



Grant Thornton

Thirteenth Statutory Managers' Report

Aorangi Securities Limited

31 January 2013

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 thirteenth 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.

It is important to note that there is a High Court hearing commencing 20 May 2013 at which we will argue the merits of the ownership of the "introduced" assets.

This report is specifically addressed to Aorangi investors. A letter to investors of Hubbard Management Funds (HMF) has been sent informing them that the next formal report of HMF will be mailed by mid February 2013.

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 applied the money to a combination of independent parties and entities associated with the late Mr Hubbard 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.

Background to Aorangi

Overview

No one will dispute that Mr Hubbard was running large and complex businesses, which he had managed for many decades quite successfully. It has become evident that as far back as 2008, Aorangi was starting to show signs of stress.

We are now at the point where we have completed a full overview of the history of Aorangi and of its failure. As this matter is before the Court we are unable to provide investors with much of the detail of our case. However, our legal advisers believe our case is strong. We have provided the High Court with affidavits which outline Aorangi's history and our conclusions, based on the evidence we have found, as to why assets were introduced in 2009 and 2010. The major outstanding issue is to secure the status of introduced assets for Aorangi investors. We have made progress in 'cashing up' many of these investments and await the outcome of the Court hearing.

The ownership of the "introduced assets" is the most important outstanding issue to be resolved in order to return a significant percentage of capital to Aorangi investors

The ownership of these introduced assets is the most substantial issue still to be resolved in order to determine how much of investors' money will be returned to them.

As outlined in earlier reports, during the period from April 2009 to March 2010, Mr and Mrs Hubbard introduced assets into Aorangi. They did so in their personal capacities, as trustees of various trusts and as company shareholders and directors. Those assets were in the form of shares and loans in farm owning companies, partnerships and commercial entities. There are some 34 separate entities involved with the assets having an estimated current value of approximately \$60 million. At the time of the introduction of these assets into Aorangi, the values allocated by Mr and Mrs Hubbard were \$96 million but a number of these initial values were later scaled down by Mr Hubbard.

Importantly, Mr and Mrs Hubbard indicated that their personal interests in Aorangi would rank behind the interests of the investors in Aorangi.

As referred to in our previous reports, after transferring the "introduced assets" to Aorangi, Mr Hubbard, in March 2010, purported to transfer those same assets to several (mainly newly established) trusts.

The statutory managers have asked the High Court to rule that those assets worth around \$60m belong to Aorangi. We have also asked the Court to rule that Mr and Mrs Hubbard are only paid for

the assets they introduced after the claims of investors have been met. These assets were recorded in financial records of Aorangi at the commencement of statutory management.

It is important to note that there had always been the need to have the court rule on this matter to protect investors from future disputes and uncertainty. Based on the papers filed in the Court by Mrs Hubbard's legal advisers, Mrs Hubbard is asserting that these introduced assets belong to her and to Mr Hubbard's estate.

The implication for investors is that if the issue is resolved in favour of Aorangi, investors may well see most of their capital returned. If the Court decision is in Mrs Hubbard's favour, the return to Aorangi investors is likely to be around 35 cents in the dollar inclusive of the 15 cents that has already been distributed.

Statutory managers annul the Hubbard's second attempt to transfer the same assets to another entity

There is a recurring misconception about the annulment by the statutory managers of the purported transfer of introduced assets from Mr and Mrs Hubbard to various charitable trusts on or about 31 March 2010.

This action taken by the statutory managers is often reported as being the reversal of the transactions originally made by Mr and Mrs Hubbard that put the assets worth \$60m into Aorangi and thereby has created the current question around the ownership of these assets. This is not the case.

In 2010 Mr and Mrs Hubbard made a series of transactions that purported to put the introduced assets into trusts and therefore the ownership of those assets beyond the control of Aorangi. After detailed legal analysis our lawyers advised us to unwind the transactions with the trusts because they were invalid for a number of reasons which will be outlined in our submission to the High Court.

Adjourning the Court hearing to May 2013 should be positive for investors

The hearing for the "introduced assets" which was to commence on 29 October 2012 has been adjourned and will now commence on 20 May 2013 in Timaru. It will run for five days.

Our lawyers advised us that we needed to apply for an adjournment in order to put further information and documentation before the Court.

This further documentation has strengthened the statutory managers' case and also brought to light two more "introduced assets" which have been added to the claim.

The orders for costs and disbursements (approx. \$47,500) made for the adjournment have been paid and will not be borne by the investors of Aorangi.

Despite our objection, the Court has also ordered that approximately \$85,000 be paid to Mrs Hubbard from Aorangi to assist her with her litigation costs on the status of the "introduced assets". If we are successful in the case, this money must be repaid to Aorangi by Mrs Hubbard.

Management of Aorangi assets

Management orders – "introduced assets"

We had indicated in our June 2012 report that we would consider seeking Court orders to manage the introduced assets if appropriate arrangements could not be agreed with Mrs Hubbard.

While there is no comprehensive agreement with Mrs Hubbard, there have been undertakings given both by her and us which allows for the assets to be managed satisfactorily without the need for the Court's intervention at this time. We are confident that this state of affairs will continue until the hearing and the Court's subsequent decision.

Aorangi – Hubbard interests in a large farm group

We reported on this sale in our last report. As part of the sale process the parties involved with the group agreed to an arbitration process to resolve a number of legal and accounting issues which are yet to be concluded.

Progress on selling the "introduced assets"

We have reached agreement with the Hubbard family that where practicable all assets are to be sold. The management and realisation of the remainder of the Aorangi assets is on-going. Steps to stabilise the ownership of various farming interests continues. Where further realisations have been made, these proceeds have been placed in a separate bank account pending a decision from the Court of the ultimate ownership position.

A settlement with respect to a substantial farming operation in mid Canterbury was achieved in December 2012. This will result in one of the two farms being marketed for sale in early 2013, which we believe is a favourable outcome for investors. The farm is of high quality and initial market soundings indicate there will be considerable market interest. Once marketing is underway, we would hope to reach a settlement by June 2013. The settlement will also include a final payment of a Te Tua loan by the farmer shareholder. Expected realisation of \$15m will potentially benefit Aorangi. As it is an introduced asset the proceeds will be placed in escrow.

The sale of two cool store properties has been concluded. The properties, known as West Malling and North Holt, are based in Christchurch and were sold in a difficult market to an NZX listed company called Property For Industry (PFI). The statutory managers negotiated the sale and achieved a significant uplift in value from the original offer price.

The West Malling property was used as security for two separate loans from South Canterbury Finance (SCF) – one in 2009 and one in late March 2010. The SCF loans are now administered by Crown Asset Management Limited (CAML) – a Government entity. Given the level of financing

from SCF on the West Malling property following repayment to CAML there are no surplus funds for other West Malling creditors or Aorangi investors from the sale of that property. There is approximately \$2m available to Aorangi investors from the sale of the North Holt property. These funds have been placed in escrow pending the outcome of the introduced assets litigation.

A dispute between the two non-Aorangi/Hubbard parties in respect of a farming partnership operation in South Canterbury resulted in proceedings that were heard in the Christchurch High Court in August 2012. The outcome of those proceedings is that the partnership will be dissolved but this decision has been appealed, so a final position with regard to the Aorangi/Hubbard partnership interests will depend on the outcome of that appeal.

We have had a number of discussions with the partners of a substantial South Canterbury dairy operation. A proposal to provide additional irrigation to the property is currently being considered by shareholders. This requires additional funding and we are considering options where funding can be provided so as not to dilute the Aorangi/Hubbard interests.

Another farm owning company has significant debt levels and requires additional capital. The farm was placed on the market in late 2012 with a number of offers received and one was accepted. The sale has not yet been finalised and it remains possible that the bank will take action to recover its debt. There is also a substantial Te Tua interest free loan to the farmer in question and the statutory managers are seeking repayment of that loan as part of the sale process.

Two commercial properties in Christchurch have earthquake damage. This is impeding the sale of these assets and insurance claims have been made.

Loans

In our last report we advised that we had applied to liquidate Emerald Shores Limited, which owes Aorangi in excess of \$2.5m. The statutory managers were successful in that application and the liquidators of Emerald Shores are in the process of attempting to recover the properties transferred out of the company. The liquidators of Woodbury Rise Limited continue to pursue the recovery of personal loans to the manager of the company.

After unsuccessful settlement negotiations we have initiated mortgagee sales of two dairy farms in South Otago with a potential of up to \$12m to be recovered for Aorangi investors. This is being undertaken in conjunction with negotiations with the farm owners. There has been significant interest in the properties and we are evaluating various structures for the sale and assessing offers received. We hope to finalise a sale in the near future with settlement in the first half of 2013. The approach we are taking will achieve the best outcome for Aorangi investors and provides, in our view, the best prospect for the family owners to have a future on the properties.

We placed another South Otago property in receivership in April 2011. Arrangements have been put in place for the on-going operation of this property and the receivers intend to market the property for sale with proposed settlement in mid-2013. We have recently commenced action to recover outstanding balances under guarantees and this process is on-going.

We estimate gross recoveries of Aorangi's third party loans will be approximately \$40m, of which we have already recovered about \$20m. This estimate is based on information currently available and includes realisations of Te Tua loans. Recoveries are however, dependant on market conditions and in a number of instances on the outcome of legal proceedings.

Costs

The total costs of the administration of Aorangi including the payment of fees and disbursements to 21 December 2012 were \$7.1m GST inclusive, as shown in the following table:

Professional fees since appointment	Amount \$
Grant Thornton fees and disbursements	\$3,627,127
Legal costs and disbursements	\$2,368,610
Other third party disbursements	\$211,730
GST	\$914,027
Total	\$7,121,494

Distribution to investors

To date investors have received 15 cents in the dollar of their capital back, totalling approximately \$14.5m. There are insufficient available funds to make a further capital payment to investors at this time.

As mentioned in our last report and highlighted in the table below, any further distributions to investors will be dependent on the outcome of the High Court action with regard to the assets introduced by Mr and Mrs Hubbard to Aorangi, the recovery of impaired loans of Aorangi and any further claims which may be found to be valid.

Final investor distribution	\$m
Investors owed	\$96m
Investors paid to date	\$14.5m
	\$81.5m
Additional potential distributions from Te Tua and loans	\$20m
Distribute remaining capital from introduced assets to investors	\$61.5m

In the event that the case is successful we would anticipate being able to make a significant distribution to investors after the Court's final decision. If we are unsuccessful, investors are likely to only receive around 35 cents in the dollar (including the 15 cents already distributed) and other recovery actions will then commence. 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.

Te Tua Charitable Trust

General overview

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

We have collected \$11 million from Te Tua's loan book since our appointment. All property held by Te Tua has now been sold.

The current status of the loan book is summarised below.

Te Tua Charitable Trust loan status	Amount \$ 31-Dec-12	Amount \$ 30-Sep-12
Current and paying	5,360,556	5,742,195
Not yet due	240,362	240,362
Recovery action	4,046,306	4,059,135
Legal action	2,839,339	2,839,339
Unable to pay	1,092,853	1,092,853
Less credit balances	(93,310)	(93,310)
Closing loan balance	13,486,106	13,880,574
Amount received since 30 June 2010	11,042,581	10,648,113
Write offs and adjustments	556,035	556,035
Balance as at 30 June 2010	25,084,722	25,084,722

Notes: Closing loan balance at 31 December 2012 includes "introduced assets" realised

As mentioned in our previous report, one interest free loan of \$1.2 million (originally \$1.6 million) was due for repayment on 1 June 2012. We commenced legal action and expect a full and final settlement with the borrowers which will see this loan repaid in full. A settlement date is yet to be confirmed.

Also previously mentioned a borrower with a loan balance of \$3 million was due to settle in 2014, however the borrower brought the settlement date forward and we received payment in July 2012. The funds received are held in a protected account pending the outcome of the "introduced assets" case.

Loan provisioning

We continue to monitor all loans and take necessary measures to recover overdue loans. However many loans were “last resort” loans and recovery will take time. The nature of the loans also means that there are likely to be substantial losses to Te Tua.

A summary of the estimated loan recoveries follows:

Loan provisioning as at 31 December 2012

Category of loans	Loan \$	Provision \$	Net loan \$
Current and paying	5,360,556	(2,240,355)	3,120,201
Not yet due	240,362	(137,374)	102,988
Recovery action	4,046,306	(4,046,306)	-
Legal action	2,839,339	(2,839,339)	-
Unable to pay	1,092,853	(1,092,853)	-
Less credit balances	(93,310)	-	(93,310)
Total	13,486,106	(10,356,227)	3,129,879

There are a number of loans in respect of which we are taking legal action. We have been working with our legal advisers on the recovery of nine specific loans. We were due to go to trial in May in relation to two specific loans. A Judicial settlement conference is set down for March 2013. Settlement on the other loan did not occur as anticipated and we have moved to protect our interest. We have initiated legal action against a borrower who was due to commence payments on an \$800,000 loan. We are currently negotiating a full and final settlement which should see the loan repaid in full.

There are nearly \$3 million of loans which expired in 2012. However due to the nature of these loans and the borrowers circumstances we do not expect to receive these repayments in full and on time, and will continue to initiate legal proceedings where necessary.

Te Tua Charitable Trust costs

Professional fees since appointment	Amount \$
Grant Thornton fees and disbursements	680,140
Legal costs and disbursements	299,415
Other third party disbursements	22,243
GST	145,931
Total	1,147,729

Other matters

Additional Investor Aorangi

In our June 2012 report we advised that we had been contacted by a party claiming to be an Aorangi investor for about \$5.6m.

An application to the Court for directions is necessary and will be filed in Court shortly.

HMF – investment in Aorangi

Since our appointment we have been aware that HMF is an investor in Aorangi. The financial statements of Aorangi indicates an investment of \$470,000 or thereabouts but the financial statements of HMF indicates an investment of \$3,600,000 or thereabouts. Because HMF is also under our statutory management, an independent review of our findings and conclusions will most likely be required.

Oversight

We requested the costs of our administration to be independently reviewed to provide assurance that they were in order and the Ministry of Business, Innovation and Employment (a new Ministry of which the Ministry of Economic Development now forms part) appointed a reviewer for that purpose.

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 by the end of July 2013.

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 on-going.

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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