

Sixth Statutory Managers' Report

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

3 March 2011

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 sixth report has been prepared to provide an update for investors on the status of their investments in Hubbard Management Funds (“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 and Mrs Hubbard.

References

In this report, we refer to a number of entities. HMF is an investment management business operated by Mr Hubbard. The majority of HMF assets are held in the name of HCTML. Forresters operates the HMF bank account.

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 January 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.

Ongoing management

Since being appointed, we have actively managed the investments including the sale of some shares before large price falls affected their value. We were also contractually obliged to make further investments for HMF which were funded by these sales. Financial support was provided to Mercer Group Limited during February 2011 after long consultation with both the company and Mr Hubbard.

Distribution of HMF

We continue to work towards the Court hearing which will ultimately allow the distribution of HMF to investors. We will provide a further update on this in our next report.

Our reconciliation as at 31 March 2010 indicates that there were insufficient assets to provide investors with the investments noted on their statements. There were also investments that were not allocated to investors and some valuations in our opinion were incorrect. Once all adjustments and corrections were processed, the shortfall of assets compared with the sum of the investor statements is estimated at about \$31 million. In our opinion, investors will suffer a considerable loss compared with what was shown on their statements as at 31 March 2010.

Other matters

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

HMF valuations

Valuation process

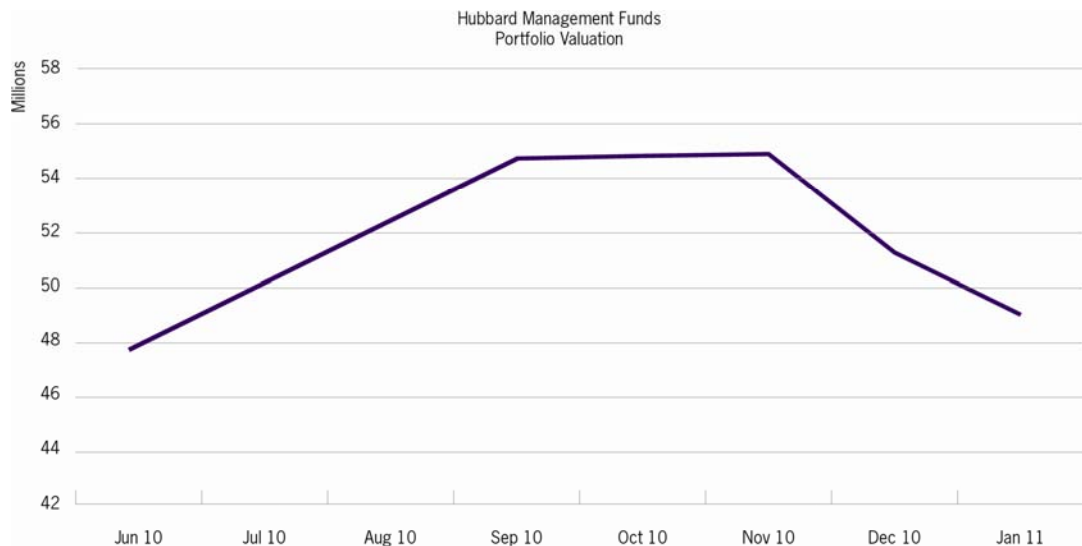
Since our appointment as statutory managers, we have been setting up systems to allow us to value the assets of HMF on a monthly basis in line with accepted good practice. The valuations are undertaken by an independent share broking firm based on the market price of the shares on the last day of each month.

Where investments are not traded and therefore market prices are not available, research is done on the investment. Contact is made with the company itself on a periodic basis to get up to date information.

Our valuation has been reduced by claims which have been made against HMF assets by people who are not HMF investors. We discuss these third party claims further in this report. These claims are reviewed on a monthly basis and as we gain clarity on these issues we will work to maximise the value for investors.

The HMF valuation

As at 31 January 2011 the HMF value was \$48.75 million after adjustments for assets subject to third party claim. The graph below sets out the movements in the HMF value in the period from our appointment on 20 June 2010 through to 31 January 2011. (Please note that we do not have, at this time, accurate valuations for July and August 2010 so the graph reflects the trend in the period.)



The HMF valuation has dropped by \$7.152 million (-12.8%) between 30 September 2010 and 31 January 2011. In the same period the NZX50 rose by 5.03% and the ASX 200 index rose by 3.73%. The main reasons for this decline and the specific investments to which they relate are as follows:

	\$(m)
Pike River Coal – mining disaster	(1.097)
NZ Oil and Gas - controls and principle funder of Pike River Coal	(0.815)
Mercer Group - reconstruction announcement	(3.532)
Olympus Pacific – share price volatility	<u>(1.953)</u>
Total	<u>(7.397)</u>

The impact of these declines could have been much worse had steps not been taken to reduce risk. 400,000 HMF shares in NZ Oil and Gas Limited were sold along with 446,386 shares in Pike River Coal shortly before the Pike River disaster. We also reduced HMF's holdings in Olympus Pacific by 534,683 shares so that this stock is not as dominant in the portfolio. By taking these actions, we were able to save investors from a loss of over \$675,000.

We have commented in past reports on the significant levels of HMF investment in the resource sector and also in stocks where there is a very limited market. The HMF portfolio, like any investment portfolio, is susceptible to swings in valuation prices and this makes it difficult for us to sell investments in companies or funds which display negative trends or outlooks to preserve investor value. The negative movements noted above illustrate this risk well.

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). Failure to meet these commitments would have placed these investments at risk of being forfeited under the terms of the investments. Since 31 January 2011, HMF has invested \$1 million back into Mercer Group, following much research and many discussions with Mercer directors, executives and Mr Hubbard. The result of this investment is that the holding of HMF in Mercer Group is approximately 17.75%.

Shares subject to claims by third parties

As part of our work we have established that certain shares are subject to possible claim by third parties, in competition with HMF investors. To take a conservative approach, we have not included these shares as part of the portfolio value until we have resolved the issues associated with the claims and established that the HMF investors can receive the benefits of those shares. Some of the shares subject to claim have been pledged as security to financiers for borrowings made by Mr Hubbard or parties related to him. Other shares are held for the benefit of HMF but on the face of it the companies appearing to own the shares are in receivership.

We expect to “rescue” shares worth approximately over \$2 million in the next month or so. We continue to work for the benefit of the HMF investors on the other outstanding claims.

HMF management

Since our last report we have focused on the ongoing management of HMF for the benefit of the investors, and are progressing matters toward the distribution of its assets. The key matters that we are addressing were outlined in detail in our previous reports which are available on our website. We refer investors to these reports for a detailed analysis of the key issues.

Since our last report we have:

- Continued to monitor and research the shares and stocks held by HMF, including visits to a number of the companies in which HMF invests to hold discussions with the directors and senior management teams.
- Continued to benefit from some positive market movements to make relatively small sales. As a result, sufficient cash was realised to meet the contractual investment commitments of HMF. This rebalancing will also, over time, reduce price volatility from significant investments of HMF being in one stock.
- Undertaken extensive research and meetings with the directors and senior management of Mercer Group following their announcement of a capital reconstruction allowing the Rakaia Fund and related interests to take a controlling stake in the company. The loss in market value following the announcement of the capital reconstruction by Mercer's directors has been previously reported. In February 2011 we have invested a further \$1 million in the company to better protect HMF's investment in that company.
- Continued to closely monitor the performance of various Private Equity and Venture Capital funds in which HMF has an interest. These funds are long term investments and it appears likely that they will also deliver returns that are well above average.
- In conjunction with our independent advisers, undertaken in-depth research on the significant assets held by HMF to allow us to make the best decisions to preserve and enhance HMF's value. This work is ongoing and time consuming.
- Continued to tidy the administrative issues we have found with the portfolio. This has included moving holdings that were not in the correct entity and working with the receivers of South Canterbury Finance Limited and Southbury Group Limited to recover assets registered in those companies' names.

- Continued to research and file papers with the Court regarding a claim by a bank over a parcel of shares owned by HMF that are being claimed as security by the bank.
- Continued to research and clear investor queries.
- Continued work on the reconciliations required for ultimate distribution to investors and further preparatory work ahead of seeking Court directions.
- Continued liaising with our legal advisers to progress the various court orders required to allow us to effectively manage and distribute HMF. The options for distribution were outlined in our fourth report.

Costs

In our fourth Statutory Managers' report our costs and those of advisers supporting the statutory managers were identified. Further costs of \$680,507 GST inclusive to the end of January 2011 have been billed.

It is important to note that in the past Mr Hubbard would have charged a management fee during the last quarter of the year of between 1% and 1.5% of the funds recorded on the statements of investors from the previous 31 March. This charge would have been between \$800,000 and \$1.25 million. The statutory managers will not charge a separate management fee.

Progress towards distribution of HMF

Since our last report we have obtained an order from the High Court which covers the interim management and administration of HMF. This order allows us to actively manage HMF under the advice of a professional adviser, support current investments as needed, make new investments where the investment to be purchased is of high quality, as well as implementing a cash management policy.

We are now working 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 the 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, should they choose.

We have had to take this action due to insufficient shares available to provide investors the investments that were indicated on their 31 March 2010 statements. We need assistance from the court to determine what individual investors will receive, given the shortage of investments. Simply, as a result of the problems we have identified, 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.

The in-depth research conducted since the last report has revealed a number of issues that will need to be taken into account in the distribution process. Based on our current understanding, it is realistic to expect that the next application will be filed with the Court during the next six months although we are making a concerted effort to reduce this time period. The Court hearing and submission processes could take several months after this and as a result, the earliest any form of distribution will occur will be in 2012. We will do everything we can to expedite the process.

We aim to provide a more definitive update in our next report on the timeframes as we progress towards filing the required papers with the Court. We reemphasise that it is not possible to give the investors the investments outlined on their statements as at 31 March 2010.

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 by the end of June 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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