

Mascot Finance Limited (In Receivership)

First Report by Receivers

Pursuant to Section 23 of the Receiverships Act 1993

1 May 2009

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1. Important Notice

The information required to complete this report was provided by the Directors and employees of Mascot Finance Limited (In Receivership) (“Mascot” or the “Company”) and obtained from Company records. Values are based on book values from the financial statements and accounting records prepared by Company personnel.

We have relied on the information provided by the Directors and employees of the Company and on Company records in preparing this report.

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 and Managers in terms of Section 23 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 and Managers, 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.

2. 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.

3. Receivership Details

3.1. Events Leading up to the Appointment of Receivers

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

Since approximately mid 2008 Mascot had been downsizing its loan book and repaying deposits as investments fell due.

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.

3.2. Disposal of Property

The Receivers are considering their options in relation to the disposal of the Company’s assets.

3.2.1. Mascot Loan Book

Since appointment the Receivers have been managing the loan book of Mascot to ensure loan repayments continue to be made and loans in arrears or default are acted on as appropriate. The loan book contains property, commercial, gaming and personal loans, and as at 2 March 2009 there were approximately 350 loans in total. While the initial focus has been to manage and evaluate the loan book to determine how to maximise the potential return to investors, the Receivers have been actively approving settlement of loans where full realisation is available.

The property lending book comprises a small number of loans with a high dollar value, and generally Mascot has a subordinated security position. At this stage the Receivers believe that the best way to maximise the value recovered from these loans is by managing the individual loans on a case by case basis having regard to the terms of the loan facility and the particular circumstances of the borrower.

The Receivers believe that there are at least parts of the loan book that could potentially be sold. These are likely to be the gaming machine, personal and commercial loan books. With respect to the personal loan book, the large number of loans with small balances means that the cost of continuing to service the book under a receivership model will quickly diminish the present value of future cash flows. Therefore, it is pleasing to report that a number of expressions of interest have been received from parties interested in acquiring the loan book (or parts thereof).

The Receivers are working on an analysis of the loan book information to form a view on the indicative value of each part of the loan book and to prepare information that is necessary for potential purchasers to provide an assessment of the value they would pay for the different parts of the loan book. When this assessment is complete, the receivers intend to qualify expressions of interest received and seek further expressions of interest.

3.2.2. Mascot Premises

The Company owns offices in Timaru and Christchurch. The Timaru building is occupied by Mascot as well as other tenants. Since receivership, all day to day operations of the Company have been centralised to the Christchurch office. Therefore the Timaru premises are now surplus to Receiver requirements and the Receiver is keen to liquidate this asset as quickly as possible.

A number of unsolicited expressions of interest have been received from parties interested in purchasing the Mascot office buildings. The Receivers are currently considering options for the sale of these buildings, but believe a competitive sales process will be the most cost effective way of maximising the buildings' full value.

3.3. Amounts Owing to Appointer (On Behalf of Secured Debenture Holders)

Mascot had 2,513 investors and \$69.1m in total investments (principal and interest to 2 March 2009). Approximately \$65.7m is invested in secured debentures ("debenture stock"). All debenture stock is secured under the Trust Deed.

3.4. Amounts Owing to Other Secured Creditors

A Personal Property Securities Register ("PPSR") search dated 23 April 2009 revealed that the Company has no other secured creditors.

3.5. Amounts Owing to Other Preferential Creditors

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

The Receivers adopted approximately \$15,000 of employee preferential creditor payments and these were paid by the Receivers during March 2009.

The Receivers are yet to confirm the value of other preferential creditor payments, including amounts that may be owing to the IRD.

3.6. Amounts Owing to Unsecured Depositors

Mascot had approximately \$3.3m 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.

3.7. Amounts Owing to Unsecured Creditors

As at the date of this report the Receivers have received over 20 confirmations from unsecured creditors, with unsecured claims totalling approximately \$27,000. We have yet to receive confirmations of debt from all known unsecured creditors.

3.8. 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.

3.9. Amounts Owing to Ordinary Shareholders

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

3.10. 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 this stage the Receivers are unable to provide an assessment of the amount likely to be available to secured and other creditors, as to do so at this point in the receivership process could potentially prejudice the receivership process.

Prior to receivership, Mascot was included in the Crown Retail Deposit Guarantee Scheme ("the Scheme"). Under the Scheme, all deposits in the Company are guaranteed provided the applicant is eligible under the terms of the Crown Guarantee. The process of assisting Treasury with its claims process has consumed considerable time during the early stages of the receivership.

To receive compensation under the Scheme investors must apply to the Treasury directly. If an application from an otherwise eligible investor is not received by Treasury then that investor will be reimbursed from receivership funds on the same basis as ineligible investors. The Treasury is currently making payments under the Scheme. Once payments are made the Crown assumes the rights of the guaranteed investor.

4. State of Affairs

4.1. Assets Comprising the Property in Receivership

The assets of Mascot principally comprise its loan book assets, cash in the bank and its two office premises in Christchurch and Timaru.

According to the Company records available to the Receivers (and based on the accounting book values prepared as at 28 February 2009 - immediately prior to receivership) the primary assets of Mascot relate to finance receivables that total \$66.27m.

The finance receivables are categorised as follows:

Loan Type	Book Value
Property	\$52.16m
Commercial	\$5.78m
Gaming	\$5.76m
Personal Loans	\$1.68m
Interest Accrued (to 28 February 2009)	\$0.89m
Total	\$66.27m

In addition to the receivables, the Company owns property in Christchurch and Timaru with book values as at the date of receivership of:

Property Assets	Book Value
109 Cambridge Terrace, Christchurch	\$0.92m
339 Stafford St, Timaru	\$0.86m
Total	\$1.78m

The only other assets recorded in the latest financial position of the Company available as of the date of receivership are:

Other Assets	Book Value
Bank	\$6.10m
Funds held by Trustee (on behalf of all investors)	\$0.59m
Accruals and Other Receivables	\$0.10m
Office Equipment / Motor Vehicles	\$0.21m
Deferred Tax	\$5.17m
Total	\$12.17m

Total assets are therefore recorded at a book value of \$80.22m as at the date of receivership and are made up of:

Total Assets – Summary	Book Value
Loan Book	\$66.27m
Property Assets	\$1.78m
Other Assets	\$12.17m
Total Assets	\$80.22m
Exclude Bank	(\$6.10m)
Exclude Funds Held by Trustee (Repaid to Mascot Receivers A/C)	(\$0.59m)
Total Assets (Excluding Bank)	\$73.53m

4.2. Summary of Debts and Liabilities

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

Debts and Liabilities	
<i>Secured Creditors</i>	
Perpetual Trust (for Debenture Holders) ¹	\$65.69m
	\$65.69m
<i>Preferential Creditors²</i>	
Employees	\$0.02m
	\$0.02m
<i>Unsecured Creditors</i>	
Unsecured Debenture and Deposit Holders ³	\$3.37m
Creditors	\$0.03m
	\$3.40m
Redeemable Preference Shares	\$3.86m
Total⁴	\$72.96m
Notes:	
1. The 'Secured creditors' amount shown above includes interest to 2 March 2009.	
2. Approximately \$15,000 has been distributed to preferential creditors since appointment. 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.	
3. The 'unsecured debenture and deposit holders' amount shown above includes interest to 2 March 2009.	
4. Totals do not add due to rounding.	

4.3. 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 23 April 2009 revealed that the Trustee holds the only registered interest.

4.4. Any Default by the Grantor in Making Information Available

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

5. Receivers Contact Details

The Receivers can be contacted at the address below.

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