

Mascot Finance Limited (In Receivership)

Receiver's Fourth Report

Pursuant to Section 24 of the Receiverships Act 1993

2 September 2010

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Important Notice

The information required to complete this report was obtained from Company records. Values are based on book values from the financial statements and accounting records of the Company.

We have relied on the information provided by the Company and on Company records in preparing this report. We have not completed any form of audit or verification procedures on the financial information and we do not express any form of audit opinion on the financial information.

We take no responsibility for any incorrect information contained in this report that has been supplied by the Company, its officers or other persons. This is a report prepared by the Receivers in terms of Section 24 of the Receiverships Act 1993. This report is not to be reproduced or used for any other purpose without our prior written consent in each case. We do not accept any liability whatsoever to any party from any use of, or reliance on, this report.

Any realisation projections, time taken to complete realisations and related costs were all subject to uncertainty at the time that these projections were prepared. We express no opinion on the likelihood of any projections being achieved. Financial projections are based on assumptions and estimates of future events which cannot be estimated with any certainty. Actual results are likely to be different from projections and the variations could be material since anticipated events frequently do not occur as expected.

In accordance with standard practice neither Deloitte, the Receivers, nor any member or employee of Deloitte, undertakes responsibility arising in any way whatsoever to any person in respect of realisation projections, the related commentary on options available to the receivership, any estimate of outcome for creditors, or any report content based on information supplied by the Company, including any errors or omissions herein arising through negligence or otherwise however caused.

1. Introduction

Brett Chambers and Paul Munro of Deloitte were appointed Receivers and Managers (“Receivers”) of all the assets, property and undertakings of Mascot Finance Limited (“Mascot” or the “Company”) on 2 March 2009 by Perpetual Trust Limited (“the Trustee”) pursuant to a Trust Deed dated 5 August 1988 (as amended) (the “Trust Deed”). The appointment was made under the powers contained in the Trust Deed.

We set out below our report on the state of the Company affairs as at 2 September 2010 in accordance with Section 24 of the Receivership Act 1993. This report should be read in conjunction with the Receivers’ previous reports. A statement of receipts and payments is attached in Section 4.

2. Receivership Details

2.1. Events Leading Up to the Appointment of Receivers

Perpetual Trust Limited is the Trustee for the secured debenture stock and deposits issued by Mascot.

In response to deteriorating market conditions Mascot had been downsizing its loan book and repaying deposits as investments fell due since approximately mid 2008.

Mascot has a Crown Deed of Guarantee (“Crown Guarantee”) under the Crown Retail Deposit Guarantee Scheme which, in the case of Mascot, was approved on 12 January 2009. Subsequent to the granting of the Crown Guarantee, Mascot was in the process of preparing a new Prospectus and Investment Statement and considering re-entering the lending market as opportunities presented themselves.

However since January 2009 Mascot had been increasingly facing the situation where independent valuations of assets had been tested against the market resulting in significant discounts. The lack of alternative funding available to borrowers to refinance loans was, in some circumstances, causing delays in the repayment of loans due to be repaid to Mascot.

This caused the Directors to review all loans and the assessed security values and margins. This resulted in the Mascot Board determining that the deterioration in security values was material to the ongoing business of the Company.

Consequently the Directors concluded that it was not appropriate for Mascot to issue a further Prospectus and Investment Statement. That decision and a resulting projected cash shortfall in April 2009 caused the Directors to resolve to request the Trustee to appoint a Receiver.

2.2 Disposal of Property

The Receivers have considered various options for the disposal of Mascot assets including its loan portfolio. Where the options are in the best interests of the secured and unsecured parties, the Receivers have moved quickly to realise these assets recognising the time value of money and the potential for asset values to fall further in a deteriorating market.

The Receivers have carried out the following:

- Undertook a competitive tender process for the sale of the Christchurch and Timaru Mascot buildings;
- Auctioned the chattels and motor vehicles fixed assets used in operating the Mascot business;
- Concluded a deal on the gaming loan book realising the full face value of the loans;
- Taken possession of property secured by mortgage or charge where it was deemed necessary to protect the Company's interest and subsequently sold the property as mortgagee;
- Progressively realised loan assets as maturities expire.

Mascot Loan Book

As at the date of receivership, the assets of Mascot Finance Limited included 343 loans with a net loan receivable balance of \$65.4 million (being a gross loan receivable of \$82.7 million less the Directors' impairment provision as at the date of receivership for specific property and commercial loans of \$17.4 million).

Based on the accounting records of the Company, the loan book as at the 2 September 2010 comprised 80 loans with a net loan receivable of \$33.3 million. No further impairment consideration is reflected in the \$33.3 million net loan receivable.

In the first report, the Receivers' initial views on the loan books were:

- That the best way to maximise value is by managing individual loans on a case by case basis (particularly in respect of the property loans);
- That at least parts of the loan book could potentially be packaged and sold;
- That work should progress on further analysis of the loan book to provide information to interested parties;
- That the effectiveness of the receivership would be dependent on the outcome of a small number of large exposures.

Since the first report, the Receivers have confirmed their initial views as set out above.

Based on the accounting records of the Company, the status of the loan receivables as at 2 September 2010 is summarised in this report and the Receivers make the following observations in relation to each class of loan:

Property Loans

The majority of Mascot's property loans were advanced to property developers and property investors. Although very few loans were provided to fund bare land development, deteriorating market conditions have made it difficult to extract full value from the loan assets in the current environment. These conditions include:

- Lack of a liquid funding market to support refinancing or restructuring of loan facilities;
- First ranking security holders insisting on full entitlement to realisation proceeds to the detriment of lower ranking mortgagees;
- Increased business failure resulting in higher vacancy rates in commercial tenancies and therefore placing stress on debt servicing capability;
- A significant deterioration in property values.

In the short term the Receivers do not anticipate any significant turnaround in the financial position of Mascot borrowers or in market conditions and so realisation of security values will continue to be challenging.

Personal Loans

Expressions of interest to buy the loan book were received from a number of parties. However that interest, in the main, clearly anticipated a significant discount to face value. As a result the Receivers determined that if cash flow could be sustained by aggressive servicing of the loans, then that would produce a better outcome for investors than a discounted sale. Approximately 70% of the loans have been realised with minimal loss to date. However as the pool repays and reduces in size, the average quality of the receivables declines. The lack of marketability of the personal loan book means that the Receivers will progressively realise outstanding loans rather than pursue a trade sale.

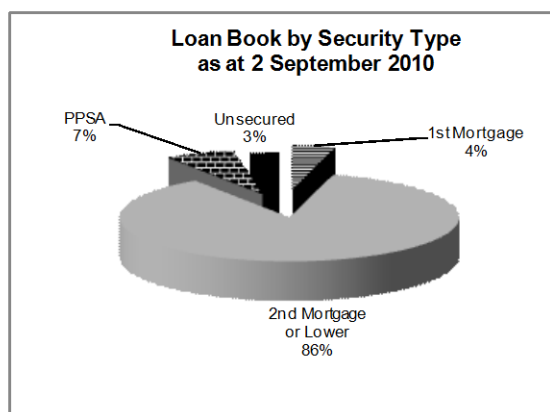
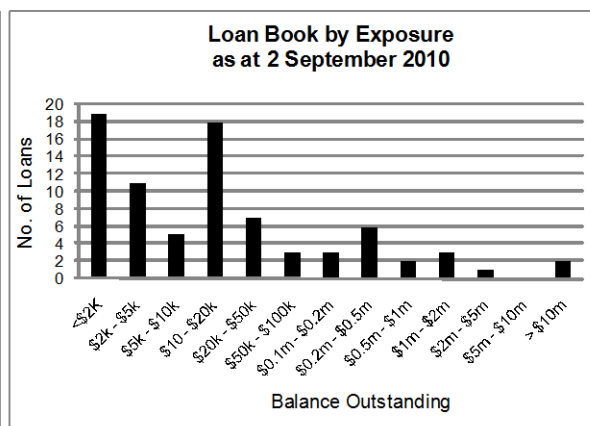
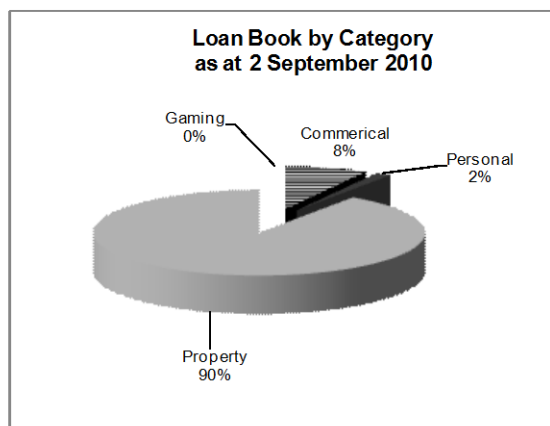
Gaming Loans

The Receivers managed to conclude a transaction for the transfer of all rights and obligations relating to the gaming class of loans for full repayment. One loan did not meet the arrears criteria of the purchaser and was not transferred. This loan has since been repaid.

Commercial Loans

Active management of the commercial loan pool has seen repayment or refinancing of 42 loans since receivership. The remaining commercial loans include 11 loans that are past maturity and for which realisation prospects are uncertain. Realisation activities are continuing. In addition to those loans past maturity, the remaining non-due advances require significant servicing effort to keep the arrears position under control.

The graphs below show Mascot's net loan receivable as at 2 September 2010, by category, exposure and security type.



Loan Book by Category

	As at date of Receivership (\$ Million)	As at 2 September 2010 (\$ Million)
Loans		
Property	52.2	30.1
Personal	1.7	0.5
Gaming	5.8	-
Commercial	5.8	2.7
	<u>65.4</u>	<u>33.3</u>

Given the confidential nature of Mascot's loan book, the Receivers believe releasing specific details of loans and collections to date or other commercially sensitive information would materially prejudice the exercise of their functions and possibly the outcome for secured debenture holders. Accordingly, under Section 24 (3) of the Receiverships Act 1993 the Receivers have omitted specific details in this section.

Mascot Premises and Equipment

At the date of receivership the Company owned offices in Timaru and Christchurch, along with office furniture and fittings and motor vehicles.

The premises and equipment of Mascot have since been sold.

The total proceeds realised from the sale of assets were in excess of the assets' book value.

Premises and Equipment	\$
109 Cambridge Terrace, Christchurch	\$0.92m
339 Stafford Street, Timaru	\$0.86m
Office Equipment and Motor Vehicles	\$0.21m
Total Book Value as at Date of Receivership	\$1.99m
Total Proceeds Realised from Sale of Assets	\$2.60m

2.3. Amounts Owing to Appointer (on Behalf of Secured Debenture Stock Holders)

At the date of receivership, Mascot had 2,511 investors with a total principal outstanding of \$68.5 million. Approximately \$65.2 million was invested in secured debenture stock, and \$3.3 million in unsecured deposit. All secured debenture stock is secured under a Trust Deed.

Since the date of the last Receivers Report a second distribution of \$3.3 million or 5 cents in the dollar of principal outstanding was distributed to secured debenture stock holders who submitted a claim to the Receivers. This brings the total balance distributed to date to \$39.1 million or 60 cents in the dollar of principal.

The Trustee holds an unclaimed monies account on behalf of secured debenture stock holders who have not submitted a claim. Payments are made from the unclaimed monies account by the Trustee upon receipt of an approved claim from the Receivers.

The remaining principal balance owed to secured debenture stock holders as at 2 September 2010 is \$26.1 million.

Interest is owed to secured debenture stock holders until date of full repayment. As at the date of this report \$7.87 million of interest is owed to secured debenture stock holders.

Mascot is an approved institution under the Crown Retail Deposit Guarantee Scheme, as such all eligible secured debenture stock holders and unsecured depositors' could apply to the Crown for repayment under the Guarantee. As at 2 September 2010 approximately 98% of Mascot investors have been repaid under the Guarantee.

On 31 August 2010 following the receivership of South Canterbury Finance, the Crown announced that *"the Government has also decided today that it will repay all depositors of guaranteed companies that default, including those that have already defaulted, regardless of any previous eligibility criteria that were in place for the Retail Deposit Guarantee Scheme"*. The Treasury has subsequently updated their website on 16 September 2010 and advises depositors that *"The Treasury will contact unpaid depositors to arrange payment of both principal and interest owing, net of any distributions that have been made so far by the company's receivers"*. As such secured debenture stock holders and unsecured depositors that were previously deemed ineligible or had not submitted a claim to the Treasury will be repaid by the Treasury the remaining 40 cents in the dollar of principal outstanding plus interest owing. The Treasury has not published a timeframe for making these payments however advise the Receivers that they anticipate payments to be complete by the end of October 2010.

2.4. Amounts Owing to Other Secured Creditors

A Personal Property Securities Register ("PPSR") search dated 7 September 2010 revealed that the Company has no other secured creditors.

2.5. Amounts Owing to Other Preferential Creditors

Mascot's preferential creditors are its employees and the Inland Revenue Department ("IRD").

The full value of employee and IRD preferential creditors has been established and claims settled.

Preferential employee claims totalling \$121,000 for salaries, accrued holiday pay and redundancy were filed with the Receiver. Schedule 7 of the Companies Act 1993 limits the priority given to any one employee to \$16,420 therefore the total preferential employee creditor claims as at the date of appointment were limited to \$68,000, with the \$53,000 balance remaining an unsecured creditor.

The full value of the IRD's preferential claim at date of appointment was approximately \$34,000.

2.6. Amounts Owing to Unsecured Depositors

Mascot had approximately \$3.3 million in unsecured deposits as at 2 March 2009. These deposits are not secured under the Trust Deed and rank after all secured creditors and statutory priorities, but rank before other unsecured creditors.

Interest is owed to unsecured debenture depositors until date of full repayment. As at the date of this report \$0.53 million of interest has been accrued.

2.7. Amounts Owing to Unsecured Creditors

Mascot's unsecured creditors are its employees, the IRD and its suppliers.

As outlined in Section 2.5 above unsecured employee claims total \$53,000.

Unsecured IRD claims total approximately \$3,000 (as at date of receivership).

As at the date of this report the Receivers have received approximately 30 confirmations from suppliers of goods and services to Mascot, with unsecured claims totalling approximately \$19,000 (excluding GST). We have yet to receive confirmations of debt from all known unsecured creditors.

2.8. Amounts Owing to Redeemable Preference Shareholders

The Company has 3,858,000 Class A Redeemable Preference Shares (RPS). These shares have a fixed value of \$1.00 each. The RPS rank behind all secured and unsecured creditors of the Company and all payments having priority at law, but rank ahead of the ordinary shares of the Company.

2.9. Amounts Owing to Ordinary Shareholders

At the date of receivership Mascot had share capital with a book value of \$15.2 million comprising ordinary shares. These shares have no par value and rank equally with regard to the Company's residual assets.

2.10. Amounts Likely to be Available to Secured and Other Creditors

The amount likely to be available to secured and other creditors is difficult to assess as the outcome will be dependent on the values realised from a small number of larger loan balances.

As at 2 September 2010, 60 cents in the dollar of total principal outstanding at the date of receivership has been distributed to secured debenture stock holders. Any subsequent distributions will be dependent on the outcome of continuing realisation efforts.

At this stage the Receivers do not expect there to be any funds available for payment of Mascot's unsecured deposit holders, unsecured creditors, redeemable preference shareholders or ordinary shareholders.

3. State of Affairs

3.1. Assets Comprising the Property in Receivership

The assets of Mascot as at 2 September 2010 principally comprise the loan book assets and cash in the bank.

A summary of the assets as 2 September 2010 as per the Company records available to the Receivers (and based on the accounting book value) is set out below.

The finance receivables are categorised as follows:

Loan Receivables	Book Value
Property	\$30.09m
Commercial	\$2.68m
Gaming	\$0.00m
Personal Loans	\$0.50m
Net Loan Receivable	\$33.27m
Interest Accrued (to 2 September 2010)	\$1.24m
Total	\$34.51m

The only other assets remaining at 2 September 2010 are:

Other Assets	Book Value
Bank	\$0.47m
Office Equipment ¹	\$0.00m
Deferred Tax	\$5.17m
Total	\$5.64m

Notes:

1. Remaining office equipment is a small number of computers and printer which are required for the daily operations of Mascot.

The Receivers have examined the deferred tax asset that existed at the date of receivership. No value is expected to be realised from the deferred tax asset.

Total assets are therefore recorded at book value of \$40.15 million as at 2 September 2010 or \$34.98 million after the deferred tax asset is excluded.

3.2. Summary of Debts and Liabilities

Particulars of debts and liabilities as at the date of this report:

Debts and Liabilities		Book Value
Secured Creditors		\$33.41m
Perpetual Trust (for Secured Debenture Holders) ¹	\$33.41m	
Preferential Creditors²		\$0.00m
Employees	\$0.00m	
Inland Revenue	\$0.00m	
Unsecured Creditors		\$3.95m
Unsecured Debenture and Deposit Holders ⁴	\$3.87m	
Creditors (IRD, Employees and Suppliers) ³	\$0.08m	
Redeemable Preference Shares		\$3.86m
Total		\$41.22m

Notes:

1. The 'secured creditors' amount shown above includes accrued interest to 2 September 2010.
2. Approximately \$102,000 has been distributed to preferential creditors since appointment.
3. All creditors (both secured and unsecured) were notified of the receivership at appointment and were provided confirmation of debt forms to complete. We have not yet received all creditor claims.
4. The 'unsecured debenture and deposit holders' amount shown above includes interest to 2 September 2010.

3.3. Encumbrances Over the Property in Receivership

Particulars of encumbrances over the property in receivership are registered on the PPSR. A search of the PPSR dated 7 September 2010 revealed that the Trustee holds the only registered interest.

3.4. Any Default by the Grantor in Making Information Available

There has been no default by the Grantor in making information available.

4. Receipts and Payments

Receipts & Payments for Mascot Finance Limited (In Receivership)
2nd March 2010 to 2nd September 2010
(all figures exclude GST)

Receipts	\$
Bad debts recovered	423
Interest received from banks	64,031
Loan receipts	1,699,232
RWT refund	219,983
Total receipts in the period	1,983,671
Payments	
Capitalised Loan Costs: Legal	6,245
General expense	81
Interest and Bank fees	843
IT Software and Support	20,084
Investor payments (secured debenture stock)	3,289,346
Legal fees: Receivership related	5,456
PPSR, title search, registration & release	398
Monies paid to Receivers: Core receivership (including 2nd distribution)	29,017
Daily operations management	46,488
Loan recovery and management	34,512
Crown Guarantee administration	4,062
Records Management	1,229
Salaries, wages and contractor costs	31,785
Telephone and communications	1,311
Trustee fees	3,603
Total payments in the period	3,474,460
Net receipts (payments) in the period	(1,490,789)

5. Receivers' Contact Details

The Receivers can be contacted at the address below.

Mascot Finance Limited (In Receivership)

C / - Deloitte

32 Oxford Terrace

P O Box 248

Christchurch 8140

+64 3 379 7010

www.deloitte.com/nz/mascot



Paul Munro

Receiver and Manager



Brett Chambers

Receiver and Manager

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