

Third 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.

30 September 2010

Introduction

History

On 20 June 2010, Richard Grant Simpson and Trevor Francis 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 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 third report has been prepared to provide and update investors on the status of their investments in Aorangi and Hubbard Management Funds ("HMF").

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, the Te Tua Charitable Trust ("Te Tua"), owes money to Aorangi and has provided interest free loans to a range of business people.

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. Placing these two companies into statutory management provides us with control of the assets of HMF and will allow us to manage and eventually sell the assets for the benefit of the investors.

Aorangi Securities Limited

In the three months since we were appointed we have reviewed the Aorangi loan and investment portfolios.

Aorangi loans

We have previously reported on the value of Aorangi loans. Our investigations have noted a number of adjustments to loans prior to Statutory Management and these are being investigated. These adjustments, which reduce loan balances, total \$7,000,000. Investigations are ongoing and are being addressed with the borrowers and Mr Hubbard.

In the past month borrowers and investment partners have been asked to confirm their loan balances and the prospects of Aorangi receiving payments to fund interest which is due to Aorangi on 30 September 2010. Any payments received by Aorangi are intended to be used to make a capital repayment to investors in October 2010. At the time of this report, full details of payments are not yet known. However, it is pleasing to note that Te Tua will be able to make a payment of at least \$600,000 to Aorangi. Further details on the Te Tua position are set out separately in this report.

Investors have been written to requesting details of their bank accounts, so electronic repayments can be made.

Southbury Group Limited

We previously reported that Aorangi had an advance to Southbury Group Limited ("Southbury") of \$10 million. Southbury's principal asset appears to be its interest in South Canterbury Finance Limited. Since our last report South Canterbury Finance has been placed in receivership. This has the unfortunate consequence that Aorangi's investment in Southbury Group is, in our opinion, unlikely to be recovered.

Farm Investments

More complex is the relationship of Aorangi, the Charitable Trusts and Mr Hubbard. Many of the farming businesses recorded in the books of Aorangi understand that the investment in their business is through Mr Hubbard personally. However, with the purported transfer of these assets (held by Mr Hubbard on behalf of Aorangi) to the Charitable Trusts earlier in the year, the arrangement is not straightforward. These farming businesses have been asked to provide a distribution of profits to be applied for the benefit of Aorangi. With Mr Hubbard in Statutory Management, legal advice is being taken on how the Aorangi investors can access these profit distributions.

Assets valuation process

In our last report we advised that the market value of each property asset would be independently appraised. We have now received a draft report covering all properties in which Aorangi has an interest. We expect the draft report to be finalised shortly. The appraisal approach for each property conducted during the month included:

- Appointment of an independent property valuation firm to carry out a desktop appraisal.
- Compiling a schedule of all property assets to be appraised.
- Review of the Certificates of Title including ownership, area, and lease details etc.
- Review resource consents held.
- Review all irrigation water resources held.
- Review land use zoning and planning consents.
- Undertake a desktop assessment of the productive capacity and/or income earning capacity.
- Review comparable transactions of similar properties and establish value benchmarks that can be applied to the identified properties.
- Undertake a desktop appraisal.
- A significant amount of base property information was not held therefore detailed property inspections and/or meetings with property owners, managers, and farmers may be required to confirm the desktop appraisals carried out.

The underlying value of the assets appears to have generally moved in line with the decline in the market since previous valuations were undertaken in February 2010. This decline has been well reported in the media over recent weeks and does reduce the value of the investment owned by Aorangi.

Negotiations with borrowers

We have previously reported that a number of the farming businesses invested in are highly geared with substantial borrowings from other lenders who rank ahead of Aorangi and may not be able to make payments to Aorangi. This position continues and a number of negotiations are occurring with those businesses to deal with their issues. On a positive note a number of negotiations are occurring with equity partners in some of the farming businesses with a view to realising the equity interests held for Aorangi. The farm valuation process will support these negotiations.

Investor payments

We hope to make an initial capital repayment of three cents in the dollar of investors' money in Aorangi during October, subject to interest payments being received and other money collected by Aorangi to the end of September 2010. With the assistance of Mr Hubbard, we have identified a number of assets that may be sold in the short to medium term. Should we be able to sell these assets at market value it is anticipated that we could distribute up to a further 20 cents in the dollar to Aorangi investors by the middle of 2011. We emphasise that we will not be undertaking a "fire sale" and will only sell if it is in the best interests of the investors and Aorangi.

As noted earlier, we have had initial draft valuation reports on the assets that Aorangi owns or has security over. The specific impact of these valuations on Aorangi is being assessed. Until this assessment is completed we will not be able to provide an assessment of the likely estimated returns to investors.

Subordination of Mr Hubbard's investment in Aorangi

Mr Hubbard has offered to subordinate his own interests and make up any losses to investors. The purported transfer of Mr Hubbard's equity interest in farms to Charitable Trusts, with associated loans and securities being granted in favour of Aorangi, needs to be unwound. Mr Hubbard has offered to assist us in this process. There is a requirement to investigate the individual circumstances of each equity interest linking it back to the company constitution and the shareholders' rights to ensure that in unwinding the transactions we do not create any additional issues. This is an involved process that will take some time to conclude, but is being expedited by us and our legal advisers in conjunction with Mr Hubbard.

Concluding comments on Aorangi

Our previous report identified a wide range of issues in the Aorangi loan portfolio. The September quarter interest payments and profit distributions due to Aorangi will determine what available funds can be paid to Aorangi investors in October 2010. Those borrowers that are unable to meet their obligations to Aorangi will be contacted to establish the prospects for payment and determine what recovery action is to be taken.

It is clear to us that Aorangi's investment portfolio has a range of issues that will take considerable time to work through. Aorangi investors are aware that their investments, in some cases, rank behind all other creditors of the businesses which Aorangi has invested in. We are entering negotiations with other partners for the sale of Aorangi interests.

The assessment of the Aorangi investment portfolio requires further loan and property value review work. Possible losses from Southbury and Te Tua could total \$25 million. Whether Aorangi investors will recover all their investment will depend on the loan and asset realisation process, and the ultimate level of money Mr Hubbard has in Aorangi. Finalising the distributions could take a number of years.

Te Tua Charitable Trust

Te Tua is a charitable trust that predominately provides interest free loans to farmers and business people starting out their business life. These loans are usually repayable in equal instalments over a five to seven year period, sometimes with initial repayment holidays of up to two years. Mr Hubbard advised us that he introduced approximately \$25 million of Te Tua assets to Aorangi with the purpose of strengthening the Aorangi balance sheet.

We have collected approximately \$660,000 in loan repayments since our appointment on 20 June 2010. Te Tua will therefore be in position to make a payment to Aorangi on 30 September 2010 of at least \$600,000.

We continue to encounter difficulties with the collection of loans and have insufficient records to allow us to contact some borrowers that have been advanced funds by Te Tua. Some borrowers are located overseas. We are proposing to use the services of a private investigator to assist with the tracing of these borrowers.

Four loans have been fully repaid since our appointment and two other loans are expected to settle shortly with full recovery expected.

We have negotiated a loan repayment programme for some non-performing loans, and expect to increase the number of negotiated repayments over the following months. Some loans will not be repaid because the borrower is either in liquidation, or other lenders have already made demands. Te Tua often has no security for its lending leaving it in a compromised position if the borrowers default in their repayments.

We are also encountering difficulties with some loan balances from our earlier loan confirmation mail outs. It is clear that some loans have been incorrectly credited with repayments.

There are other loans where we are dealing with a number of complex issues that relate to advances and agreements with the borrower that we expect will require legal advice or action to resolve. For example, we have found issues where the full loan may not be repaid because of a verbal agreement reached by Mr Hubbard and the borrower.

We are also dealing with issues where funds owed to Te Tua are being withheld as the borrowers have an investment with either HMF or Aorangi and are seeking to set off amounts owing. We continue to work through these issues with the borrowers.

Finally, we have received rent payments for the last two months for a tenanted property owned by Te Tua for which no rent seems to have been paid for the last 12 years. We are currently in discussions with our legal advisers and the tenant concerning the apparent rental arrears.

Conclusion on Te Tua

Te Tua owes approximately \$25 million to Aorangi. Te Tua has made loans, which are often poorly documented. We have assessed that Aorangi will suffer significant losses on its recovery of the Te Tua assets. The work we have done to date confirms that there is little documentation on most loans, with little or no follow up with borrowers who did not meet their obligations. We consider that Te Tua may be able to repay less than 50% of Aorangi's investment.

Hubbard Management Funds (“HMF”)

HMF is an investment management business operated by Mr Hubbard. We have previously reported that there are significant issues arising from the reconciliation of the assets of HMF (securities and cash) as reported in statements to investors and those assets which have been identified by us.

Current work

Since our last report we have continued work on HMF, including:

- further identification and verification of the assets of HMF
- investigation of issues specific to certain HMF investors
- obtaining professional advice in relation to HMF’s investments, including the development of a management and realisation plan for the investments
- progressing investigations into the appropriate method for ultimate distribution of the sale proceeds of HMF assets to investors
- ensuring that we have control of the underlying assets, culminating in the decision to place HCTML and Forresters into statutory management
- undertaking preparatory work for an application to the High Court for directions in relation to HMF
- establishing systems to monitor and provide ongoing asset valuations
- updating the HMF records.

Current position of the HMF investment portfolio

We have a reputable firm of independent investment advisers and share brokers to provide investment advice and assistance in managing the portfolio of HMF. Our key objective in seeking this advice is to review the HMF investment portfolio and protect investors' interests.

HCTML and Forresters hold assets on behalf of HMF and the recent placing of those companies into statutory management greatly assists our ability to control and manage the HMF assets.

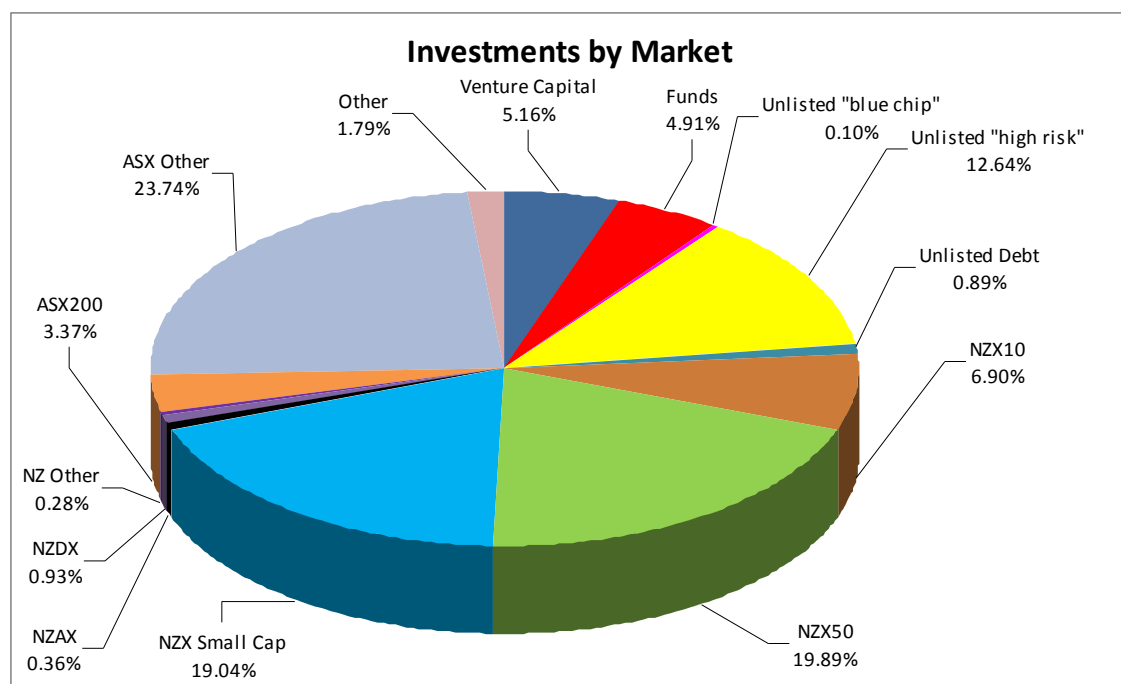
Current investment portfolio

We have had our independent investment advisers prepare an analysis of the current portfolio of HMF.

The main portfolio has performed well since 20 June 2010 being the date of statutory management because of market and foreign exchange rate movements. We have become aware of some additional shares in the portfolio that appear to have been pledged as security to third parties. This will mean that the value of these shares may not be available to investors and we have reduced the portfolio value accordingly. We and our legal advisers, continue to vigorously defend these claims for the benefit of the investors. Unfortunately this possible reduction offsets the gains made elsewhere in the portfolio. The table below sets out our estimated fund value, including all assets and after making certain adjustments.

20 June 2010 (date of statutory management)	\$42,488,000
17 September 2010	\$49,067,000

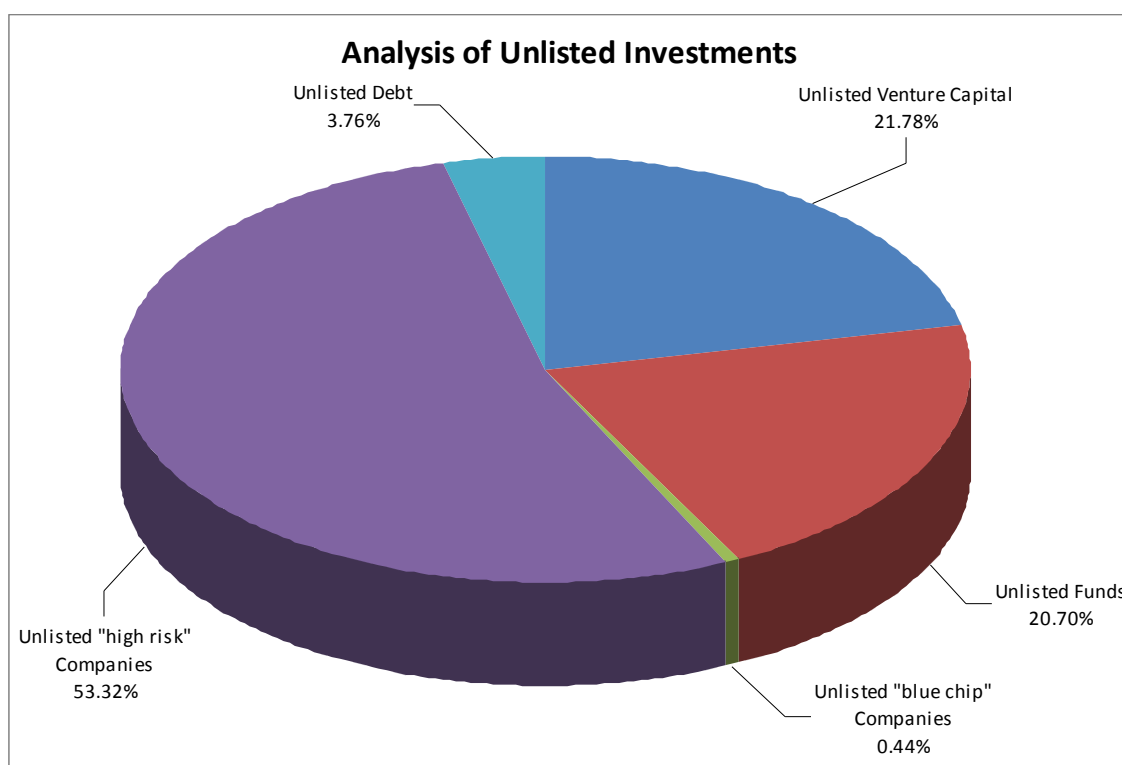
We have been advised that the portfolio appears to have been constructed on a high risk – high return philosophy and until we are able to sell certain investments there is a risk of loss. A description of the current HMF portfolio is set out below.



Presently, 24% of the current portfolio value is invested in unlisted entities (i.e. the entities are not listed on a recognised stock exchange). These investments, by their very nature, generate little or no income. We are advised that some of these investments have little or no current value, while others appear to be reasonable investments but they are not publicly traded and so are not easily sold. Australian-listed investments outside of the ASX200 represent almost 24% of the portfolio, with one higher risk investment making up most of this amount.

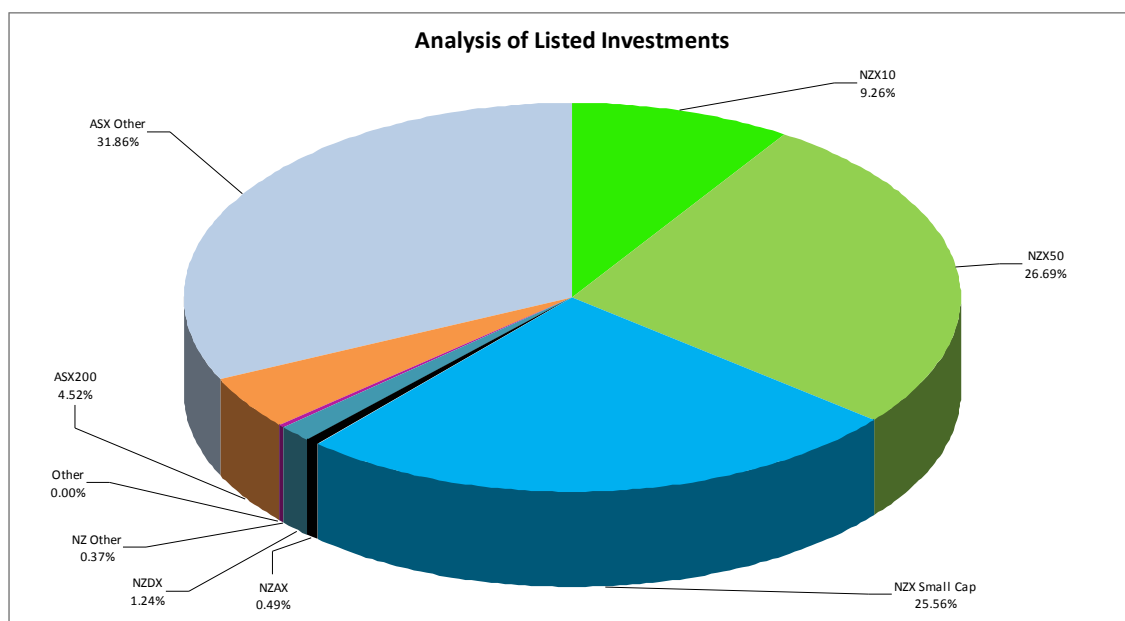
A large percentage of the listed portfolio is made up of smaller listed company investments which may be difficult to sell as there is a limited demand for the shares. This in turn could make it difficult to realise market value. Approximately 32% of the portfolio is invested in resource and exploration companies and due to the nature of these companies the fund will experience a degree of volatility.

The portfolio appears to have a focus towards smaller listed companies in the resource sector. Our investment advisers have advised us that the portfolio appears to have been assembled on an "ad hoc" basis and does not appear to have a pre-determined guidance structure or asset allocation methodology.



The unlisted investments comprise a current estimated market value of \$13.8 million. The portion that our advisers consider high risk contains investments in emerging health care and technology companies where the products marketed are in an early stage of development without wide market acceptance and with a strong likelihood for additional cash from HMF.

The venture capital fund investments have substantial contractual requirements for future funding of over \$8 million from HMF. The prospects for some of these funds appear positive, while others are trading at a discount. The market in the private equity funds can be limited, and in some cases HMF has to sell its interests to existing investors, limiting the number of potential purchasers.



The current relative performance of the Australian dollar compared with the New Zealand dollar has had a positive impact on the overall value of the portfolio since our appointment and accounts for some of the overall improvement.

Related party investments

HMF has invested in a number of companies that are related to Mr Hubbard. The recorded exposures in HMF as at 31 March 2010 and our assessment of likely current realisations are:

	\$
Aorangi Securities Limited	7,892,283
South Canterbury Finance Bonds	90,000
South Canterbury Finance Preference shares	890,000
Southbury Group notes advanced to South Canterbury Finance	500,000
Southbury Group deposits	5,951,317
Southbury Group shares	4,251,500
Total related party investments	19,575,100
Less potential losses	18,500,000
Estimated cash realisations	\$1,075,100

The nature of each of these related party investments is:

Aorangi Securities Limited

The amount HMF has invested in Aorangi as recorded in the ledgers of Aorangi at the date of statutory management is approximately \$472,000. It is our view the additional \$7.42 million recorded in the books of HMF as being invested in Aorangi is unlikely to be recoverable as it does not appear to be supported by actual cash transactions. Given this uncertainty, we are likely to seek

Court directions on this matter as it materially affects the interests of both Aorangi and HMF investors. The repayment of the balance will be dependent on Aorangi's eventual financial position.

South Canterbury Finance Bonds

These bonds were covered by the Government Deposit Guarantee Scheme and we are expecting to receive full payment of these bonds shortly. At March 2010 these bonds were discounted to market value so the full recovery will represent a gain since that date.

South Canterbury Finance Perpetual Preference shares

These shares are not covered by the Government Deposit Guarantee Scheme. These shares are now expected to be worthless following the receivership of South Canterbury Finance Limited.

Southbury Group Limited notes

The Southbury Group notes form part of the preferential creditors of South Canterbury Finance. HMF's investment in Southbury Group notes has been fully repaid as part of the Government Deposit Guarantee Scheme.

Southbury Group Limited deposits

It is our understanding that these deposits rank behind other secured creditors of Southbury and it is unlikely that HMF will get any significant level of repayment. Southbury owes a substantial amount to South Canterbury Finance Limited (in Receivership).

Southbury Group shares

As shareholders in Southbury, in our view, it is very unlikely HMF will receive any return from this investment.

Other assets and liabilities of HMF

HMF has other assets and liabilities outside of its investment portfolio. These assets and liabilities impact on the total assets available and therefore the projected return to investors.

HMF (via the bank account held in the name of Forresters) has current cash holdings of approximately \$2,250,000.

Other matters impacting the valuation of assets available to investors

There are other matters that may impact on the total returns available to investors. Many of these matters are still to be resolved and we are continuing to work them.

Shares in the portfolio that are subject to charges by other parties

During our investigations we have noted that third parties have recorded security interests or charges against some HMF investments to secure liabilities related to Mr and Mrs Hubbard and other entities they are associated with. Should all of these charges prove to be valid, the overall assets available to investors would be reduced by approximately \$7.57 million. For the purposes of this report we have assumed that investors will not get the benefit of these assets. Our legal team is working on these matters to maximise the returns for the investors.

Issues regarding the sale and distribution of HMF assets

Distributions to investors can not occur until we have received Court direction or have found a viable alternative. With our appointment to HCTML and Forresters we can now deal with the investments held by those companies for HMF. We are commencing the sale of the fund assets in preparation for the repayment.

HMF may be a pool

The nature of the fund is not clear. Although investors may consider they had an individualised portfolio, features of the underlying management of HMF suggest investors' funds were pooled with others.

Court direction may be required

We are likely to be seeking the guidance of the Court as to the nature of HMF and the appropriate method for the ultimate distribution of the sale proceeds of HMF assets to investors. This entails a large amount of preparatory and ongoing work by us and our legal team and the subsequent Court process is likely to take some time. The costs of this will be significant and we will attempt to find other options. We will provide investors with information and updates in our future reports on this matter.

Sale strategy

In consultation with our professional investment advisers we have developed initial strategies to ensure that HMF is carefully wound up in a manner which will maximise the returns to investors whilst reducing the risk in the portfolio. The strategy is focussed towards the fund being held in cash to coincide with the likely timing of the court directions regarding distribution.

Concluding comments on HMF

We previously reported that the return to investors will be at least 25% less than the value in the statements prepared by Mr Hubbard as at 31 March 2010. The recent events related to South Canterbury Finance Limited have had a further adverse effect on the fund value. Offsetting this, the remainder of the portfolio has seen a positive performance. We will be undertaking further work to update the fund records during October.

We cannot make any repayments until we obtain Court directions as to the nature of HMF and how it should be distributed. We are considering alternatives that might expedite this process.

Other matters

Emergency fund

We are mindful of the impact the statutory management is having on some distressed investors in Aorangi and HMF and have appointed a highly respected retired banker as an independent administrator, to discuss the needs of those unable to cover urgent living expenses. He will assess the needs of the applicants and make recommendations to us for payments from an emergency fund we have established. Should you need assistance to meet urgent living expenses, or if your circumstances have changed since being assessed previously, please contact our Christchurch office on (03) 379 9580.

Next report on Aorangi and HMF

We expect to provide you with a further report at the end of October 2010.

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 date of this report. If we become aware of any additional information not known to us at the date of this report, we reserve the right, but shall not be obliged to, review or update this report.



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