



Grant Thornton

Fifth Statutory Managers' Report

Aorangi Securities Limited, Hubbard Management Funds, Hubbard Churcher Trust Management Limited, Forresters Nominee Company Limited, Mr AJ and Mrs MJ Hubbard and Associated Charitable Trusts.

25 November 2010

Introduction

History

On 20 June 2010, Richard Grant Simpson and Trevor Francis Thornton were appointed statutory managers of Aorangi Securities Limited (“Aorangi”), Hubbard Management Funds (“HMF”), a number of charitable trusts and Mr Allan and Mrs Margaret (Jean) Hubbard personally. Graeme Carson McGlenn was appointed as an additional statutory manager on 13 September 2010.

On 13 September 2010 the Barns Charitable Trust and the Temple Bar Family Trust were placed into statutory management. On 20 September 2010 Hubbard Churcher Trust Management Limited (“HCTML”) and Forresters Nominee Company Limited (“Forresters”) were placed into statutory management.

Purpose of this report

This fifth report has been prepared to provide an update for investors on the status of their investments in Aorangi and Hubbard Management Funds (“HMF”). Copies of our previous reports are available on our website www.granthornton.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.

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

References

In this report, we refer to a number of entities. Aorangi received money from investors and has apparently applied the money to a combination of independent parties and entities associated with Mr and Mrs Hubbard. A number of charitable trusts (the Otupua Charitable Trust, Oxford Charitable Trust, Regent Charitable Trust, Morgan Charitable Trust, Benmore Charitable Trust, Wai-iti Charitable Trust, Barns Charitable Trust and a family trust called Temple Bar Family Trust (together referred to collectively in this report as “the Charitable Trusts”), now under our management, have or have purported to have taken ownership of some assets associated with Mr and Mrs Hubbard and Aorangi. One charitable trust, Te Tua Charitable Trust (“Te Tua”) has provided interest free loans to a range of business people. Mr Hubbard has pledged approximately \$25 million of Te Tua assets to Aorangi. HMF is an investment management business operated by Mr Hubbard. HCTML holds the majority of the investment assets of HMF as a bare trustee. Forresters operates the bank account associated with HMF.

Report summary

Aorangi Securities

Our focus over the last month has been the on-going analysis of the Aorangi business, which we have divided into three categories.

- Category One includes 31 mortgage loans with a value at August 2010 of \$59 million.
- Category Two includes 15 direct investments by Aorangi valued at \$47 million. These are made up of 12 farm loans, two commercial property investments and \$10 million in Southbury Group Limited which is unlikely to be recovered because of its receivership.
- Category Three is a loan to Te Tua Charitable Trust of approximately \$24 million.

Aorangi's ability to recover full repayment or realisation of investments is significantly reduced because of the level of overall indebtedness of the entity. Only one in five borrowers is paying any interest on their loans to Aorangi.

Much work is also being carried out in reviewing the financial performance of these assets, looking at ways we can enhance performance while also addressing a long-term strategy to cash-up some of these investments, when appropriate.

Slow interest payments by Aorangi borrowers are still a major concern. The September cash collection is still \$2 million less than what would be expected from a \$130 million fund with little improvement in the collection of \$3 million of arrears since our last report.

However, with dairy cash flow expected to be stronger over the next six months, we anticipate some arrears to be paid over this period.

Hubbard Management Funds

The fund has performed well in October and now stands at about \$56 million. Because of the nature of the fund it experiences substantial volatility in value, sometimes as much as \$1 million a day. Our focus has been to maintain the fund and maximise the position of investors. There are a number of HMF investments that will require particular focus over the next few weeks and we are engaging with our independent advisers to achieve the best possible outcomes.

Our other key focus has been to progress Court proceedings to enable the fair allocation of the fund between investors and the subsequent distribution of assets to the investors. We expect to file these applications with the Court by 31 March 2011. The Court hearing and submission processes could

take several months after this. We are also seeking court direction relating to the management of the fund, which will be filed shortly.

Te Tua Charitable Trust

Work continues on realising the assets of the trust for the benefit of Aorangi investors. The key issues are set out in our previous reports and we continue to work our way through these issues.

Other matters

Copies of past reports and a range of frequently asked questions are available on our website.

Our next report will be issued by the end of February 2011.

Aorangi Securities Limited

Loans and investments

We are continuing our investigation into Aorangi's loans and investments and looking at the best ways to maximise returns on these.

This process continues to be hampered by a lack of information including missing or non-existent loan documentation and limited or no recent financial information from Aorangi's borrowers. Additionally, various parties are claiming that subsequent deals have been agreed with Mr Hubbard but were never documented. We are endeavouring to clarify these. In many cases the analysis undertaken prior to advancing these loans has not met a standard that we would expect for loans or investments of this nature.

We have further analysed the current Aorangi loans and investments as follows:

Category One

31 mortgage loans totalling approximately \$59 million as at August 2010. These loans are either unsecured or secured with registered or unregistered mortgages over various properties or other assets.

Category Two

15 direct investments by Aorangi valued at \$47 million. These loans are secured either by registered or unregistered mortgages over equity interests (shares) in the name of Mr Hubbard or a related entity to Mr Hubbard summarised as follows:

- 12 farm investments
- 2 commercial property investments
- Southbury

The Southbury investment is \$10 million. With this company having recently been placed in receivership it is unlikely any of this related party loan will be recovered.

Category Three

Te Tua with a total loan amount of approximately \$24 million.

Where Aorangi's security is subject to various prior securities, or is unregistered or is secured over shares, we consider that it will be difficult for Aorangi to recover full book value on its loans as Aorangi may effectively be in a position where its security (if any) is of little value. The amount recovered will obviously vary significantly depending on each situation.

Following our initial investigation we have found that the debt levels on many of the loans secured by first and second mortgages are excessive and likely to result in a significant reduction in the recoverability of these loans. At present only one in five (20%) of the loans is paying the full interest. In some instances, other secured lenders are taking steps to recover their loans under their security. Where the loans are not performing and the debt position is unsustainable, we are exploring all our options to cash up the investment without resorting to a fire sale process.

We are reviewing the financial performance of the underlying assets. Many of the assets are not providing a reasonable return. In the case of many dairy farms, these are recent conversions with improving productivity levels. In a number of cases additional capital expenditure is required to maximise production. We are working with the stakeholders to monitor performance and profitability.

Where additional investment is required we are working with lenders and stakeholders to determine how additional capital can be provided and, in some instances, are in discussions with other investors who may be willing to take over the investments and provide additional capital and/or management capability as required.

Where the investments do have an equity position, the existence of pre-emptive rights and other obligations affect both the way we can sell the shareholding and the timeframe in which we can achieve it.

Mr Hubbard has set out a recommended realisation timeframe for the investments over 3-4 years. We are conscious of the potentially negative impact of a large number of farming interests coming on to the market at once. As part of this process, we have commissioned independent valuations of the major underlying assets that will assist when assessing any offers made.

We are working with the other stakeholders in the businesses to find the best solution to realise the investments, particularly where those investments pertain to significant stakes in farms. Where the farms are performing well we have indicated that we are prepared to work with the other stakeholders over the medium term and are in no hurry to realise the investment.

We have been approached by a number of groups and individuals interested in acquiring interests in one or often several farms. We have also had discussions with agents and other intermediaries and advisers and will continue to work with the particular circumstances of each investment to determine the most appropriate strategy.

Borrowers' payments

Borrowers pay interest each quarter, the next due by 31 December 2010. Payment requests will be sent mid-December 2010.

To date, the September quarter cash collection is still more than \$2 million less than what a portfolio of \$130 million would receive in order to return 10% interest and profit share.

Borrowers' payments

For the quarter to 30 September 2010

	Asset values	Borrowers' payments
	NZD	NZD
Mortgages	47,000,000	425,000
Equity investments	59,000,000	77,000
Te Tua Charitable Trust	24,000,000	600,000
Total as at 31 October 2010	130,000,000	1,102,000

There has also been little improvement in the collection of arrears since our last report. The estimated arrears of \$3 million continue to be of concern and an ongoing focus of our administration. Dairy cash flow is expected to be stronger over the next six months so we anticipate some arrears to be paid during this period. We also continue to find a number of past errors in the records. The most recent error found resulted in a substantial overcharge of interest arising from a combination of wrong interest rates and amounts.

Investigation work continues into the \$12.5 million transfers proposed by Mr Hubbard post statutory management. We have met with Mr Hubbard and agreed that \$6 million is not part of Aorangi and to allow it would diminish the returns to investors. The \$6 million was transferred in December 2009 to one of the entities recently placed into receivership. The remaining \$6.5 million is being investigated to ascertain if the documentation supporting the transaction represents the position as described to us. Our concern is that an investor will obtain a preference at the expense of other investors.

The Te Tua Trust

Work continues on realising the assets of the trust for the benefit of Aorangi investors. The key issues are set out in our previous reports and we continue to work our way through these issues.

Transfer to charitable trusts

Meetings have commenced with farming shareholders to discuss the process of “annulling” these transfers.

This process has been agreed with Mr Hubbard and now each equity shareholder needs to be advised of the reasons and procedures of annulment. Following this, the tax consequences will be dealt with. Securing the interests of Aorangi investors in these farm entities is running contemporaneously with the annulment process.

Capital repayment

The first payment to investors was made at the end of October 2010. Investors who were late in providing their banking information were paid mid-November. We continue to work with the small number of investors who have yet to provide their banking details.

While it is our desire to make a further distribution by mid-2011, this will depend on the outcome of negotiations with borrowers.

Some Aorangi investors have been receiving weekly payments supporting their living requirements. These weekly payment arrangements can now be terminated as their circumstances have been remedied. Letters have been sent accordingly.

Hubbard Management Funds (“HMF”)

During the period since our last report our work relating to HMF has focused on the ongoing management of HMF for the benefit of the investors and progressing matters toward the distribution of the assets. The key matters that we are addressing were outlined in detail in our fourth report issued in October 2010 which is available on our website. We refer investors to this report for a detailed analysis of the key issues.

During November 2010 we have:

- continued to monitor and research the underlying holdings of HMF
- continued to use the positive market movements to make relatively small levels of sales to allow the fund to reach an appropriate level of cash to meet the investment commitments of HMF
- made all outstanding payments to various venture capital funds where HMF was in default of its obligations
- in conjunction with our independent advisers, undertaken in-depth research on the significant assets that the fund holds to allow us to make the best decisions to preserve and enhance its value. This work is ongoing
- tidied the administrative issues we have found with the portfolio. This has included moving holdings that were not in the correct entity, reviewing matters relating to dividend payments and subsequent reinvestment following independent advice. Finally, we have combined multiple holdings to improve administration as part of the routine maintenance of the portfolio
- continued to research and clear investor queries
- continued work on fund reconciliations required as part of determining possible options of fairly allocating HMF between the investors
- preparatory work ahead of seeking Court directions
- continued liaising with our legal advisers to progress the various court orders that will be required to allow us to effectively manage and distribute the fund. The options for distribution were outlined in our previous report.

Recently there have been some significant announcements relating to the capital structure of some of the larger investments. We will carefully consider the implications of these announcements to ensure that we maximise the position of HMF, including meeting with the companies, their advisers and Mr Hubbard.

Portfolio valuation

The fund has performed well over the month of October 2010 with a portfolio valuation at 31 October 2010 of approximately \$56 million after allowing for possible claims under prior charges over certain investments. The nature of the portfolio has led to significant fluctuations in value. Some of the movements in value have been over \$1 million in a single day. This volatility arises from the nature of the investments and the risks associated with the investments. The volatility of the New Zealand dollar against other key currencies and the current volatility of precious metals are also key factors. We will, over time, work to reduce this instability but not at the expense of the overall value of HMF. Because of this volatility we need to have sound independent analysis of the investments and to take a longer term view of returns rather than focusing on short term movements.

Progress towards distribution of HMF

This has been a key focus over the last month. Our legal team has been preparing for the court applications.

The first of the applications will be to assist us with the administration of the fund. This will deal with clarification on various portfolio management matters to allow us to proactively manage the portfolio, provide clarification on the fees charged, and set up the processes for the important substantive hearings relating to the allocation of the fund between investors and the mechanics of the subsequent distribution to investors.

The key part of the first order will be the parameters for the ongoing management of the fund. We will request Court confirmation for us to manage and maintain the portfolio and to make new investments to protect and enhance the investor's position pending the final determinations by the Court in the main applications. The other orders are aimed at ultimately assisting us with the speedy distribution of funds. We expect to file the papers for this first order by the end of this month.

The second application will be the important part of the process which will need formal notice to each investor to allow them to consider the impact and make submissions. It is realistic to expect, based on our current understanding, that the second batch of applications will be filed with the Court by 31 March 2011. The Court hearing and submission processes could take several months after this.

This order will determine the entitlement of investors to the assets of the fund, and will determine how we distribute those assets to the investors. We detailed the key issues in our fourth report which is available on our website or on request from our office.

Other matters

Investor liaison

A web page on the Grant Thornton website www.grantthornton.co.nz to answer frequently asked questions has been established. This web page also has copies of our past reports.

Next report on Aorangi and HMF

We expect to provide you with a further report by the end of February 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.



Grant Thornton New Zealand Ltd is a member firm within Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms.