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Business

At home with sharks Man behind Abbey's success Profile B4

RBS Sir Fred Goodwin's secret succession plan B5

Radical strategies to restore faith in financial system

By Philip Aldrick

BOTH Royal Bank of Scotland and Northern Rock will unveil radical new strategies this week in an attempt to restore faith in Britain's beleaguered financial system and boost lending levels.

Both banks are expected to hive off their problem assets into separate divisions to signal an end to the mistakes of the past and usher in a new beginning.

RBS will unveil plans to ringfence about £300bn of bad assets and unwanted businesses in a "non-core" division while Northern Rock will effectively create a "good bank" by announcing plans today to pump around £14bn into the mortgage market under new, more stringent lending criteria.

Northern Rock, the only active lender to be fully nationalised, will receive as much as £10bn more from the taxpayer to fund the new mortgage lending. It has already repaid more than £15bn of the £26bn Bank of England loan.

At RBS, Stephen Hester, recently appointed as chief executive, will sweep away years of empire-building by his predecessor Sir Fred Goodwin to shrink the bank and focus on areas where it has scale. RBS will retreat from about half the 60 countries it currently operates in, including Indonesia, Malaysia and some parts of Eastern Europe. Despite labelling the assets "non-core", Mr Hester does not plan any sales in the current market unless suitable offers are made. Instead, the bank expects to close down businesses and run off its billions of pounds of problems loans – such as sub prime collateralised debt obligations.

He hopes the distinction between "core" and "non core" will give the markets some clarity on how to value the bank. The process, which is expected to last three to five years, will also see about £1.5bn of costs removed and as many as 20,000 more jobs lost from the 180,000 workforce.

RBS is expected to emerge a smaller bank with a "funded" balance sheet of around £900bn compared with £1 trillion today.

The Government is also expected to unveil details of its long-awaited "asset protection scheme", providing state insurance for toxic debt. RBS has asked to put about £250bn of assets into the scheme, which could total £500bn after Lloyds Banking Group and Barclays participate.

Rival banks are awaiting detail of the cost structure, with early indications suggesting that the Government will charge as much as 6pc in upfront fees but accept a smaller "first loss" of about 10pc – the amount of further losses on these dodgy debts that the banks must bear before the taxpayer picks up the bill.

For RBS, the fee would total £15bn – twice its market value – and will be satisfied by a new class of non-voting share that does not qualify as ordinary equity so will not result in the bank's nationalisation.

£15bn The amount Northern Rock has already repaid to the Bank of England of its £26bn loan

Europe gets tough on hedge funds

Leaders' call for regulation poses potential threat to City

By Ambrose Evans-Pritchard

EUROPEAN leaders have agreed on draconian measures to crack down on hedge funds, rating agencies and all financial instruments, going beyond proposals by Prime Minister Gordon Brown for soft regulation designed to avoid stifling free enterprise.

The move to regulate hedge funds poses a potential threat to an industry that has been a mainstay of London's financial growth over the last decade.

The only restriction imposed so far is an obligation to disclose all "short" positions on equities.

German Chancellor Angela Merkel, who hosted yesterday's summit of German, French, Italian, Spanish, Dutch and British leaders in Berlin, said the sort of rampant speculation and misuse of leverage that occurred in the credit bubble would not be tolerated.

"We have today underscored our conviction that all financial markets, products and participants must be subject to appropriate oversight or regulation, without exception and regardless of their country of domicile. This is especially true for those private pools of capital, including hedge funds, that may present a systemic risk," she said.

The purpose of the gathering was to thrash out a common EU policy in advance of London's G20 summit in April, when world leaders aim to set the foundations of a new financial order for the 21st century.

The exact details of the accord will not be released until all EU states have reviewed the text but the proposals are clearly more radical than the UK Treasury's plan for calibrated measures.

Diplomats say Mr Brown agreed to restrictions on hedge funds in order to clear the way for an accord.

Speaking afterwards Mr Brown said the summit backed efforts to boost the fire fighting reserves of the International Monetary Fund.

"We need international action to help, for example, in central and eastern Europe, where a number of foreign banks have withdrawn to their home banking territories and where it is difficult to recapitalise the rest of the banking system. So we are proposing today a $500bn (£346bn) fund that enables the IMF not only to deal with crises when they happen but to prevent crises," he said.

The EU communique also called for punitive action against tax havens. "A list of uncooperative jurisdictions and a toolbox of sanctions must be devised as soon as possible," it said.

French president Nicolas Sarkozy said Europe would not accept a "cheap fix" on financial regulation. "We want regulation of hedge funds, and we are not going to put up any longer with the bonus reward system of traders and bankers. Sanctions are key. Without sanctions, new regulations are meaningless," he said.

The concerted attack on hedge funds is ominous for the City, which commands 21pc of global hedge fund business and four fifths of Europe's total. While the UK's 900 funds have taken a beating over the last 18 months, they have fared better than banks. Their average leverage is far lower, and though down 19pc last year, they easily beat global stock indexes.

German Chancellor Angela Merkel led the way in calling for a financial crackdown yesterday

In the firing line Chiefs of the sliding shares

	Giles Thorley	Peter Redfern	André Lacroix	Tim Wheeler	Mick Davis
Company	PUNCH TAVERNS	TAYLOR WIMPEY	INCHCAPE	BRIXTON	XSTRATA
Share price	94.2pc	90.9pc	88.7pc	87.7pc	82.0pc
Bonus	£0	£558,000	£535,500	£413,000	$6,568,394
Basic salary	£525,000	£346,000	£687,500	£545,000	$2,202,200

SOURCE: DigitalLook

Share price collapses at some of the UK's biggest companies have put several chief executives in the gunsights of angry shareholders. According to financial information website DigitalLook, Giles Thorley of Punch Taverns, Peter Redfern of Taylor Wimpey and Andre Lacroix of Inchcape have presided over the greatest loss of value in FTSE 350 companies in the past year. All the companies in DigitalLook's 'Top Ten Hall of Shame' have a crippling level of debt

Thousands of jobs at risk with van-maker LDV near to closure

By Rowena Mason

LDV, the white van manufacturer, has pleaded with the Government to provide an emergency bridging loan to save 850 jobs at its factory.

The manufacturer, owned by Russian car-making giant GAZ, has seen sales almost halve in the last three months, causing it to shut down production since December 12.

It is believed to be the automaker identified by Tony Woodley, joint leader of the union Unite, last week as being in imminent danger of closure.

GAZ has pumped millions into the plant over the last few years, but is understood to be reluctant to continue supporting the company.

It has given its backing to a last ditch management buy-out attempted by LDV chief executive, former Volvo managing director Erik Eberhardsen, who last night appealed for a bridging loan from the Government. He wants to turn the plant into a green van producer.

LDV, which axed 100 jobs at the Washwood Heath plant before Christmas, employs 850 workers at its factory and 1,200 jobs through its dealer network. It supports a further 5,000 jobs at supply companies.

Sources close to the deal said money from the Government was crucial, since extra commercial funding cannot be found.

"It's got to happen sooner rather than later," the source said. "The reason is that we have to save a large number of world class manufacturing jobs.

"GAZ has invested heavily, but now we need the support of the Government, which has pledged its support to green industry."

GAZ is part of the Russian private equity house, Basic Elements Group, who bought LDV out of administration in 1993. LDV was originally called Leyland DAF Vans, formed from a merger between DAF Trucks and the van division of the British Leyland Rover Group.

The Government has promised to put green technology at the heart of the car industry, as it offers bail-out financing for auto makers hit by slumping vehicle sales. Critics of the plan have argued that the funding does not help car-makers in trouble quickly enough.

LDV: shut since December 12

Courts collapse fills KPMG coffers

By Richard Fletcher

COURTS' creditors will get as little as 0.04p for every £1 they are owed by the failed furniture retailer – after a four-year long administration that has netted £35m in fees for KPMG and other advisers.

Unsecured creditors of the group will collect just £600,000 of the £94m that are owed, according to a KPMG report. Secured creditors will receive more than £70m.

The pay-out has finally been agreed after a court threw out an attempt by KPMG to exclude unsecured creditors whose claims "were below the level of an economic dividend".

Payment of the creditors brings to a close the controversial administration. Within days of going into administration, Courts had descended into chaos. KPMG was forced to close the stores after angry customers who had lost deposits attacked store staff and removed stock. Before Courts was being placed into liquidation KPMG had earned £23.7m in fees and expenses as administrator. The accountants have netted a further £483,000 from the liquidation. The majority of the fees were earned by the accountant's UK office which billed for 55,353 hours work – collecting £18.5m.

UK partners were "charged out" at up to £600 an hour. KPMG even charged the failed company for 17 hours of work by "work experience" staff at a cost of £32 an hour.

The group's corporate finance arm also received £4.3m in fees, while KPMG transaction services collected £211,885 in fees. The accountant's Grand Cayman office billed for £459,165 while KPMG Malaysia got £18,280.

KPMG, which refused to comment, also claimed £289,316 expenses covering business class flights, hotels, subsistence and telephone calls.

Sir James targeted by National Express

By Richard Blackden

SIR James Crosby, who this month resigned as deputy chairman of the Financial Services Authority, has emerged as a leading candidate to chair the transport group National Express.

Sir James is believed to be one of about four names on a shortlist to replace David Ross, who resigned in December. The chair at National Express was one of several board positions that Mr Ross relinquished at the end of last year after it emerged that he backed personal loans with Carphone Warehouse shares without telling the company, a violation of FSA rules.

Sir James stepped down from the FSA following allegations that he ignored concerns about excessive risk taking while in charge of HBOS. Sir James has denied the allegations.

HBOS was rescued by Lloyds TSB in an emergency deal last Autumn and has since revealed it slumped to a £10bn pre-tax loss in 2008.

National Express has itself been hit by the downturn and cut 750 jobs in recent months in an attempt to save £15m a year.

Shares in the group have tumbled 50pc so far this year on fears the company will be forced to raise more money from shareholders to refinance its debt.

Alex

I'VE NEVER KNOWN THE FINANCIAL WORLD AS BAD AS THIS, CLIVE. PEOPLE ARE BEING MADE REDUNDANT IN RECORD NUMBERS.

AND, WHILE IN THE PAST WE KNEW WE COULD WALK INTO ANOTHER JOB, WE'RE NOW FACING UP TO NEVER WORKING IN THE CITY AGAIN. IT'S CAUSED A DISCERNABLE CHANGE IN BANKERS' DEMEANOUR...

I'M TALKING ABOUT THE CONTRAST BETWEEN BRASH, ARROGANT AGGRESSIVE BEHAVIOUR AND A HUMBLER, MORE MODEST AND RESTRAINED ATTITUDE...

YES...

WELL, IT'S NICE TO BE FREE TO TELL YOUR BOSS WHAT YOU REALLY THINK OF HIM WHEN YOU'RE FIRED...

INSTEAD OF HAVING TO BITE IT BACK IN CASE YOU BUMP INTO HIM AGAIN IN SOME NEW JOB...

alex@alexcartoon.com

THE WEEK STARTS HERE

MARKET OVERVIEW

FTSE 100

3889.06
-300.53 | -7.17pc

The FTSE 100 fell through the 4,000 line in another abysmal week as tumbling commodity prices led to sharp falls in Rio Tinto, Anglo, and other mining shares. Property companies were close behind, with Liberty International revealing that it would have to raise fresh cash. There was still no respite among battered banks.

AM MARKET REPORT B4

BIGGEST RISER BAE SYSTEMS
405p
+14 ¾p (5pc)

BIGGEST FALLER LEGAL & GENERAL
34 ¾p
-14 ¾p (21pc)

DOW JONES

7365.67
-567.09 | -7.15pc

The Dow plummeted another 6pc to an 11-year low as the shares of Citigroup and Bank of America crashed by a quarter on nationalisation fears. The panic mood in the financial sector caused a broad-based flight from equities into short-term Treasuries. Energy companies had their own woes as light crude fell back below $40 a barrel.

Index		
FTSE 250	[illegible]	[illegible]
FTSE All-share	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
FTSE Eurotop 100	[illegible]	[illegible]
Nikkei	[illegible]	[illegible]
DJ Eurostoxx50	[illegible]	[illegible]
S&P 500	[illegible]	[illegible]
Nasdaq	[illegible]	[illegible]

COMMODITIES

GOLD
$990.40
+53.5 | +5.69pc

BRENT CRUDE
$41.89
-2.76 | -6.18pc

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£/$ 1.4321 +0.09c

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WORLD MARKET INDICES

FRIDAY CLOSE

LATEST SHARE PRICES ONLINE TELEGRAPH.CO.UK/SHARES

			INDEX	CHANGE		2008/09 HIGH	2008/09 LOW
↓	AUSTRALIA	All Ordinaries	3353.00	45.00	1.32pc	6385.40	3300.30
↓	BRAZIL	Bovespa	38536.24	1328.89	3.33pc	55910.08	30626.85
↑	CHINA	Shanghai Composite	2261.48	+34.36	1.54pc	2397.36	1705.01
↓	FRANCE	CAC General	2750.55	122.05	4.25pc	5546.08	2750.55
↓	GERMANY	DAX	4014.66	200.55	4.76pc	7908.41	4014.66
↓	HONG KONG	Hang Seng	12699.17	324.19	2.49pc	27615.85	11015.84
↓	INDIA	S&P CNX500	2106.10	39.75	1.85pc	3599.70	1973.70

			INDEX	CHANGE		2008/09 HIGH	2008/09 LOW
↓	JAPAN	Nikkei	7416.38	141.27	1.87pc	15307.78	7162.90
↓	RUSSIA	RTS	520.75	20.77	3.84pc	1660.22	497.60
↓	SINGAPORE	Straits Times	1594.94	34.41	2.11pc	3437.79	1594.94
↓	SPAIN	Madrid SE	803.70	28.59	3.44pc	1607.94	803.70
↓	SWITZERLAND	SMI index	4851.21	139.31	2.79pc	8339.81	4851.21
↓	USA	Dow Jones	7365.67	100.28	1.34pc	13806.70	7365.67
↓	USA	Nasdaq	1441.23	1.59	0.11pc	2804.19	1316.12

Gradual slow down became a car crash – and few were wearing seat belts

Peter Spencer
Comment

WHY did no one see the credit crunch coming?" That was the awkward question Her Majesty the Queen asked on a visit to the London School of Economics last year. It would make a useful addition to many economics and finance examination papers this summer.

I would argue that it was hard to predict simply because nothing like this has ever happened before. History is littered with financial crises, but the collapse of the market in liquidity that lies at the heart of this problem is almost without precedent. The only case I am aware of is the collapse in international trade finance that took place after the assassination of the Archduke Ferdinand in Sarajevo, in the run up to the First World War.

The roots of this collapse lie in the global imbalances that have been building up for decades, making the world economy increasingly vulnerable. Huge savings in Asia depressed world interest and inflation rates and were channelled through the US banking system to western borrowers, reinforced since the millennium by the flow of petrodollars.

That helped drive the boom in UK mortgage and housing markets and the fall in the saving ratio. In 2006 our mortgage lenders were handing out £10bn of mortgages every month – and only getting in £5bn of that from savers. The rest was coming in from overseas banks.

The result was an overseas debt of £740bn between 2000 and 2006 – worth more than half of our gross domestic product – typically with a very short maturity. These dollar inflows had to be converted into sterling, which is why the exchange rate was so strong and exports so weak.

I think we all knew it could not last. It didn't matter whether you looked at the global imbalances, the level of house prices or the 125pc mortgages that lenders were blithely handing out: this was clearly unsustainable.

People had been predicting a sticky end for years, but the dance just went on and on. Gordon Brown was repeatedly warned of the risk we were running with high levels of borrowing by the OECD, the IMF and other institutions. However, the music was so loud he could not hear.

He was not the only one. The Bank for International Settlements clearly warned of the threat to the global financial system posed by financial engineering and high levels of leverage. However, the markets refused to listen and just carried on dancing.

When it finally came, the end of the credit boom was much more sudden than anyone imagined. Like myself, most economists thought in terms of a gradual rebalancing as the debts built up and house prices became unaffordable, with the brakes applied gently. We expected things to turn round gradually, moving in a cyclical way rather than screeching to a halt. The surprise was that this time the international banking markets simply froze, suddenly halting the inflows into sterling and the credit markets. So what we got was more like a car crash. The economy had to adjust suddenly rather than, as we thought, gradually.

Regrettably, very few were wearing seat belts. Now all of those heavy short-term debts have to be repaid. Northern Rock was of course the first casualty, and the housing market quickly followed, dragging the rest of the economy into recession. The pound has been another casualty.

As I say, economists usually expect things to turn round gradually rather than abruptly. Financial markets can turn on a sixpence, but they usually remain open for business, even after a stock market crash. As Hyman Minsky observed, credit markets swing from elation and speculation to panic and contraction. But they have not shut down before, at least in peacetime.

Interest rates and financial prices can react violently in a crisis, but usually they manage to get demand back into line with supply. If confidence collapses it may take a big fall in the stock market to tempt bargain hunters back in, but eventually this happens.

Credit markets seem easier to understand than the stock market but are actually much more complex. If the supply of bank finance is cut, interest rates will normally rise to help bring demand into line with supply. But as Joseph Stiglitz pointed out in a famous paper with Andrew Weiss in 1981, this will discourage prudent borrowers who tend to be price sensitive, increasing the proportion of bad risks on the loan book. It is hard to prevent this: bank managers can't really distinguish the bad risks; otherwise they would not get a loan in the first place. Credit risk rises, particularly if a recession results, meaning that a rise in the loan rate can actually reduce the profitability of the loan book.

In this situation, banks tend to ration their customers rather than raising rates any further. A similar effect seems to have shut down the inter-bank and other wholesale credit markets in August 2007. Inter-bank rates naturally moved up as the market began to worry about bank losses on sub-prime loans.

But they reached a point at which they began to raise questions about the borrower's ability to repay. Any bank that was prepared to pay 1pc or so over the odds clearly had a liquidity problem. It might also have a solvency problem, especially if it was relying on high cost wholesale funds to fund a historic portfolio of low cost mortgages. So any banks that did have surplus cash simply hoarded it rather than risking it.

Of course there was more to it than that. Once Northern Rock failed, it became clear that wholesale depositors could not rely on the bank regulators to monitor the banks properly.

This also raised doubts about the Bank of England's ability to help out banks without stigmatising them, even if they just had a temporary problem with their liquidity.

Moreover, when the credit markets dried up it was no longer possible to place a market value on many of the banks assets. But whatever the reasons for this, the banks simply stopped lending to each other. Then they stopped lending to us.

Peter Spencer is Professor of Economics and Finance, University of York and Economic Adviser, Ernst & Young ITEM Club

Comment on Peter Spencer's view at telegraph.co.uk/personalview

Bets are on cash call at bookies William Hill

By Rowena Mason

WILLIAM Hill, the bookmaker, plans to raise £350m in a rights issue and scrap its dividend as part of a plan to reduce its £1.2bn debt burden.

The company is expected to announce the fundraising proposal, thought to be fully underwritten by its advisers and brokers Citigroup, when it publishes its full-year results on Friday.

William Hill is one of a growing number of companies opting for a rights issue, despite healthy trading and no imminent repayments approaching.

A William Hill spokesman said the company "would not comment on market speculation and rumour". But sources close to the bookmaker confirmed that conversations about the possibility of raising money have been taking place as it looks to refinance its debt earlier than necessary.

William Hill, which has 2,300 shops plus a telephone and internet gambling business, is thought to be trading well with revenues up 8pc before Christmas. It does not have to refinance until March 2010 and its lenders Barclays, HSBC and RBS are expected to renew its facilities.

Analysts estimate that the bookmaker is likely to report profits of around £210m for last year. William Hill said gross win – or the amount the punter leaves behind – was 5pc ahead in the 11 weeks since October 20 and is expected to be 6pc up for the full year compared to 2007.

Shares in the bookmaker jumped 19% to 227p in mid-January after William Hill gave its biggest hint yet that it expects its refinancing negotiations to succeed and delivered upbeat figures on current trading.

Its share price rose further to 250p on speculation about a rights issue last week, but has since settled at 235p.

William Hill's rival, high street chain Ladbrokes, delivered good full-year results this month, cheering shareholders with investments in the bookmaking industry.

However, concerns about rising unemployment could dampen bullish attitudes towards the betting industry, which is known to weaken when joblessness rises among its customer base. William Hill saw a 7pc drop in revenues when unemployment peaked at 3m in the early 1990s.

The news about William Hill comes amid speculation that companies in the retail and leisure sector could be the latest to announce a stream of rights issues, following £7bn of successful cash calls in the UK property and banking industries.

British Land, Hammerson and Land Securities all announced deeply discounted rights issues this month, while Brixton and Segro released stock exchange announcements confirming they are considering cash calls.

Retail gloom: Icelandic investments, which include House of Fraser, are feeling the pinch

'Three months' to fix Mosaic

By Rowena Mason

MOSAIC Fashions, the owner of Karen Millen, Oasis and Principles, has less than three months to survive if money to refinance the retail group's £400m debt cannot be found, according to the group's chief executive.

Derek Lovelock told Mosaic's auditor, KPMG, that the clothes retailer has until May 31 to negotiate new financing arrangements with its main lender, Kaupthing, the Icelandic bank seized by its government last year.

The precarious situation facing Mosaic emerged in a set of statements filed at Companies House last week, which reveal that the retailer breached covenants on its loans last November.

Mosaic is 49pc owned by the Icelandic investment fund Baugur, which was forced into administration earlier this month. However, the fashion retailer is not part of the administration process handled by PricewaterhouseCoopers that relates to Baugur UK's stakes in the frozen food retailer Iceland, department store House of Fraser, toy specialist Hamleys and Aurum Holdings, the group behind Mappin & Webb, Goldsmiths, Watches of Switzerland and Mydiamonds.com.

KPMG cautioned in the accounts that the future of the group is dependent on the continuing co-operation and financial support of Kaupthing. According to the documents, Mosaic and Kaupthing have been in talks since October since when several repayment and covenant deadlines have been waived by the bank.

Interest payments have instead been satisfied by "PIK notes" – interest accruing until refinancing is in place – and capital repayments due in January have been added to the original loan.

An executive close to Mosaic said the negotiations were progressing well.

£400m

The debt owed by Mosaic Fashions which the retailer is battling to refinance

NewsBulletin

Axe to fall on hundreds of Vodafone jobs as group seeks savings of £1bn

Vodafone is planning to cut hundreds of jobs in the UK as part of its plan to slash costs by £1bn.

The company, which has already axed jobs in several locations across the world, including Ireland, may make an announcement this week, Bloomberg reported.

Vodafone's chief executive, Vittorio Colao, who took over the top job at the world's largest mobile-phone company in July, said earlier this month that the cost-cutting moves would involve a reduction in headcount. In addition, the company is looking at rationalising its network and reducing spending in areas such as logistics and advertising.

In November, Vodafone reduced its full-year sales forecast for the second time but kept its profit forecast for the full year. The cost-cutting plan is designed to preserve profits during the economic downturn. Mr Colao has said that his focus will be on squeezing more profits from existing operations, rather than aggressively expanding into new markets – the strategy adopted by his predecessor Arun Sarin.

Shares in Vodafone have fallen almost 10pc this year.

Shell to continue with $31bn plans

Royal Dutch Shell plans to continue with its $31bn (£21bn) investment programme this year despite the collapse in crude oil prices from a record high of $147 a barrel last July. Jeroen van der Veer, Shell's chief executive, said that "for our projects, we never took into account that oil prices would remain so high for so long". He added: "All our investments, and the few we postponed, can perfectly withstand current oil prices." The majority of oil companies are pulling back their spending as the fall in crude prices erodes profits.

Asia's protective pool of currency

Japan, China, South Korea and 10 other nations from the region will together form a $120bn pool of currency reserves that can be used by countries to defend their currencies during the global recession.

The amount is 50pc greater than that agreed in May by the Association of South-east Asian Nations.

The pool of reserves will be designed to ensure central banks have enough to protect their currencies from speculative attacks such as those associated with previous episodes of financial instability.

Obama seeks to halve US deficit

President Barack Obama is to unveil plans this week to cut the US budget deficit by half over the next four years in an effort to reassure foreign creditors over the long-term sustainability of US public debt.

Officials said there would be tax increases on wealthy Americans, probably starting on incomes above $250,000 a year.

The investment income of hedge funds and private equity will be taxed at full income tax rate rather than the much lower capital gains tax rate, a move that may cause part of New York's fund community to shift operations to London.

Part of the savings will come from a gradual reduction of troops from Iraq, which should ultimately save $90bn a year. The Obama administration aims to start drawing up a strategy at a fiscal summit today.

[illegible]
You can email Daily Telegraph journalists by writing to **firstname.lastname@telegraph.co.uk**

Bauger UK disquiet dates back to 2007

By Rowena Mason

AUDITORS cast doubt on the financial viability of collapsed retail giant Baugur UK, the major investor in House of Fraser, Debenhams and the Mosaic Fashion Group, when reviewing the group's 2007 accounts, it has emerged.

Baugur UK was put into administration earlier this month, after negotiations with its lenders failed.

But it has now emerged that auditors from KPMG were alerted to the fact that there was "material uncertainty which may cast significant doubt about [Baugur UK's] ability to continue as a going concern" when considering the company's accounts for the year ending December 2007.

The auditor's statement would have been made public in October last year, but Baugur UK flouted the deadline for filing its accounts for the year ending December 2007.

While the statement does not amount to a technical qualification, KPMG pointed out that Baugur UK was dependent on its Icelandic parent company, giving the auditor little knowledge about its source of funds. The doubts were revealed in an "emphasis of matter statement" – a paragraph used by auditors to express their worries about accounts.

The group did not file its 2007 accounts until February 3 this year, not long before the company was put into administration. KPMG declined to comment.

Sanitec hires expert help as sales figures go down the plug

By Helia Ebrahimi

BATHROOM supplier Sanitec, which has a royal warrant, has hired restructuring experts Close Brothers to advise it on talks with lenders over its crippling €838m (£740m) debt pile.

The company, which is owned by EQT – the private equity firm that wrote off 50pc of the value of its assets earlier this month – is Europe's largest bathroom supplier, with more than 9,000 employees across 28 countries.

In Britain, Sanitec owns the long-established Twyford's Bathrooms, which holds a royal warrant as supplier to the Queen.

In 2007, the Group had sales of €922m, but demand has evaporated in the wake of the housing market crash and December figures reveal the company went into the red as sales plummeted 32pc across the business.

EQT, which is being advised by Houlihan Lokey, has proposed to put in €100m of new cash to cover working capital needs for the next three years.

However, the Nordic buy-out fund wants the company's senior lenders – who are owed €700m – to take a 50pc haircut on the amount due to be paid back to them.

It is also demanding that junior lenders, who own a layer of debt now trading for 20p in the pound, write off their investment in its entirety.

It is understood that the company is also currently in talks with alternative private equity houses and distressed debt investors about injecting the much needed new capital in exchange for a stake in the business.

The accountancy firm Deloitte is acting as advisor to the credit committee.

9,000

The number of people employed by Sanitec, the largest bathroom supplier in Europe

Find out how we could improve your investment income

Telegraph Investor Services

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Are you married? Yes / No
Have you made a will? Yes / No