

Ninth Statutory Managers' Report

Aorangi Securities Limited

30 November 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 ninth 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

The tragic death of Allan Hubbard and the removal from statutory management of Mr and Mrs Hubbard (3 November and 13 respectively) have added another layer of complexity to what has always been a complicated financial situation.

The administration of Mr Hubbard's Estate is complex with many claims on its assets and the value of assets uncertain.

Mr Hubbard may have granted informal guarantees and indemnities but it may not be clear for some time whether these guarantees and indemnities will be called upon or are legally effective.

Mrs Hubbard is managing her creditors through her legal team.

These creditors are banks and other financiers who have security over assets, some of which are part of her and her late husband's pledge to Aorangi.

On behalf of Aorangi, we will shortly commence proceedings seeking orders from the High Court that the introduced or pledged assets were beneficially introduced to Aorangi in mid-2009 and should now be legally transferred to Aorangi.

Status of assets/realisation process

- Realisations are continuing. The sale of a 25% share of a farming business was concluded in October 2011.
- A significant dairy operation in South Otago was placed into receivership in April 2011.
- Two dairy farms in South Otago are subject to a family dispute which has resulted in a caveat being lodged on one of these properties.
- Two property development companies with projects in the Bay of Plenty have been subject to ongoing recovery actions.
- Steps to stabilise the ownership of various farming interests have continued.
- The recapitalisation of a large farming group that was signalled in our seventh report to investors has been completed.

- An agreement to sell a minority stake in one farming enterprise for approximately \$8 million has stalled due to a dispute between the other two shareholders.
- A farm alongside the Valetta irrigation scheme was recently sold at a competitively bid auction.

Total realisations to date are approximately \$34 million, although these in part include realisations of the introduced assets referred to above.

Background

The tragic death of Allan Hubbard and the removal from statutory management of Mr and Mrs Hubbard (3 November and 13 respectively) have added another layer of complexity to what has always been a complicated financial situation.

However, while this has delayed our work in rationalising the affairs of Aorangi in the short term, we believe that over time our ability to continue to work with Mrs Hubbard, now out of statutory management, will assist us with the return of capital to investors.

Unfortunately, in the short-term, we will not be in a position to make a further capital distribution, but we are hopeful that by mid- 2012 we will be in a much better position to do so.

We acknowledge the hardship that some are suffering, but you can be assured we are moving as quickly as possible to both protect and return your investments in Aorangi.

Mr Hubbard's Estate

The administration of Mr Hubbard's Estate is complex with many claims on its assets and the value of assets uncertain. There is a need to establish what assets are owned by the Estate and more importantly what claims may lay against those assets. Mr Hubbard may have granted informal guarantees and indemnities but it may not be clear for some time whether these guarantees and indemnities will be called upon or are legally effective.

Now that the Estate of Allan Hubbard has been released from statutory management, the way is clear for Mrs Hubbard to apply to the Court for power to administer the affairs of the Estate. This will be done with the support of the family's own advisers.

Mrs Hubbard out of statutory management

While Mrs Hubbard was in statutory management she had the protection of a statutory moratorium, which meant that none of her creditors could take action against her to determine or satisfy their claims without our consent or that of the Court. This is no longer the case. She and her advisers were well aware of this consequence in the discussions that were had with them leading up to her release.

Mrs Hubbard is anxious to manage her creditors and, through her legal team, is negotiating a means to do this including negotiations with the Statutory Managers on behalf of Aorangi. Now that she is no longer in statutory management she has the ability to do this. These creditors include banks and other financiers who have security over assets, some of which are part of her and her late husband's pledge to Aorangi.

We continue to work with Mrs Hubbard and her advisers and support her desire to reach a settlement with her creditors and with Aorangi. We have built up a significant knowledge of her assets, liabilities and affairs during the course of her statutory management.

While continuing to negotiate with Mrs Hubbard we are mindful of our aim to maximise the return to Aorangi investors, particularly around the clarification of the ownership of assets that the Hubbards introduced (or pledged) to Aorangi.

High Court action

On behalf of Aorangi, we will shortly commence proceedings seeking orders from the High Court that the introduced or pledged assets were beneficially introduced to Aorangi in mid-2009 and should now be legally transferred to Aorangi. For the most part those assets remain in the names of Mr and Mrs Hubbard. Depending on the outcome of this claim, Aorangi will have an alternative claim against Mrs Hubbard and Mr Hubbard's Estate.

Claims over South Island Farm Holdings Ltd

Proceedings were commenced on behalf of Mrs Hubbard and Mr Hubbard regarding their claim to the South Island Farm Holdings Ltd's assets (21 farms). The claim was filed in the High Court by us shortly before Mrs Hubbard was released from Statutory Management. It involves assets to a value of approximately \$70 million and relates to a purported promise by Mr and Mrs Hubbard in late 2009 whereby those assets were declared to be held on trust for the benefit of South Island Farm Holdings Ltd. Coincidentally, upon the purported vesting of those assets, charges were taken over those assets by South Canterbury Finance Limited now in Receivership. South Island Farm Holdings Ltd and South Canterbury Finance are opposed to the claim and will be defending it.

Status of assets/realisation process

With respect to the collection of various third party loans these actions continue. A significant dairy operation in South Otago was placed into receivership in April 2011. The sale of various stock and plant has been undertaken. The property in question is a leasehold property and the receivers are taking actions to freehold this property. This will allow the subdivision of the property, the potential sale of certain parts of the property and the potential amalgamation with neighbouring properties. In the receivers' view, this will be the best strategy to maximise returns from this asset.

Two dairy farms in South Otago are subject to a family dispute which has resulted in a caveat being lodged on one of these properties. There is a court hearing set down for December 2011 which will determine the validity of this claim. We have previously negotiated a potential settlement arrangement with the farming partners which will result in a significant realisation of funds for Aorangi.

Two property development companies with projects in the Bay of Plenty have been subject to ongoing recovery actions. One of these companies has been placed into liquidation. The assets are of limited value but the liquidator is pursuing the assets and personal loans from the property developer. We have also applied to place the other company into liquidation, but these proceedings are being challenged by the property developer.

The realisation of the remainder of the Aorangi assets and the "introduced assets" is ongoing and we are working with Mrs Hubbard, the Estate of Mr Hubbard and Mrs Hubbard's advisers to manage and maximise these realisations. Steps to stabilise the ownership of various farming interests

have continued. Additional sales of a number of assets have been made and funds from these have been placed in a separate bank account pending a decision on the ultimate ownership position.

The recapitalisation of a large farming group, that was signalled in our seventh report to investors, has been completed. This has resulted in a secured advance being made by an entity related to Aorangi to the farming group. This has enabled the stabilisation of the group and protection of the value of the farming assets. We have until now been involved in the financial and banking arrangements of this group. These are now in a secure position with the cashflow being generated from the farming operations adequate to provide comfort to the major secured lender to the group and Aorangi.

There are a number of shareholding issues that need to be resolved within this group. These relate to verbal and undocumented arrangements that are as yet unsubstantiated.

An agreement to sell a minority stake in one farming enterprise for approximately \$8 million has stalled due to a dispute between the other two shareholders. This has resulted in one shareholder moving to seek dissolution of the partnership to coincide with the end of the financial year for that partnership of 31 May 2012. It is possible that the farms will be sold and the proceeds from the sale distributed to the partners, which include Mrs Hubbard and the Estate of Mr Hubbard.

A farm alongside the Valetta irrigation scheme was recently sold at a competitively bid auction. The proceeds of sale were subject to a purported guarantee provided by Mr Hubbard to South Canterbury Finance who had taken security over the property. We had the security lifted to be able to complete the sale but the proceeds are held in a separate bank account pending determination of the validity of the purported guarantee.

It is likely that the realisation process will be significantly advanced over the next six months and certain sales are likely to be timed to coincide with the end of the dairy season in May or June next year.

Costs

The total costs of the administration of Aorangi including the payment of fees and disbursements to the end of October 2011 were \$3.41 million GST inclusive, as shown in the following table:

	Total since appointment \$
Grant Thornton fees and disbursements	2,151,532.93
Legal costs	659,541.78
Other third party disbursements	168,734.85
GST	429,878.42
Total	3,409,687.98

Distribution to Investors

As reported in our September report the payment of a further 5c was made bringing returns to investors of 12c or close to \$11.5 million.

We continue to provide a wellbeing allowance to investors who qualify for this assistance. A third party assessor makes recommendations to us about who should receive this allowance.

Current receipts and payments/ funds held

Total realisations to date are approximately \$34 million. This is less than the previously estimated \$40 million as an agreement for the realisation of Hubbard interests in a large farm has stalled due to a dispute between non Hubbard shareholders. \$2.5 million was on hand at the start of the administration.

Approximately \$20 million of these realisations are held pending determination of the ownership position. Of this amount, \$10 million has been readvanced as a secured loan leaving cash on hand pertaining to unclear ownership positions of approximately \$10 million. \$11 million has been utilised to pay investors the 12c in the \$1 repayments to date, certain payments have been made to investors facing distress and approximately \$3.41 million has been utilised for the payment of fees and disbursements. An additional approximate \$1 million is on hand. These funds will be retained to cover ongoing costs of the administration pending future realisations.

Of the realisations to date, approximately \$500,000 is interest received since 20 June 2010 on actual third party loans. The loans receivable as at 20 June 2010 were generally non- performing and predominately comprise balances where the loan was in dispute and/or security held (if any) did not support the level of loan advance. From our review it appears that actual third party loans totalled approximately \$40 million in 2007. Investor balances in 2007 were approximately \$135 million. There was a significant balance of cash on hand in 2007. It appears that approximately \$140 million has been utilised to repay investors' principal balances since 2007, and approximately \$95 million of new investor funds have been deposited with Aorangi. In our review, of loans over the last five years, we have ascertained that very little interest was received on actual loan positions.

Te Tua Charitable Trust

Current status

The current status of the loan book is summarised below:

Te Tua Charitable Trust Loan Status			
Loan Status	Amount \$ 31 Oct 11	Amount \$ 30 Sept 11	Amount \$ 31 Aug 11
Current and paying	10,901,376	11,585,654	11,662,572
Not due yet	2,041,327	1,991,228	1,991,228
Recovery action	2,454,599	2,754,599	2,815,925
Legal action	2,613,189	2,613,189	2,541,493
Unable to pay	2,672,853	2,372,853	2,372,853
Less credit balances	(93,310)	(93,310)	(123,227)
	20,590,034	21,224,213	21,260,844
Amounts received from 30 June 2010	4,082,519	3,483,340	3,334,039
Write-offs and adjustments	412,169	377,169	489,839
Balance as at 30 June 2010	25,084,722	25,084,722	25,084,722

Actions taken

We have collected approximately \$4.1 million from Te Tua's Loan book.

In addition, we have sold a property owned by Te Tua for \$315,000. A further property was sold on 8 November 2011 for \$485,000.

We are monitoring all loans and taking action to recover overdue amounts whenever possible. However, many of Te Tua's loans were "last resort" loans and recoveries will take time. The nature of the loans also means that there are likely to be substantial losses to Te Tua.

Other matters

Investor liaison

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

Next report on Aorangi

We expect to provide you with a further report at the end of March 2012.

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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