

SCF CITY MEETINGS – May, 2015

We have now completed the seven investor meetings in Invercargill, Dunedin, Timaru, Christchurch, Kapiti, Wellington and Auckland.

The following information is intended for those who could not attend the meetings but wanted a full account of what the meetings were told.

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Chris Lee explained his company's involvement with the distribution of these SCF securities. His firm was allocated \$2m to distribute, allowing 110 people, from roughly 6000 clients, to be allocated an average of just under \$20,000. Thirty of those clients sold before SCF was put into receivership. Mr Lee himself bought some and later bought more, to hold 300,000 shares.

A client had bought hundreds of thousands at different prices after hearing SCF advise the NZX and the media, via its CEO Sandy (Samford) Maier Junior, who had claimed in May, June and July 2010 that SCF was breaking even, had in fact made a small profit, had no discernible additional bad debts, had shareholder funds of \$200 million and had a bright future.

When this information was found to be a great distance from SCF's position on August 31, 2010, Mr Lee had sought copies of information that corrected Maier's claims, or updated them, and found there had been no such corrections or updates, despite SCF's position having reversed by at least \$800 million from Maier's claimed position.

Mr Lee told the meetings that his firm had researched the issue, discovered many examples of material information that had been shielded by various parties, so had complained to the NZX, the Securities Commission and later the FMA, about what he claimed were obvious breaches of continuous disclosure obligation, leading to an illegal market in SCFHA securities.

Mr Lee discussed the NZX and FMA response, explained the four-year delay (the need to not jeopardise the SFO's fraud claim against SCF directors) and explained the law, giving examples of how the law overcame the sort of unsatisfactory behaviour of various public companies in the 1980s, when laws were ineffective and resulted in "Wild West" images of NZ's capital markets.

He cited examples of material information that would have prevented ill-informed "buy" decisions and may have led to informed decisions to "hold" or "sell".

Organisations like Trustees Executors, Forsyth Barr, Treasury, the NZX, the Reserve Bank, the SCF board of directors in 2009 and 2010, the auditors, KordaMentha and some banks were in possession of material information that was never disclosed by continuous disclosure obligations.

Had the information been disclosed, the NZX trading might have been different, and tens of millions of shares either not bought, or bought and sold at very different prices.

Had any party granted a waiver of continuous disclosure, the NZX would have been compelled to suspend trading, thus preventing purchases of shares on an ill-informed basis.

Symmetry of available information was disrupted, but the law requires symmetry, and the NZX has law to enforce symmetry.

Mr Lee named several key items of correspondence which suggested that many individuals and many organisations knew far more than was ever released.

He asked the FMA to investigate this.

Last December the FMA completed its investigation and declined to continue, possibly because of its limited resources and possibly because it could see that investors themselves might pursue an investigation.

With the pro bono help of a "wonderful New Zealander and Queens Counsellor" Mr Lee appointed an experienced and knowledgeable QC and a relevant, energetic law firm, agreeing to pay for an opinion on whether the case was worth pursuing.

After some months of careful research, the legal team advised that further investigation was justified and would take two months, and might cost a good deal of money.

If the legal team concluded that it should file a claim, a litigation funder might then be sought to pursue the party or parties that were identified as culpable.

Mr Lee sought help on the minimum basis of \$5 per \$1000 of SCFHA securities held, ie \$100 contribution for an investor with \$20,000 face value of securities. The money would fund the investigation. If surplus money was contributed it would be refunded.

Mr Lee's company Chris Lee & Partners Ltd, Mr Lee himself and one investor had contributed \$60,000 in cash to help meet all costs, and there had been no charge for his travel costs, time, or office cost over the years leading to these meetings.

If a fund was to be established now there would be an investors' committee comprising Dan Tait-Jamieson (Wellington), Michael Connor (Auckland) and Chris Lee (Kapiti), which would collectively approve any payments from funds held in a separate account. Those funds would be used only for legal bills and meeting costs. None of the committee would be paid for their time.

Mr Lee emphasised that it was still possible that no claim would eventuate and that even if a claim eventuated a court would need to approve any arrangements regarding the repayment of contributions, with or without a special return to investors, and a court would have to approve any agreements on how any settlement or award would be shared by all SCFHA investors.

There was still a possibility that no litigation funder might emerge, and a possibility that the claim would be unsuccessful.

Mr Lee said, as well as the compensation hope, that he felt a moral obligation to test what he considered was a dreadful example of investor abuse.

Each meeting had long sessions of questions, most displayed on the website under Frequently Asked Questions.

The outcome of the meetings by May 29, 2015, was that approximately 750 investors have contributed around \$160,000 to add to the \$60,000 funded earlier.

The thorough and expensive investigation has been helped by the co-operation of the FMA, which Mr Lee thanked.

No minutes of the meetings were kept but this account, in the opinion of Mr Lee, is a true and correct record of the meetings held in seven centres, attracting approximately 1000 investors.

Any investor wishing to be included in the funding of the investigation is welcome to forward a cheque payable to CJ Lee SCF Litigation Fund, PO Box 1633, Paraparaumu Beach.