mr Mortimore, whose plea for an administration order was also supported by three syndicates of banks, owed $93m, and UK agents for £250m worth of Swiss bondholders, had told the judge that it was "absolutely vital" that an administration order be made to ensure the company's survival.

It was suffering a loss of confidence which had led to demands from some banks.

The company had a substantial net asset balance, though that lay in subsidiaries. What it suffered from was a cash flow problem, but with the period of calm that would follow an administration, and the involvement of professional accountants, it was hoped that claims could be rescheduled and the company restored to life.

Mr Mortimore said the directors were not thinking only of creditors: there were some 23,000 shareholders, many of them members of the public, and about 17,000 employees worldwide, with some 1,200 in the UK.

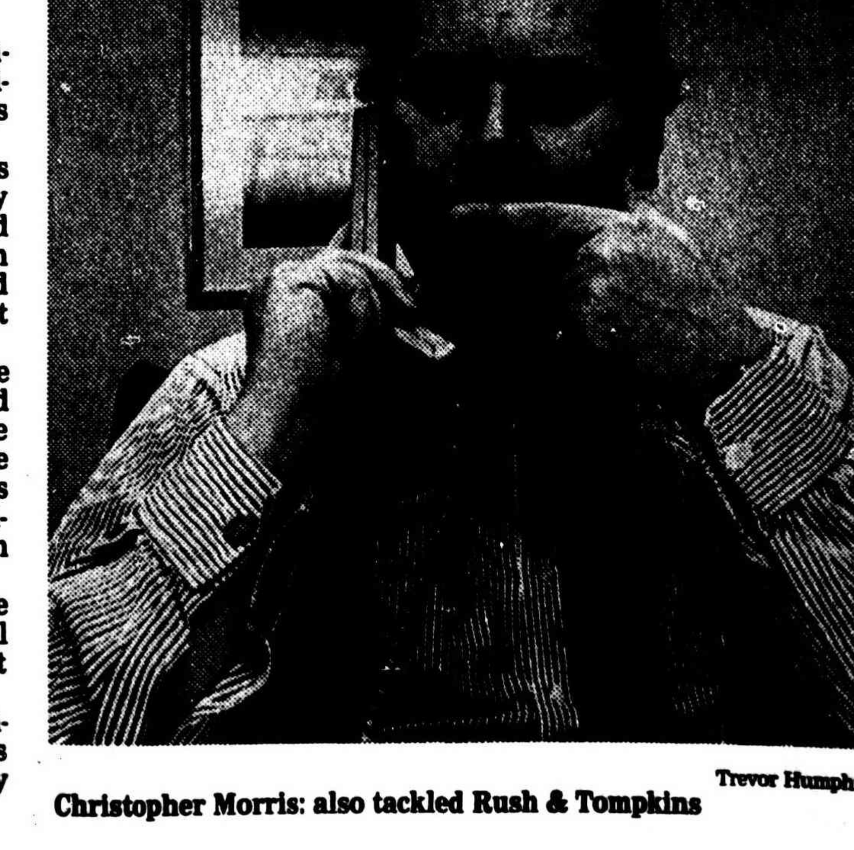
Making the order, and dismissing National Bank of Canada's winding-up petition, the judge said the evidence was that liquidation of the company could give rise to a deficiency with regard to creditors of £384m.

By contrast, the belief was that the protection provided by an administration order, and some re-financing, would mean creditors could in time be paid in full and a surplus of about £300m provided for members.

Mr Jordan said after the hearing that the order had removed the uncertainty. "We now have time to sort out the company and group problems and assess the position worldwide and look how best we can make sure it survives.

"Time will tell whether the creditors can be paid in full and whether there is sufficient money left for shareholders."

He said he hoped the administrators would get Mr Nadir's co-operation because they needed his help.



Trevor Humphries

Christopher Morris: also tackled Rush & Tompkins