Seventh Statutory Managers' Report

Aorangi Securities Limited

29 June 2011

Introduction

History

On 20 June 2010, Richard Grant Simpson and Trevor Francis Thornton were appointed statutory managers of Aorangi Securities Limited ("Aorangi"). Graeme Carson McGlinn was appointed as an additional statutory manager on 13 September 2010.

Purpose of this report

This seventh report has been prepared to provide an update for investors on the status of their investments in Aorangi. Copies of our previous reports are available on our website www.grantthornton.co.nz along with some answers to frequently asked questions. As this is an update report readers may need to review previous reports to gain contextual information.

This report is specifically addressed to Aorangi investors. We have provided a separate report to the investors in Hubbard Management Funds.

In exercising our role as statutory managers, we recognise the need to protect the interests of the shareholders, creditors and beneficiaries of Aorangi, resolve the difficulties that have been encountered and preserve, as far as possible, the business interests and investments of Aorangi.

References

In this report, we refer to a number of entities. Aorangi received money from investors and has applied the money to a combination of independent parties and entities associated with Mr and Mrs Hubbard. A charitable trust also in statutory management, Te Tua Charitable Trust ("Te Tua"), has provided interest free loans to a range of business people and has been funded by Aorangi. The Te Tua loan book has a number of impaired loans.

Overview

Since our last report, the timeframes for payment and the amount we are able to pay have all changed. The key points are:

- We are making progress on many fronts but several large issues must be finalised to enable us to move forward.

- We expect to distribute 8 cents in the dollar in July 2011, but this is dependent on a refinancing loan due at the end of June 2011.

- The distribution is less than expected, reflecting the difficulty we continue to have in collecting loans, and sorting out the ownership issues relating to various farms.

- Investors will have a long wait for repayment on investments because assets purported to have been transferred to Aorangi may still be owned by Mr & Mrs Hubbard. No further payments will be possible until these issues are resolved.

- While the timetable for distributions to Aorangi Investors is uncertain pending resolution of ownership matters, the successful realisation of assets continues. Total realisations by the end of September 2011 are expected to exceed $40 million.

- Aorangi investors received no interest for the year ended March 31 2011, so there are no amounts to be included in tax returns.

- We are acutely aware of the difficulties some investors are suffering. In cases of genuine hardship our distressed investor fund is available, as set out in earlier reports.

Aorangi loans and investments

Introduction

The assets of Aorangi comprise third party loans with a book value of about $26 million and loans to, or investments in, businesses related to Mr Hubbard of about $114 million, including Te Tua.

As we have reported previously, in the months prior to our appointment as statutory managers, Mr & Mrs Hubbard arranged to transfer shares and partnership interests in a number of businesses that were held in their personal names ("the Hubbard Interests") to charitable trusts established by Mr Hubbard.

At the same time as the transfers were proposed, the charitable trusts purported to grant Aorangi security over the Hubbard Interests. The total value involved is approximately $60 million.

Mr Hubbard says this was done to give Aorangi security over valuable assets which could be used to meet the amounts due to the Aorangi investors.

We have been progressively reversing the transfer of the shares from the charitable trusts back to Mr & Mrs Hubbard. This is a necessary step while we attempt to ascertain whether the shares were held by Mr & Mrs Hubbard in trust for Aorangi, or for their own benefit.

We have conducted a review of the Aorangi loan portfolio from 2007 to 2010. We have identified a very different investment profile in 2007 when Aorangi had $82 million invested in South Canterbury Finance Limited to June 2010 when it had $60 million invested with business entities associated with Mr Hubbard.

Aorangi's financial records as at 31 March 2009 (before the transfer of the Hubbard Interests to the charitable trusts) had Aorangi's assets close to $114 million which included the following investments:

	$ million
South Canterbury Finance	12.2
Southbury Group Limited	33.6
Te Tua	13.7
Total	**59.5**

These three investments represent more than 50% of Aorangi's assets at that time and are entities closely associated with Mr Hubbard. They do not represent investments supported by mortgage security over land as requested by some investors in their investment authorities.

The Hubbard Interests purportedly transferred to Aorangi later were not included in Aorangi's financial statements as at 31 March 2009.

Impact on Aorangi's investors

Unfortunately, Aorangi's investors face a longer wait for repayment of their investments as the Hubbard Interests purported to have been transferred to Aorangi by Mr Hubbard may in fact still be legally owned by Mr & Mrs Hubbard.

If it is established that the Hubbard Interests remain in the ownership of Mr & Mrs Hubbard, those assets will not be directly available to Aorangi. There could instead be a claim by Aorangi as lender against Mr & Mrs Hubbard as borrowers from Aorangi at a value of close to $60 million.

With the financial positions of Mr & Mrs Hubbard being uncertain there is potential for a loss to be incurred by Aorangi investors, who will rank with the other creditors of Mr & Mrs Hubbard.

Previously, based on what we understood to have been the position at the time, we included the estimated value of the Hubbard Interests as Aorangi's assets. As noted in our previous reports, if these assets are not available a significant reduction in returns to investors is likely. The remaining Aorangi third party loans have issues that affect their collectability. It will therefore take some time to determine what the likely ultimate financial returns will be to Aorangi's investors. No further distributions of Aorangi funds will be possible after the upcoming payment of 8 cents in the dollar referred to in this report until these issues are resolved.

Loans issues update

To support one of the Aorangi/Hubbard loans and investments of $17.5 million, we have determined that Aorangi needs to invest $10 million to keep a group of 11 farms trading. As part of this transaction Aorangi will receive a $5 million repayment and this money will shortly be used to help fund the investors' repayment. The increased Aorangi/Hubbard exposure to this group will then be $22.5 million.

We gave careful consideration to the need to provide these extra funds. We decided that there was a risk that the group's banker could put the group into receivership which would probably have caused a loss for Aorangi.

Aorangi has been required to support entities it has existing relationships with by providing funding to preserve asset values. One farm has had a cash injection of $200,000 to allow ongoing trading and to pay suppliers. Bank financial support is at a level that no further funding was forthcoming. The farm has good prospects and the new loan avoided the risk that the business would fail before its potential had been realised.

We have determined that another farm, which is in a prime location alongside the Valletta irrigation scheme, should be sold soon in order to achieve its best value.

We have reluctantly placed a farming business into receivership. This business owes Aorangi a substantial sum and it had not paid interest for over two years. The farm property was offered for sale and had a number of bids including from the current owner. The incumbent farmer and Mr Hubbard had indicated the farmer's family members were expected to introduce funds to make an offer at close to the market value. However, the offer received was at "a fire sale price" and rejected by the receivers.

The international search for funds by two other borrowers to repay Aorangi's advances is, we understand, ongoing. Potential liquidation is looming for one of the two companies as it has bank debts that are not being repaid. We have been told that the potential refinance by an international party has been complicated by the unrest in the Middle East and may come too late to prevent the liquidation of one of the entities, although we are told settlement is imminent. We are in contact with Mr Hubbard and the manager of the two property developments, but time is running out on the refinancing.

With only a small number of borrowers meeting their loan payment obligations, the expected interest receipts for the quarter ending 30 June 2011 are $145,000. One loan that has an interest obligation of $285,000 is being followed up as it is traditionally paid late. It is pleasing to note that one troublesome loan of close to $1 million was recently settled after significant negotiations, and refusal by us to allow the set off of a balance allegedly owed to the borrower by Mr Hubbard personally.

Mr Hubbard's promise to make good Aorangi investor losses

In our introduction to this report we commented on the difficulty being encountered with the purported introduction of Hubbard Interests into Aorangi. Most of the Hubbard Interests recorded in Aorangi were introduced by way of journal entry. There are no records of cash transactions in return for the introduction of the Hubbard Interests. Legal advice provided to us means that we cannot rely upon the purported transfer of Hubbard Interests into Aorangi at this time and as a result, and given the financial position of Mr & Mrs Hubbard, Aorangi investors may face a large shortfall. This means that any proceeds from the disposal of these assets cannot be repaid to investors until the financial position of Mr Hubbard is known, which may take some time and may be subject to dispute from personal creditors.

Possible financial support for potential Aorangi shortfall

To enhance the financial position of Mr & Mrs Hubbard, we are challenging arrangements that Mr Hubbard purported to implement with South Canterbury Finance Limited which broadly involve Mr Hubbard introducing assets indirectly for the benefit of South Canterbury Finance Limited in return for $110 million of bad debts in South Canterbury Finance. The return from these bad debt loans since the commencement of the statutory management is currently just short of $500,000. Further recovery is expected to be difficult and prospects of any substantial returns are unlikely.

The assets indirectly introduced to South Canterbury Finance comprise security over the Hubbard's ownership interests in 21 farms. The Statutory Managers and South Canterbury Finance receivers have agreed the court be asked to provide directions as to who is entitled to these assets. A further complication on the ownership is the position of the other owners of the 21 farms who were not aware of the action taken by Mr & Mrs Hubbard in unilaterally transferring their interests for the benefit of South Canterbury Finance. This was done without reference to the other parties even though (in many instances) there are agreed arrangements in place, that is partnership agreements and company constitutions that require shareholder approval before shares are transferred.

We have engaged with these 21 farming entities and we will continue to keep them informed on how the issues resulting from these transfers are resolved. Profits received from these farms are being placed in a separate bank account until the Court determines the ultimate ownership of these interests.

We have an interest in the outcome of this litigation due to the uncertain financial position of Mr & Mrs Hubbard. If we are successful, the proceeds and profits from these farms could possibly be used to meet amounts due to Mr & Mrs Hubbard's creditors, including any shortfall to the investors in Aorangi. We have legal advice that the effective ownership of the shares was not transferred. A further complication is that two of the assets purported to be granted as security to South Canterbury Finance are owned by other parties. One of these is a substantial loan made by Te Tua of $3.3 million. This loan, which has partly been repaid, cannot be paid to Te Tua until this "double pledge" is clarified with the appropriate parties.

Realisation process

Prior to our appointment, many of the farming interests were under financial pressure, and in a number of cases receivership was threatened. In some cases assets of the farming interests had been pledged to other parties, often associated with Mr Hubbard. After engagement with interested and affected stakeholders, we made financial, legal and banking decisions that have now resulted in some stabilisation. These restructures enable the farming interests to be packaged in a marketable form to maximise realisable value. Although this process is still ongoing, the steps we have taken may mean that the realisable value of the Aorangi assets (subject to confirmation of ownership, as discussed previously) should exceed the $87 million - $97 million range we had indicated in our previous report.

We have sold interests in a number of farms at, or exceeding valuation, for a total consideration in excess of $14 million and have restructured and brought significantly improved financial reporting and governance to a number of other farm interests. Many of these assets are now in a position that they can be realised at full value. We are engaged in ongoing negotiations with a number of potential purchasers, have tendered one property for sale and we are dealing with a wide range of interested parties.

On or about 30 June 2011, we expect to receive the sale proceeds from farm interests of approximately $10 million. We would have expected to have these and other funds we hold available to distribute to Aorangi investors at this time but this is not possible pending determination of the status of the Hubbard Interests.

We would expect additional realisations in the next 3 months to exceed $20 million. Presuming the beneficial ownership of the interests can be determined, some or all of those realisations should be available for distribution to Aorangi investors. This would bring realisations to a total in excess of approximately $40 million.

Costs

The total cost of the administration of Aorangi to the end of May 2011 was $2.53 million GST inclusive, as shown in the following table:

	Total since appointment $
Grant Thornton fees and disbursements	1,567,965
Legal costs	512,423
Other third party disbursements	137,200
GST	315,545
Total	**2,533,133**

Oversight

Two independent reviews into the Statutory Management process of Aorangi are in progress. The Ministry of Economic Development has appointed a committee of two to review the progress of the Statutory Management. The terms of reference include consideration of whether or not Aorangi should be released from Statutory Management. We understand the committee is due to report to the Ministry shortly.

We requested the costs of our administration to be independently reviewed to provide assurance that they were in order and the Ministry responded by appointing a reviewer for that purpose.

Suggestion received for realisation

A number of investors, including members of the Investor Liaison Group, have provided us with a number of proposed solutions to the difficulties faced by the entities and persons under our management, which include the combination of all Mr & Mrs Hubbard's farming assets, Aorangi's assets and Hubbard Management Funds as a way of meeting the obligations to investors. The different and unique nature and circumstance of each person and business and the uncertain financial position of the Hubbards (there are a number of large unresolved claims on the Hubbard's assets) means that the interests of all parties have to be managed separately. If there is a surplus of assets from the actions being taken by us then Mr Hubbard may be able to make good the personal guarantees he has made to lenders and investors. Until these are clarified and the assets and liabilities of Mr Hubbard are finally determined, it is difficult to see how such a combination can be achieved. This will nevertheless be considered if it can achieve an earlier return for investors.

Timing

Frequently we are asked about the expected timeline to conclude the administration. With the issues associated with the Hubbard Interests revealed in this report, the projected four year timetable agreed by Mr Hubbard is now uncertain. Just how long it will take to resolve the financial issues faced by Mr & Mrs Hubbard is unknown.

Payment to investors

We expect to make a further capital distribution to investors of 8 cents in the dollar in July. This depends on the settlement of a loan of $5 million being completed on or shortly after 30 June 2011. The distribution is less than expected, reflecting the difficulty we are having in collecting loans and the ownership issues relating to the farms referred to in this report.

Te Tua Charitable Trust

General overview

Aorangi has an investment of approximately $23 million in Te Tua.

Since our last report, we have continued to make progress in negotiating and collecting amounts due from borrowers of Te Tua. As at 31 May 2011 we had collected $2,384,235 in loan repayments since our appointment on 20 June 2010.

We are taking legal action to recover loans where borrowers are either proving difficult to contact or are refusing to make repayments.

Te Tua's assets are summarised in the table below.

Assets as at 31 May 2011

Assets	Book value $	Provision $	Net value $
Loans	22,212,772	(13,409,638)	8,803,134
Properties	480,811	479,189	960,000
Other investments	2,718,918	(2,718,918)	-
Cash on hand	759,804	-	759,804
Total	**26,172,305**	**(15,649,367)**	**10,522,938**

Properties

Since our last report we have received settlement of rental arrears from a Te Tua tenant who had not paid rent in the 12 years prior to our appointment. We will now look to consider a sale of this property, along with two other properties.

We recently sold one property and it is due to settle on 30 June 2011.

Other investments

Other investments comprise debentures in finance companies that are either in receivership or liquidation. There may be very limited returns on these investments over time, therefore we have fully provided for their loss.

Te Tua's loans have been categorised as shown by the following table as at 31 May 2011.

Loan repayments

Loan provisioning as at 31 May 2011

Category of loans	Loan$	Provision $	Net loan $
Current and paying	5,952,713	(1,190,543)	4,762,170
Current and paying, but a low repayment	6,108,632	(3,054,316)	3,054,316
Death of a spouse	101,912	-	101,912
Not yet due for repayment	1,928,926	(964,463)	964,463
Subject to recovery action	280,000	(224,000)	56,000
Non-performing loans under investigation	5,813,444	(5,813,444)	-
Likely to write off	2,162,872	(2,162,872)	-
Less credits	(135,727)	-	(135,727)
Total	**22,212,772**	**(13,409,638)**	**8,803,134**

Current and paying

Currently 29 loans are up to date and the borrowers are making regular repayments.

Current and paying, but a low repayment

There are six loans in this category. Repayments are being made but they are at such a low level that these loans will take a significant amount of time to repay. We are negotiating increased payments where possible.

Death of spouse

One loan is not repayable until the death of the spouse of the borrower. Te Tua has full mortgage security, but there is obviously no certainty as to when repayment will be received.

Not due for repayment yet

We have six loans in this category, including one loan which is paid on an annual basis. We have recently received the 2011 annual payment. Three other borrowers have two or more loans with Te Tua, these borrowers are currently making repayments on one of their other loans. Repayments will then go against the loans in this category once the initial loan is repaid.

The remaining 2 loans are not due to start repayments until later in 2011.

Non-performing loans under investigation

There are 24 loans in this category.

Some borrowers have advised us that they are looking at selling property to meet their obligations to Te Tua. However, as Te Tua is generally an unsecured lender, the range of recovery options available to us is limited. We have placed caveats over properties where possible.

Likely to write off

There are nine loans in this category. We have obtained financial information from a number of these borrowers. Based on our review we do not expect to make any recoveries on these loans generally because Te Tua is an unsecured creditor and we understand that even secured creditors of these borrowers are not likely to receive their full amount due.

Cash on hand

Te Tua's bank account as at 31 May 2011 was $759,804.

Receipts and payments as at 31 May 2011

	$
Opening bank balance (31 January 2011)	1,133,346
Add: Receipts	932,447
Less: Payments	(1,305,989)
Closing bank balance (31 May 2011)	**759,804**

Receipts during this period include repayments of loans and $180,000 received for rent in arrears for the property mentioned above.

Costs

The total costs of administration of Te Tua to the end of May 2011 is $489,195 GST inclusive, as shown in the following table.

	Total since appointment
Grant Thornton fees and disbursements	416,044
Disbursements	13,116
GST	60,035
Total	**489,915**

Other matters

Taxation statements

A number of investors have requested their annual taxation statements. Aorangi investors received no interest returns for the year ended 31 March 2011 so there are no returns to be included in tax returns.

Investor liaison

The Grant Thornton website at www.grantthornton.co.nz provides answers to frequently asked questions. This web page also has copies of our past reports.

Next report on Aorangi

We expect to provide you with a further report at the end of September 2011.

Disclaimer

The statements and opinions expressed in this report have been made in good faith, and on the basis that all information that we have relied upon is true and accurate in all material respects. In preparing this report we have relied upon, and have not necessarily independently verified, the information and explanations provided to us and we express no opinion as to the accuracy or completeness of that information, other than to note that our investigations are ongoing.

The contents of this report are based on the information available to us at the time we compiled the report. If we become aware of any additional information not known to us at the time we compiled this report, we reserve the right, but shall not be obliged, to review or update this report.