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HALIFAX INVESTMENT SERVICES PTY LTD (IN LIQUIDATION) (Halifax AU)

HALIFAX NEW ZEALAND LIMITED (IN LIQUIDATION) (HALIFAX NZ)

Investor FAQ – 13 August 2021

1. What is the current status of the Court proceedings?

Their Honours Justice Markovic and Justice Venning of the Federal Court of Australia and the High Court of New Zealand respectively handed down their judgments and made consequential orders in the client money proceedings on 19 May 2021.

The judgments and orders are available at the following links:

<https://assets.kpmg/content/dam/kpmg/au/pdf/creditors/halifax-investment-services/halifax-judgment-justice-markovic-19-may-2021.pdf>

<https://assets.kpmg/content/dam/kpmg/au/pdf/creditors/halifax-nz-limited/halifax-nz-judgment-justice-venning-19-may-2021.pdf>

On 15 and 16 June 2021, the solicitors for the First Defendant, Mr Loo, filed an Application for an extension of time and leave to appeal in the Federal Court of Australia and a Notice of Appeal in the Court of Appeal of New Zealand. In summary, the First Defendant's position is that their Honours erred in concluding that the Liquidators of Halifax AU and Halifax NZ were justified in adopting 27 November 2018 as the date at which the proportionate entitlements of the Investors were to be calculated (see FAQ (4) below) and that the date at which proportionate entitlements are calculated should be as close as possible to the distribution date and, in any event, only after the Liquidators have realised all extant investments.

This Investor FAQ document has been prepared on the basis of the judgments and orders dated 19 May 2021 referred to above and may be subject to change (including in respect of the timeframes for distribution) including in the event that Mr Loo's appeals are successful or are not determined in time for distribution to occur in line with the Liquidators' anticipated timeframe.

2. When will I receive a distribution?

The Liquidators had previously indicated that a cash distribution could be paid in late 2021, however we now anticipate that the distribution is more likely to be paid in early 2022. The reasons for the delay are set out in the update to Investors dated 11 August 2021:

<https://assets.kpmg/content/dam/kpmg/au/pdf/creditors/halifax-investment-services/halifax-update-to-investors-11-august-2021.pdf>



This timeline is an estimate only and is subject to change. Please note that there is likely to be an interim distribution of funds to Investors, with a final distribution to follow once various matters are finalised. Events which may delay the payment of the distribution include:

- The timeframe in which the Appeal is resolved and the length of time between the hearing of the Appeal and the date on which the Courts hand down judgment. This is a matter which is outside of the control of the Liquidators;
- A large number of Investors disputing their account balance as at 27 November 2018;
- The possibility of Investors making an application to the Court in relation to their account balance which would have the effect of delaying payment to all Investors; and
- Issues which may arise with the operation of the Investor Portal including difficulties with verifying the identities of Investors.

We are aiming to be in a position to transfer the Category 3 and Category 5 shares to the relevant Investors by late October 2021. Please refer to the Investor Update dated 2 June 2021 for an explanation of the Category 3 and Category 5 Shares.

3. How much will I receive in the distribution?

At this stage, we estimate that Investors will receive approximately 100 cents in the dollar based on their account balance as at 27 November 2018. In relation to this estimate, please be advised of the following:

- This is a high-level estimate only and is subject to change;
- This estimate does not account for any movement in the market value of assets after 30 April 2021. As various Investor positions are still open, market movements may materially impact the estimated return to Investors;
- This estimate does not take into account the likely reduction in the pool of assets available to Investors who are eligible to have their shares transferred pursuant to the Category 3 and Category 5 Orders. However, at this stage we do not anticipate that this will have a material impact on the assets available for distribution;
- For the purposes of calculating the estimated return to Investors, we have assumed that minimal funds will be recovered from overseas merchant facilities and antecedent transactions. Our investigations in relation to the conduct of the Director, Former Director and various third party advisors are ongoing but confidential and we are not in a position to quantify the potential recoveries at this stage. This estimate does not take into account any costs incurred in pursuing these potential recoveries; and
- All costs estimates including legal fees and Liquidators' remuneration are calculated based on high-level estimates only and are subject to significant variances. The quantum of costs to be incurred by the Liquidators in undertaking the distribution is difficult to accurately predict at this stage.

4. As of what date will my proportionate entitlement be calculated?

The Courts have made Orders that the Liquidators are justified in adopting 27 November 2018, being the date of the appointment of the Voluntary Administrators to Halifax NZ as the date at which the proportionate entitlements of Investors are to be calculated. This means that your account balance as at 27 November 2018 will be used to calculate your entitlement to the assets available for distribution.



5. What is the value of assets currently held by the Halifax Group?

As at 30 April 2021, the value of total assets held by Halifax AU and Halifax NZ was approximately AU\$250.8 million. In relation to the total assets available to be distributed to Investors, we note the following:

- The value of the assets held by Halifax AU and Halifax NZ is constantly changing as a result of fluctuations in the value of open positions held with Interactive Brokers. As a result, the value of the total assets held by Halifax AU and Halifax NZ when positions are closed out, may be more or less than the amount of AU\$250.8 million. In circumstances where the value of open positions decreases between now and when positions are closed out, this may result in a reduced asset pool for distribution to Investors. However, it is not possible for the Liquidators to close out open positions until such time as the Category 3 and Category 5 shares have been transferred in accordance with the orders of the Courts; and
- The value of the total assets held by Halifax AU and Halifax NZ does not represent the amount that will be distributed to Investors because certain funds will need to be retained by the Liquidators to pay various expenses of the liquidations **as approved by the Courts**, including wages, rent, operational expenses, platform expenses, legal fees and the remuneration of the Liquidators.

6. In the event that the value of assets to be distributed to Investors is greater than AU\$213 million (being the value of the assets of the Halifax Group as at 27 November 2018), will Investors receive these additional funds?

All assets held by Halifax AU and Halifax NZ (subject to payment of the Court approved costs and expenses of the liquidation) will be paid out to Investors. As at 27 November 2018, the value of Investor account balances was approximately AU\$213 million. Investors will receive their proportionate entitlement of whatever the amount available is for distribution (that is, the Investor account balances at the date at which open investments are liquidated less the costs and expenses of the liquidation).

As set out at (4) above, your account balance as at 27 November 2018, will be used to calculate your proportionate entitlement to the assets of Halifax AU and Halifax NZ which are available for distribution. That proportionate entitlement will be applied to the total amount available to be distributed to Investors after all assets are liquidated.

This is best illustrated by way of a worked example.

As at 27 November 2018, Investor A's account balance is \$1 million. Total investor account balances as at 27 November 2018 are \$10 million. This means that Investor A's proportionate claim to the assets of Halifax is 10% (being \$1 million divided by \$10 million).

By 1 November 2021, all open positions have been closed out and the assets available to distribute to Investors is now \$15 million (as a result of significant increases in the value of open positions). This means that Investor A receives 10% of \$15 million, being \$1.5 million which is 150% of their account balance as at 27 November 2018.

Given the Court has determined that the date of calculation of the proportionate entitlement of each Investor is 27 November 2018, any gains in your account balance subsequent to that date reflects gains in the pool of funds available to Investors of which you will receive your proportionate entitlement (and the proportion to be applied will be that proportion calculated as of 27 November 2018), although bear in mind that other Investors' accounts may have made losses, which losses will reflect a reduction in the pool of funds available to Investors (to which the same proportionate entitlement – calculated as at 27 November 2018 – will be applied).



7. What do I need to do now?

There is nothing that Investors need to do at the moment. Please await further correspondence from the Liquidators.

8. What do I do if I think I might be a Category 3 or Category 5 Investor?

All Investors with open positions on the IB AU, IB NZ and MT5 platforms have received correspondence requesting that they advise Liquidators whether they consider that they are in Category 3 or 5.

9. My account balance is made up purely of cash and my balance is easily ascertainable from my account statement. Why can't you just pay me straight away?

The Liquidators are not able to make payments to Investors until the Category 3 and Category 5 shares have been transferred, and the remaining assets closed out. This is because it will not be possible to determine the value of the assets available to pay Investors until these shares have been transferred and the remaining assets converted to cash.

10. Will the distribution be in cash or shares?

With the exception of the Category 3 and Category 5 shares, the distribution will be paid in cash in accordance with the Orders made by the Courts. The Liquidators are only able to deal with the assets of the Halifax Group in accordance with the Orders that have been handed down and on this basis, we will not consider requests from Investors to have their shares transferred *in specie*.

11. When will I receive instructions to access the Investor Portal?

We anticipate Investors will receive correspondence providing log in details to the Investor Portal in late 2021 or early 2022.

12. I have already provided a proof of debt early on in the Administration or Liquidation. Do I need to provide my details again via the Investor Portal when it becomes available?

Yes. The initial proofs of debt submitted by Investors were informal only. All Investors who wish to receive a distribution will need to log onto the Investor Portal (once it is available) and provide their details even if the information has been sent previously to Link Market Services or to KPMG.

13. Why will it take until early 2022 to receive a distribution? Why can't the Liquidators pay me straight away?

The process of calculating Investor claims and attending to the payment of Investor entitlements for the Halifax Group which has an Investor base of 12,000 is a time consuming and complex task.

A high level summary of next steps to be taken by the Liquidators in the distribution process is as follows:

- Attend to the return of the pre-and post-appointment deposits (Orders 12 and 13 in the above table). These amounts will be paid out following the expiration of the appeal period and total approximately AU\$150,000;



- Review claims received by Investors in respect of their entitlement to Category 3 and Category 5 shares. The Liquidators anticipate that it will then take approximately 8 weeks to review these claims, undertake the verification work and attend to the transfer of the relevant shares. The Liquidators issued correspondence in early July 2021, following which we have been proceeding with the verification work with a view to having the Category 3 and Category 5 shares transferred to the relevant Investors by late October; and
- The Liquidators will issue correspondence to all Investors which will provide details and instructions for the Investor Portal which will allow Investors to log on and submit their claims, verify their identity and provide bank details. We expect that this correspondence will be sent out to Investors in late 2021 or early 2022.

We then anticipate that it will take a number of months following the receipt of judgment in respect of the Appeal to deal with Investor disputes in relation to account balances, close out open positions and pay the distribution to Investors. On this basis, we anticipate being in a position to pay a distribution to Investors by early 2022.

14. What should I do if I have further questions?

Please direct any queries to KPMG via email at au-fmhalifax@kpmg.com.au.