

Seventh Statutory Managers' Report

Hubbard Churcher Trust Management Limited and Forresters Nominee Company Limited (collectively known as Hubbard Management Funds).

29 June 2011

Introduction

History

On 20 June 2010, Richard Simpson and Trevor Thornton were appointed statutory managers of Aorangi Securities Limited (“Aorangi”), a number of charitable trusts and Mr Allan and Mrs Margaret (Jean) Hubbard personally. Graeme 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.

HTML holds the majority of the assets of, and Forresters operates the bank account for an investment management business operated by Mr Hubbard known as Hubbard Management Funds (“HMF”).

Purpose of this report

This seventh report has been prepared to provide an update for investors on the status of their investments in HMF. A separate report will be issued to the investors of Aorangi. Copies of our previous reports are available on our website www.grantthornton.co.nz along with 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 investors in HMF, resolve the difficulties that have been encountered and preserve, as far as possible, the business interests and investments of HMF and Mr & Mrs Hubbard.

Report summary

Hubbard Management Funds history

The background of HMF has been set out in our previous reports which are available on our website, www.grantthornton.co.nz or on request from our offices.

HMF valuation

Our estimate of the HMF valuation at the end of May 2011 is slightly ahead of the estimated valuation at 20 June 2010, being the date of statutory management. The HMF investment portfolio contains shares and investments and, as a result, its value has fluctuated significantly since our appointment. The portfolio value is also subject to movements in the exchange rate.

Ongoing management

Since being appointed, we have actively managed the investments including the sale of some shares before expected large price falls affected their value. We were also contractually obliged under the terms of contracts entered into prior to our appointment, to make further investments for HMF which were funded by these sales. We have since commenced repurchase of investments in line with the mandate that we received from the Court in late 2010. This mandate allows us to provide support to existing investments and to make new investments that are of a “blue chip” nature. The Court directions also require us to maintain our cash holdings at trading banks and cash funds are held at the Bank of New Zealand.

Distribution of HMF

We continue to work towards the Court hearing which will ultimately allow the distribution of HMF to investors.

As previously reported, the reconciliation as at 31 March 2010 shows that there were insufficient assets to provide investors with the investments noted on the statements investors had been provided by Mr Hubbard. There were many issues identified. Once all adjustments and corrections were processed, the shortfall of assets held compared with total assets represented on the investor statements was estimated at about \$31 million.

We will be asking the Court for directions on how to allocate the shortfall between investors to provide certainty for all investors in the final allocation of assets. We still expect to file the papers with the Court by 30 September 2011. The Court will then schedule a hearing date however we do not expect this to be until 2012. All investors will be notified once the papers are filed to allow each investor time to consider the proposal. Independent counsel will be appointed to represent the investors' interests.

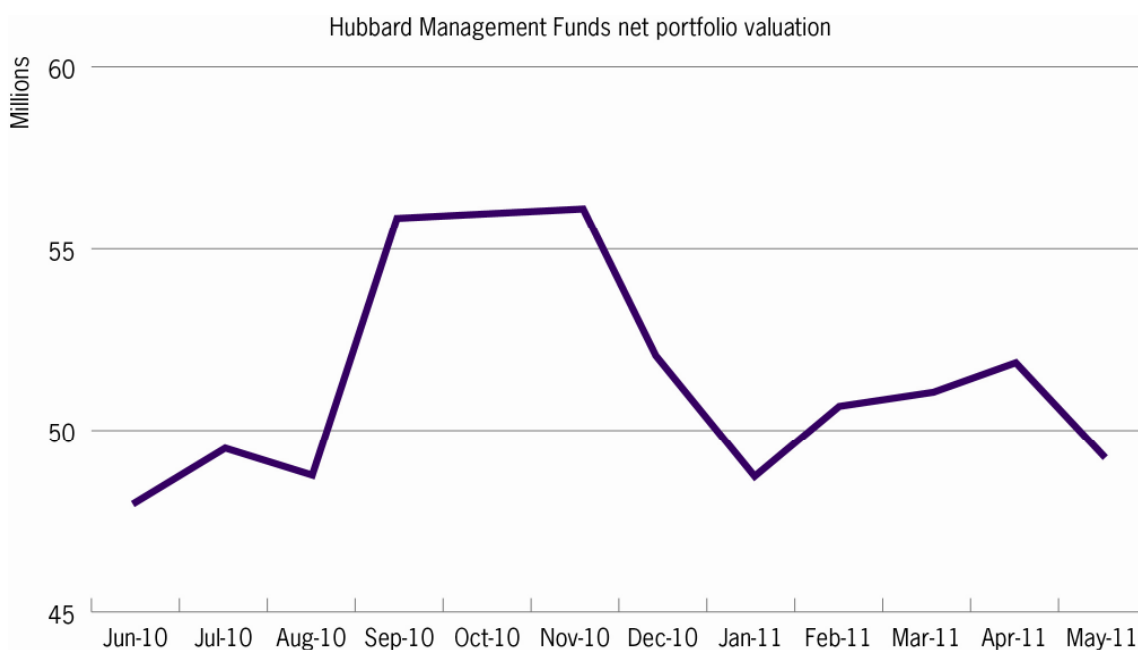
Other matters

Our next report will be issued at the end of September 2011.

HMF valuations and management

The HMF valuation

As at 31 May 2011 the HMF value was \$49.3 million after adjustments for assets subject to third party claims. The graph below sets out the movements in the HMF value in the period from our appointment on 20 June 2010 through to 31 May 2011. (We note that we do not have accurate valuations for July and August 2010 so the graph reflects the trend in the period.)



In the last quarter the value of HMF has overall remained reasonably stable but the gains in March and April have been countered by a number of factors including a reduction in value of investments in Olympus Pacific and Scales Corporation (to the value accepted by the South Canterbury Finance receivers for 80% of the company) and the impact of the conversion rate between the New Zealand and Australian dollar. Additionally, our research and visits to certain unlisted entities have resulted in us reducing one valuation by over \$1 million.

On the positive side, early indications are that the venture capital and private equity funds have generally had a good financial year with improved valuations. Mainfreight and Ryman Holdings have also performed well over the period.

As noted in past reports, the cash generated from share sales has been used to fund contractual commitments made by Mr Hubbard to provide additional cash for some HMF investments, for example into some good quality private equity and venture capital funds. The nature of these funds

is discussed further below. Since our last report, HMF has invested about \$1.5 million into good quality securities, following much research and many discussions with our advisers. This balances sales of shares in the period of over \$1.4 million as we actively manage the portfolio and progressively reorganise the investment holdings to reduce volatility. This will take time as any large rapid changes caused by the sale of large numbers of shares by HMF will impact adversely on the portfolio values given the limited liquidity of many of the shares held by HMF.

Shares subject to claims by third parties

As part of our work we have established that certain shares may be subject to claims by third parties, in competition with HMF investors. We have not included these shares as part of the portfolio value until we have resolved the issues associated with the claims and can establish whether or not the HMF investors can receive the benefit of those shares. Some of the shares subject to claim have been pledged as security to financiers for borrowings made by Mr Hubbard or businesses related to him.

Over the last period we have achieved the transfer of a 7% stake in Smartpay from Southbury Group Limited (in Receivership) back to HMF. Additionally, we have transferred a number of holdings in Mercer Group Limited from outside related parties back to HMF.

Ongoing management of the fund

We are monitoring the fund on a daily basis in conjunction with our advisers with the aim of maximising value for the investors. These processes include:

- Regular liaison with share registrars, both nationally and internationally, to update and correct records;
- Consolidation of multiple holdings in companies to simplify administration;
- Daily review of the portfolio and trading conditions to ensure any sales and purchases add value to the investors;
- Regular reviews of key holdings including contact with the various companies to ensure that we have a full understanding of each company's current trading prospects including visits to the companies to meet with senior management and directors and attendance at investor briefings and shareholder meetings;
- Management of the cash holdings of HMF and monitoring of interest rates received;
- Ongoing maintenance of the accounting records;
- Preparation of monthly fund valuations and quarterly reports to investors.

Investors' tax statements

Some investors have asked if we will produce individual investor statements as Mr Hubbard has done in the past. As noted in previous reports it appears the statements issued to investors have contained errors with, potentially, a \$31 million dollar shortfall of assets when compared with all investor statements as at 31 March 2010.

We will not be in a position to advise each investor of their tax position regarding the fund until we have directions from the Court as to the portion of HMF's assets each investor is entitled to. This may impact investors in different ways depending on their personal circumstances. Investors should consult their own Chartered Accountant or tax adviser as to how this situation may impact on their tax affairs. The statutory managers are unable to provide any investors with tax advice in this matter.

Private equity funds

Investors have asked us to provide further information on what private equity funds are and how they work.

Private equity funds are aimed at high net worth individuals, superannuation funds, and other long term investors, collectively known as the Limited Partners. A limited partnership contract is entered into for an investor to provide a certain level of funding over an extended period to a fund manager often known as the General Partner. The General Partner then looks for substantial investments into companies and ventures that they consider are likely to provide superior returns to investors over the longer term. Investments are only made following a detailed analysis of many investment options.

The term of the fund is usually five to ten years from inception and will cover a number of investments across several industries to spread the risk. Investments are identified progressively over a three to five year period by the General Partner and calls on the committed capital promised by each Limited Partner are made as and when needed. The Limited Partners must meet the terms of the contract to provide funding or they forfeit all the investments they have previously made. The Limited Partners do not vote or have any say on the investments as the selection of investments is exclusively the responsibility of the General Partner.

The General Partner, following an investment, is actively involved in the governance of the investment in order to add value to the investment. Once the investment matures, the General Partner looks for an exit strategy to realise the gains for the Limited Partners. It usually takes many years for the investments to get to a point where they can be realised, sometimes by a public float or sale to a major competitor.

The nature of these investments is that they are long term, can not be realised quickly, and require funding for a number of years while the investments are being made. The HMF private equity investments are performing well but we have in excess of \$5 million of further commitments and it could be another five to ten years before they can be realised as some are still reasonably early in the investment phase.

It is therefore critical that HMF has sufficient cash to meet its commitments to these funds, and that the distribution process approved by the Court factors in the long life span of these investments.

Rectification work being undertaken

In previous reports we have commented on the quality of the HMF records. Much of our work on HMF is in attempting to obtain further records to allow us to fully understand HMF position over the last few years. We need to do this work to allow us to file the necessary documents with the Court so that the Court can fully understand HMF before it issues directions on how to allocate the proceeds of HMF back to the investors. We understand that this allocation (in whatever way the court orders) is the single most important matter for investors.

The very extensive rectification work undertaken has included:

- Creating and ordering documentation files. In many cases this involves extensive searching and contacting third parties;
- Undertaking full reconciliations, verification of the existence of HMF assets, valuations of those assets at each of the last four financial years prior to our appointment. From this process we have identified additional assets that will be available to investors not included in the records;
- Undertaking reconciliations of bank accounts and accounts with related parties, such as Aorangi Securities Limited, to confirm balances. We have found that the Aorangi balance was not agreed for the 2009 and 2010 financial years;
- Verification of transactions in ledgers where investors, or their advisers, have raised questions and making adjustments where needed;
- Separation of investments from other entities and verification of ownership by HMF. Many HMF assets were owned outside HCTML or FNCL. It has been time-consuming to get assets back under the control of HMF from many entities, some of which are in receivership. Additionally, assets belonging to third parties were held by HCTML and FNCL creating confusion as to ownership. For example, besides holding investments for HMF, HCTML is the independent trustee for over 225 family trusts with share market and other investments and we have had to ascertain whether or not any of these investments belong to HMF.
- Defending actions from various financiers with security claims over HMF's assets for advances made to entities related to Mr Hubbard. The assets that are currently at risk total over \$2.3 million.

Other funds of a similar size utilise appropriate accounting and management systems that ensures that all the reconciliations and controls are in place with regular (and often daily) balancing.

The rectification and reconstruction work has been time consuming and has contributed significantly to the delays in filing with the Court.

It is important to note that in the past Mr Hubbard would normally have charged a management fee during the last quarter of each calendar year of between 1% and 1.5% of the total funds recorded on each investor's statement as at 31 March that year. This management fee would have been between \$800,000 and \$1.25 million per annum based on the total of investor statements as at 31 March 2010.

The statutory managers will not charge a separate management fee to individual investors. Our fees have been charged to HMF rather than individual investors. We will ask the Court to determine the allocation of our costs. .

Progress towards distribution of HMF

As discussed, we continue to work on the second application to the High Court. This order will determine the entitlement of investors to the assets of HMF, and 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. An important part of the process will be to provide formal notice to each investor of the proposal, to allow them to consider the impact the proposed approach will have on them and to give them the opportunity to be heard by the Court, should they choose.

We have had to take this action due to insufficient shares and cash available to provide investors with the investments that were represented as held on their 31 March 2010 statements. We need assistance from the Court to determine what individual investors will receive, given the significant difference. At this time it is not possible to either pay investors the face value of their investment (as reported on their statements) or to transfer investments on their statements to them.

Ongoing research

We have continued to conduct ongoing research and investigations since the last report. This research has identified further issues that will need to be taken into account in the distribution process.

Our recent focus has been to establish when the issues identified commenced. Since the last report we have been working on reconciliations for the 31 March 2007, 2008 and 2009 years. Although work on these is not yet fully completed, we are seeing similar issues to those noted in the 2010 reconciliation.

We have been able to complete our work on the cash elements of the portfolio and have continued to find a shortfall in the amount of cash held in prior years. Our assessment of the shortfall in the cash position for 31 March 2010 has altered since our last report due to the finalisation of our investigation to a number of transactions. As a result, the total of cash holdings noted on investor statements has increased by \$6.5 million.

The reconciliation of cash reported to investors with the actual position for the 31 March 2007 to 2010 years is set out below.

	2007 \$m	2008 \$m	2009 \$m	2010 \$m
Total of cash shown on Investor statements	19.176	24.503	13.485	12.601
Total of cash on bank statements (overdrawn)	(0.311)	(0.337)	(0.191)	0.234
Apparent shortfall of cash holdings	19.487	24.840	13.676	12.367

Filing of the directions application with the Court

In our March 2011 report to investors we indicated that it would be realistic to expect that the next application will be filed with the Court within six months. Despite the significant issues we have found, and the quality of the records, we still expect to file the papers with the Court by the end of September. The Court will then schedule a hearing which is unlikely to be before 2012. We will advise investors when this filing has occurred or if there are any unexpected delays encountered.

Interim distribution

Investors have asked us whether we could make an interim distribution. Although we wish to distribute HMF as soon as possible, a basis for the distribution needs to be determined by the Court. Should we make an interim distribution prior to receiving directions from the Court, we are likely to find that the allocation is not in accordance with the methodology the Court finally directs. This would cause problems and further hardship if we have to subsequently reclaim part of the interim distribution from investors.

Investors should note that cases of genuine hardship are able to be assisted via our existing distressed investor fund as set out in previous reports.

Suggestion received for realisation

A number of investors including members of the Investment Liaison Group established by the Statutory Managers 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 separate administrations and the uncertain financial position of the Hubbards (there are a number of large unresolved claims on the Hubbard's assets) and separate creditors require that the interests of all parties 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.

Costs

In our previous Statutory Managers' reports we noted our costs and those of the advisers supporting us. An analysis of our total costs charged is:

	Total since appointment \$
Grant Thornton fees and disbursements	888,709
Legal fees charged to Grant Thornton	634,023
Other third party disbursements	125,987
GST	233,897
Total	1,882,616

Oversight

Two independent reviews into the Statutory Management process of HMF 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 HMF should be released from Statutory Management. We understand the committee is due to report to the Ministry at the end of June 2011.

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.

Other matters

Investor liaison

We wish to remind investors that we have set up a web page on the Grant Thornton website www.grantthornton.co.nz to answer frequently asked questions. These are updated every month or so as we receive questions from investors. This web page also has copies of our past reports for your reference.

Next report on HMF

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.



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