**ShareSoc**
UK Individual Shareholders Society

PO Box 62, Chislehurst, BR7 5YB
Phone: 020-8467-2686
Email: info@sharesoc.org
Web: www.sharesoc.org

## Silverdell Shareholder Meeting Report

There was a meeting attended by about 20 Silverdell shareholders in Beckenham on the 20th January. The author of this report presided over the event (being a neutral observer who has never held the shares). This is a very brief report made mostly from memory and I would hope that a more detailed report is made available by someone else in due course.

At the start of the meeting it was suggested that there were three objectives.

1. To try and identify what happened and why at Silverdell that caused a company which was apparently in a reasonably sound financial condition, and with the company issuing positive noises about the future, to decline so rapidly so that it is now worthless. At least the company is saying the shares are worthless.

2. To identify if there are any actions to be pursued by shareholders to hold people or organisations to account for past events.

3. To see if there are any actions that might recoup shareholders' losses, although it was made clear that this may not be easy.

A number of the folks attending had of course previously seen presentations by Silverdell to investors and I pointed out that there were a lot of experienced investors who had taken up the shares. In addition, the Investors Chronicle recently reported that they had first tipped Silverdell as a "buy" in January 2011 at 7.25p and the share price subsequently doubled. They renewed the positive tip in January 2013 when the price was 17p and the p/e was 8 with gearing at 29 per cent. To quote from their report: "*there was nothing to indicate that the group's business model would not continue to drive better returns*".

Finncap (the company's Nomad and Broker) had asked to say something at the start of the meeting so Tom Jenkins representing them said a few words. Unfortunately he was so brief that by the time I had taken my pen out to write down what he had to say, he had finished. I believe he said that the company had adhered to its regulatory obligations but otherwise he had no comments to make at this time. He refused to take questions and then left the meeting, which of course did not exactly please those attending.

However it was reported that the AIM authorities are investigating the case so no doubt the role of Finncap will be examined and hence perhaps his reluctance to comment.

Chris Boxall of Fundamental Asset Management, an institutional fund manager, was then invited to give a summary of what he knew about the events at the company. Note that a more extensive report on the events at Silverdell so far as they are known is available from the Investors Champion web site.

In summary it was stated that the sequence of events was:

a - On the 11th June 2013 it was reported in the trade press that a winding up petition had been lodged against Kitsons, one of Silverdells major subsidiaries. But soon after the company issued an RNS statement with new contracts being announced and positive comments from the CEO, Sean Nutley about "achieving our expectations for the year", i.e. this was a positive trading statement but no mention of the above winding up petition.

b - On the 3rd July there was an RNS announcement saying trading was suspended pending clarification of the Groups financial position. There were further statements issued on the 16th July and the 24th July indicating a different subsidiary of Silverdell named EDS had acquired the Kitsons business out of administration with the support of the company's bankers (HSBC).

c - Not a lot of further news was announced by the company in the following months (certainly nothing that gave shareholders any details of the financial position of the company, the likely outcome, or when suspension might be lifted). But on the 10th December Marwyn, a significant investor in the company, announced they had written off the value of their holding to zero after a further announcement by Silverdell about some corporate transactions on that date.

d - The company's shares were delisted by AIM on the 2nd January after being suspended for more than 6 months which is the limit imposed by the AIM rules. The company stated that there was no likely value in their ordinary shares. Some attendees at the meeting suggested that the company has no assets left and hence is simply a "shell" having disposed of its assets.

There was some discussion about the events following the application for a winding up petition at Kitsons.

It was pointed out that anyone can apply to the courts for such a petition if a debt owed remains unsettled (for example if it has been the subject of a county court judgement). It was reported that the amount was possibly for £60,000. If the company could settle the debt then they would either do so immediately or appear in court to oppose the petition. For some reason the company did not oppose the petition in court, probably because HSBC had indicated they were going to apply for an administration anyway, so at the hearing of the winding up petition the court instructed it should go into administration. Comment: this sequence of events rather suggests that Kitsons was in severe financial difficulties and the parent company was unable or unwilling to support it.

Chris Boxall summarised the case by saying that the suspension was "so sudden" and "the business disappeared 20 days later, i.e. after a positive announcement".

He also reported he had taken legal advice on the matter. The advice was that pursuing claims might simply mean throwing good money after bad. The question was raised by one of the attendees as to why the winding up petition had not been reported in an RNS announcement. Surely the parent company must have known about it? Failure to announce price sensitive information in a timely manner is of course a breach of the AIM regulations and might also be considered as "market abuse" if people were trading shares around that time who were familiar with the affairs of the company. Note though that the directors did not seem to have sold shares in the relevant period (at least none were announced, and a non-exec director actually bought some on the 6th June). Comment: Obviously this issue should be looked into.

One attendee said that a "whistleblower" (i.e. an employee of the company) had reported a company meeting on the 13th June where it was hinted that the company was in financial difficulties.

There was then an extensive discussion of the possible legal and other avenues that might be pursued to investigate what had happened, to identify any wrongdoing or failures, and possible legal claims that might be pursued. It was reiterated by me that the last step is always difficult in English law although not necessarily impossible. But the costs of litigation, the lack of contracts between shareholders and the company (so reliance might need to be placed on "derivative actions"), the fact that shareholders are a dispersed group and it is difficult to get larger institutional shareholders to lead the fight, and for many other reasons make it not easy. This note is too brief to cover this topic properly but ShareSoc did publish an article in its February 2011 newsletter on "Legal Address" which we may reprint in a future edition.

There was some discussion about the general problems of AIM Regulation, the UK legal framework for companies, the difficulties shareholders have in pursuing claims, the Caparo judgement that relieved auditors of any obligations to shareholders and other wider issues. I pointed out that many of these points are covered in the ShareSoc manifesto - see www.sharesoc.org/policies.html (the Manifesto is available at as a pdf document at the bottom right of that page).

One specific legal issue raised by an attendee was the possible disposal of a major asset of the company without this being put to shareholders for a vote. It was suggested this is a breach of Company Law and should be looked into.

It was also suggested that as many people as possible should complain to the AIM regulators (the London Stock Exchange of course), and it might also be possible to request the Government BIS Department to undertake an investigation into the affairs of the company which they have the power to do. It is not unfortunately a big enough case to involve the serious fraud office and more facts need to be obtained before it is possible to advise what legal steps might be taken.

I suggested that if there had been false accounting or misrepresentation of the accounts and the financial position of the company (for example in the unaudited interim results on the 5th June), then that potentially could mean anything from a complaint to the regulatory body of the accountant who prepared the figures, to claims or complaints against the directors or the company's Nomad. Mr Boxall commented that he had been concerned about revenue and profit recognition by the company which was his reason to try and exit a holding after a meeting with the company.

I explained that ShareSoc can only help shareholders who wish to help themselves because campaigns of any kind need some leadership by the shareholders most affected. Indeed I mentioned at the start of the meeting that the only reasons why we had not got involved at an early stage in the affairs of Silverdell was that no shareholders came forward to take it up, with many appearing to hope that all would turn out for the good. Shareholders have the personal financial interest in the matter and hence are best motivated to pursue the issues. I suggested that the best way forward is to form a small sub-committee (say 2 to 4 people), who can take it forward. ShareSoc can provide some general advice and perhaps administrative assistance if necessary. Initial legal advice (which is probably also required) might not be expensive - incidentally there was a legal firm represented at the event who are experienced in such cases.

I and David Stredder would circulate a note to our contacts inviting people to step forward to join that sub-committee if someone creates such a note. The meeting agreed this was a good idea.

Lastly here are some final comments from the author. It would certainly be helpful to get more investigation into the sequence of events at this company and to identify what failings there might have been, even if it is only to ensure it does not happen again to other investors.

It is worth noting though that if a company gets into difficulties it is important for shareholders to take prompt action early on. Leaving it until the company is bust (or about to go into administration or liquidation as seems likely with Silverdell) is simply too late to protect your interests.

Neither should shareholders accept that a company's shares are suspended for months on end without further reasons or information being supplied (and shareholders can change the directors of course if they are not communicating with shareholders or apparently acting in your best interests).

It should be noted that Northern Rock was a major financial disaster area with a sequence of events that ran for many months after first being reported as a "run on the bank". But the shares were never suspended from the stock market, and shareholders via an active group thwarted a disposal of the business that they were not happy with. Only when Members of Parliament passed legislation to nationalise the company were shareholders interests overturned.



**Postscript:** These are the contact email addresses for complaints to AIM and the FCA:

aimregulation@londonstockexchange.com

market.abuse@fca.org.uk

The ShareSoc web site for further information on our activities is www.sharesoc.org