

Mascot Finance Limited (In Receivership)

Receiver's Six Month Report

Pursuant to Section 24 of the Receiverships Act 1993

2 September 2009

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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 2009 in accordance with Section 24 of the Receivership Act 1993. This report should be read in conjunction with the Receivers’ previous report. 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 property. 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.

The Receivers have carried out the following:

- Undertook a competitive tender process for the sale of the Christchurch and Timaru buildings;
- Auctioned the chattels and motor vehicles;
- 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.

Mascot Loan Book

As at the date of receivership, the assets of Mascot Finance Limited included gross loan receivables of \$82.7 million less an impairment provision for specific property and commercial loans of \$17.4 million.

Based on the records of the Company, the loan book as at the 2 March 2009 comprised the following:

Loan Type	No	Gross Loan Receivable (\$000's)	Impairment Provision (\$000's)	Net Loan Receivable (\$000's)	Weighted Average Interest Rate	Median Loan Size
Property	23	\$62,634	\$10,474	\$52,160	15.21%	\$1,151,372
Personal	143	\$1,679	\$0	\$1,679	17.06%	\$4,431
Gaming	106	\$5,763	\$0	\$5,763	13.86%	\$30,405
Commercial	71	\$12,670	\$6,894	\$5,776	15.38%	\$34,562
Total	343	\$82,746	\$17,368	\$65,378	15.16%	\$12,492

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 2009 is summarised below:

Loan Type	No	Gross Loan Receivable (\$000's)	Impairment Provision (\$000's)	Net Loan Receivable (\$000's)	Weighted Average Interest Rate	Median Loan Size
Property	17	\$47,407	\$10,474	\$36,933	14.79%	\$914,056
Personal	101	\$978	\$0	\$978	17.08%	\$3,554
Gaming	1	\$9	\$0	\$9	13.95%	\$9,120
Commercial	58	\$11,284	\$6,894	\$4,390	15.42%	\$24,673
Total	177	\$59,678	\$17,368	\$42,310	14.90%	\$9,098

In relation to each class of loan, the following observations can be made:

Property Loans

A good number of Mascot's property loans were advanced to property developers and 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 market. 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;
- 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 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 one third of the loans have been realised with minimal loss to date. However as the pool reduces in the size, the average quality of the receivables declines. Consequently the Receivers are continuously evaluating the merits of selling the personal loans as a block and thereby enhancing the average realisation.

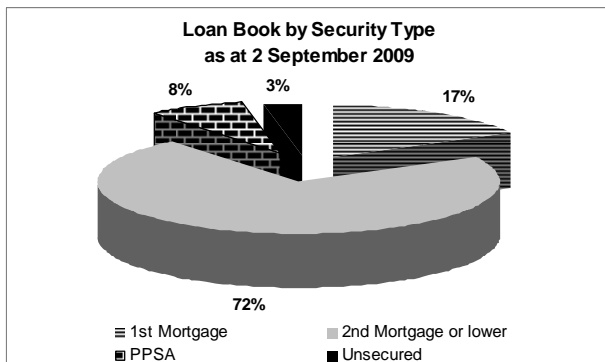
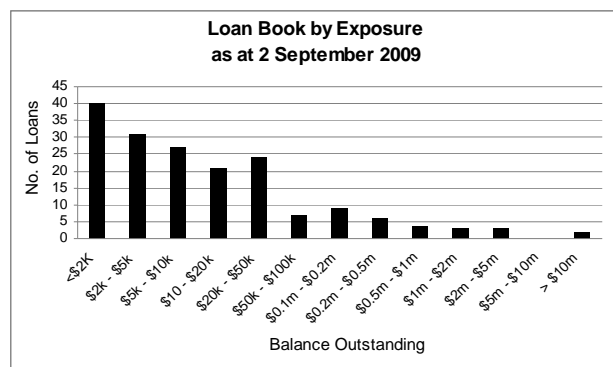
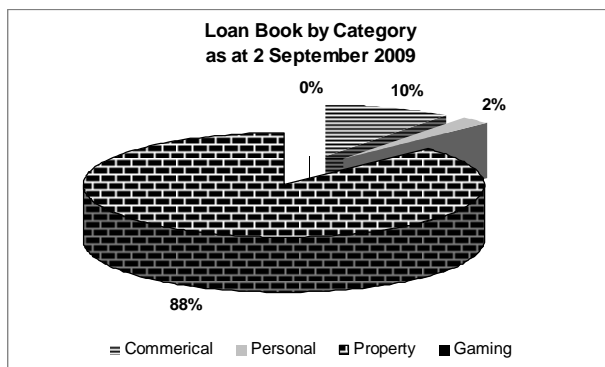
Gaming Loans

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 been retained by Mascot.

Commercial Loans

Active management of the commercial loan pool has seen repayment or refinancing of 13 loans since receivership. The remaining commercial loans include 18 loans that are past maturity and for which realisation prospects are not strong. Loans past maturity account for \$9.5 million of the outstanding \$11.3 million (84.3%) and are actively being pursued. In addition to those loans past maturity, a number of 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 2009, by category, exposure and security type.



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

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

Since the date of our last Receivers report Mascot's premises and equipment have been sold.

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

Premises and Equipment	\$ Million
109 Cambridge Terrace, Christchurch	\$0.92m
339 Stafford St, Timaru	\$0.86m
Office Equipment and Motor Vehicles	\$0.21m
Total Book Value as at date of Receivership	\$1.99m
Sale Proceeds Realised to 2 September 2009	\$1.19m
Sale Proceeds Realised Subsequent to 2 September 2009	\$1.41m
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 \$3.3m in unsecured debenture stock. All secured debenture stock is secured under a Trust Deed.

Interest is owed to secured debenture stock holders until date of full repayment. As at the date of this report \$3.6 million of interest has been accrued.

No distribution has been made by the Receivers to secured debenture stock holders.

2.4. Amounts Owing to Other Secured Creditors

A Personal Property Securities Register (“PPSR”) search dated 9 October 2009 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”).

Since the date of our last report 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 received. 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 \$0.2 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 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.

Based on the values realised to date the Receivers are in a position to make a first distribution to secured debenture stock holders. The first distribution is expected to equate to 50 cents in the dollar of total principal outstanding at date of receivership. The distribution date is yet to be finalised. Any subsequent distributions will be dependent on the outcome of continuing realisation efforts.

At this stage we 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 2009 principally comprise the loan book assets, cash in the bank and the premises at 109 Cambridge Terrace in Christchurch. The building has subsequently been sold and settlement occurred on 11 September 2009.

A summary of the assets as 2 September 2009 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 Type	Book Value
Property	\$36.93m
Commercial	\$4.39m
Gaming	\$0.01m
Personal Loans	\$0.98m
Interest Accrued (to 2 September 2009)	\$0.05m
Total	\$42.36m

The only other assets remaining at 2 September 2009 are:

Other Assets	Book Value
Bank	\$29.95m
Property: 109 Cambridge Terrace	\$0.92m
Office Equipment	\$0.09m
Deferred Tax	\$5.17m
Total	\$36.13m

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 \$78.49 million as at 2 September 2009 or \$73.32 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		\$68.77m
Perpetual Trust (for Secured Debenture Holders) ¹	\$68.77m	
Preferential Creditors²		\$0.00m
Employees	\$0.00m	
Inland Revenue	\$0.00m	
Unsecured Creditors		\$3.62m
Unsecured Debenture and Deposit Holders ⁴	\$3.54m	
Creditors (IRD, Employees and Suppliers) ³	\$0.08m	
Redeemable Preference Shares		\$3.86m
Total		\$76.25m

Notes:

1. The 'secured creditors' amount shown above includes interest to 2 September 2009.
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 2009.

1.3. 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 9 October 2009 revealed that the Trustee holds the only registered interest.

1.4. 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)

2 March 2009 to 2 September 2009

(all figures exclude GST)

Receipts	\$
Receipts b/f	Nil
Loan receipts	23,344,975
Proceeds from the sale of assets	1,190,800
Return of Investors funds	593,113
Rent income	25,805
Interest received from banks	273,069
GST Refund (pre - receivership)	12,741
Total receipts in the period	25,440,503
Payments	
Payments b/f	Nil
Accommodation	720
Advertising	429
Capitalised Loan Costs	-
Advertising	10,916
Insurance	8,719
Legal	31,546
Recovery costs	7,001
Cleaning	2,578
General expense	421
Heat light and power	4,421
Insurance	(1,876)
Interest and Bank fees	5,858
IRD and other preferential creditors	114,183
IT Software and Support	27,738
Legal fees	-
Receivership related	30,531
Crown Guarantee	24,586
Postage and mail out	7,372
Property disposal costs	51,210
PPSR, title search, registration & release	835
Pre Receivership Loan Repayment Dishonours	75,098
Repairs and maintenance	2,139
Rates	7,308
Receivers fees:	-
Core receivership	294,924
Daily operations management	121,908
Loan recovery and management	81,638
Crown Guarantee administration	101,623
Records Management	2,051
RWT on interest received from banks	91,563
Salaries and wages and contractor fees	64,321
Share registry fees	765
Security costs	2,903
Telephone and communications	14,107
Trustee fees	55,107
Vehicle costs	192
Total payments in the period	1,242,835
Net receipts in the period	24,197,668

5. Receivers' Contact Details

The Receivers can be contacted at the address below.

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