SCF Shareholders 'Fool's Gold' Claim

By Hamish Fletcher (published and last updated on the Herald website May 25, 2015)

South Canterbury Finance preference shareholders were "robbed" of their "rights to accurate and timely information about the company" and some who bought them were "playing with fool's gold", claims broker Chris Lee.

Lee today addressed an Auckland meeting of around 40 South Canterbury Finance investors, who owned preference shares and got nothing back when the Government spent $1.7 billion bailing the company out.

The meeting discussed raising funds from investors to investigate possible legal action. Around $117,000 has already been raised after other meetings around the country.
It is hoped that a total of $150,000 can be raised, with the funds used to investigate whether a claim should be brought to try to recoup money for holders of the company's ill-fated NZX-listed preference shares.

The South Canterbury Finance preference shares were issued in 2006 and at one point were worth $120 million but their value slid as the company hit the rocks.
The precise nature of any potential claim or the possible defendants is yet to be finalised but a legal team has focused on South Canterbury Finance's non-compliance with its continuous disclosure obligations.

Lee today listed numerous pieces of information about the company from 2009 and 2010 which he claimed were not communicated to the market.

These included that South Canterbury Finance's trustees wrote to accounting firm McGrathNicol in August 2009 asking them to not accept any assignments from the company as they believed they were likely to appoint them as receivers in the near future.

That same year a report from KordaMentha, who analysed the firm's loan book, believed the company's collectable advances had been overstated by $170 million and it didn't appear as though it would meet solvency tests.

Less than 12 months' later in August 2010, the company was put into receivership with an expected shortfall of at least $600 million.

"Not once had any continuous disclosure announcement been made, nobody at any stage had said, this company has got a whole lot of bad debts which are growing," Lee claimed.

"Effectively we are asked to believe that until 31st of August [2010] nobody knew that roughly $600 million - plus capital which was said to be $200 million even in May so $800 million - had disappeared," Lee said.

It was still being investigated as to whether the information not disclosed was material, Lee said.

He could not say how much shares could have been sold for if this information was disclosed but said that "millions and millions" were traded when the company was in a "dire position" and later in receivership.

"What I can tell you is that unquestionably we were robbed of our rights to accurate and timely information about the company and those that bought the shares.... they were playing with fool's gold.

Lee said he would love to get compensation for the $270,000 he personally lost on the shares but believed the moral issues were more important.
"What we endured was wrong," he said.
It is hoped that if any claim is filed, it would be done so by the end of June.

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