Forbes.com

Battle Over The Books

Desert Storm In Dubai

Lionel Laurent, 03.03.09, 10:35 PM ET

On Feb. 3, Al-Fajer Properties, a high-profile real estate development firm owned by the brother of Dubai's ruling sheik, announced a 3.2 billion dirham ($871.2 million) restructuring of its operations. Under the leadership of its new president, Sheik Maktoum bin Hasher al-Maktoum--the eldest son of the company's owner, and nephew of Dubai's ruling sheik--the company explained it had liquidated its land bank and sold off its remaining inventory after a "rigorous" business review in order to strengthen its balance sheet.

But sources close to Al-Fajer tell Forbes that the restructuring was actually a wholesale "rescue" from financial ruin as an independent entity, after nearly three years of alleged mismanagement under former manager Shahram Abdullah Zadeh, a flamboyant, Iranian-born businessman who was fired last year and who claims to still be owed at least $1.9 billion by Al-Fajer.

Forbes has consulted documents--including bank statements, company contracts and employee interviews drafted by an auditing firm, which was called in to help conduct the business review last year--that purportedly tell the story of how Zadeh allegedly forged company contracts, kept fraudulent, unaudited accounts and moved money back and forth between Al-Fajer Properties and other companies owned by him.

Sources close to Al-Fajer say the new president, Maktoum, was called in by his father to fix the so-called "financial shambles" after an employee indirectly alerted the elder sheik to the company's financial situation by requesting cash in early 2008. Documents show a cash balance of approximately $8.2 million when Maktoum arrived, which was restored to $163.4 million to $190 million 60 days later.

The sheik, say sources close to the company, did this by unwinding investments that would have saddled Al-Fajer with massive liabilities--in the "hundreds of millions" of dirhams--narrowly escaping the real estate slide that hit Dubai months later after the collapse of U.S. investment bank Lehman Brothers in September. Since then, property prices have fallen an estimated 20% to 25%.

Al-Fajer's cash balance as of February 2009 was not made available to Forbes, but sources close to the company hint that nearly all of it has been plowed back into construction projects.

Zadeh flatly denies any wrongdoing and claims that the so-called "rescue" was a full-blown theft of a company he had owned and financed alone throughout the course of its existence. Moreover, he denies that the company was a financial mess and claims that his erstwhile partner, Maktoum, breached his trust to take control of a successful firm.

"I was the sole investor, and Al-Fajer Properties was my company," he says. "Sheik Hasher Maktoum has not invested a single dirham into the company; his only contribution has been the real estate license."

The payment for this license, which cost $82,000, sat in a bank account from the company's inception in 2004 and was not used as operational capital, Zadeh says.

Zadeh claims that Maktoum, his father and others together "cooked the books" and took control of Al-Fajer Properties while he was detained in jail by the authorities, without being charged, between February and April 2008. After being blindfolded, tortured and interrogated for weeks about unfounded bribery allegations and his operations at Al-Fajer in detail, Zadeh says he emerged from jail only to find a letter demanding he cease all involvement with the company.

Zadeh says he believes his detention was the result of a false report. Sources close to Al-Fajer say that any such claims did not come from them.

The battle has already spilled into the courts, a potentially embarrassing development for a company linked to Dubai's ruling family. After filing two unsuccessful criminal complaints against Al-Fajer last year, Zadeh said his lawyers filed a civil lawsuit against the company on Feb. 26 at the Dubai Courts, claiming he was still owed $1.9 billion.

Although Al-Fajer Properties is said to have filed a criminal complaint against Zadeh in late February, alleging fraud and embezzlement of funds, the company's lawyer would not confirm this. "I am aware of no suits against me," Zadeh says.

Zadeh does not deny moving funds between Al-Fajer and other companies he owns, but claims that he put the money into the company's account in the first place and later took it back as his "investment." He said that no money was missing, though he admitted there had been no auditing of the company accounts because the firm was understaffed and had big ambitions.

Sources close to Al-Fajer also confirm that no money appeared to be missing; Zadeh is said to have made up the balance of withdrawn funds with later payments back into the firm.

The corporate tussle casts no direct shadow on the reputation of Dubai's ruling family, even though Al-Fajer's operators are one degree removed from Sheik Mohammed bin Rashid al-Maktoum. But it's another example of the dark side of Dubai, one more blow to its image as a spectacular hub for global investment. After recently being forced to borrow $10 billion from the United Arab Emirates' central bank in Abu Dhabi to help its enterprises pay short-term debts (see "Dubai's Jolt Back To Reality"), Dubai is bracing for more bad news as its gross domestic product growth plunges from 8% or so in 2008 to an expected 2.5% this year.