

# Mascot Finance Limited (In Receivership)

## Receiver's Sixth Report

Pursuant to Section 24 of the Receiverships Act 1993

2 September 2011

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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 2011 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:

- Undertaken a successful 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 loans mature or default;
- Negotiated settlements with Borrowers and Guarantors of loan exposures in order to maximise recovery while avoiding uneconomic legal proceedings and recovery processes.

## 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 \$17.3 million).

Based on the accounting records of the Company, the loan book as at the 2 September 2011 comprised 38 loans with a net loan receivable of \$21.2 million. The net loan receivables have reduced from \$33.1 million as at 2 March 2011 to \$21.2 million as at 2 September 2011. The reduction is partly due to loan recoveries of \$1.4 million achieved during the last six month period. The balance of the reduction to the loan receivables is the result of the Receivers crystallising losses in the loan book that had previously been provided for and have been realised in the reporting period.

Based on the accounting records of the Company, the status of the loan receivables as at 2 September 2011 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. 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 and protecting their position at the expense of the subsequent mortgagee;
- Increased business failures resulting in higher vacancy rates in commercial tenancies and therefore placing stress on debt servicing capability;
- A significant deterioration in property values and the demand for the types of property over which Mascot is secured including bare land;
- The Christchurch earthquake on February 22 that severely affected the ability of Mascot and its Borrowers to sell security properties in Christchurch;
- A deterioration in cash flow for certain Borrowers resulting in them being unable to meet principal and interest payments on loans.

The recovery prospects for the property loan book have deteriorated over the six month reporting period. The earthquakes and the difficult property market have caused delays in the realisation of assets secured. There are a number of larger property exposures which will be subject to significant write offs when the assets secured are realised.

### **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. This assessment has proven to be correct. The bulk of the personal loan book has been recovered. The remaining loans are of poor quality and will be difficult to recover.

The balance of the personal loans outstanding at 2 September 2011 is \$61,347 after the write off of one large loan that will not be recovered. The expected recovery for the balance of the personal loan receivables is estimated at 50 – 60 cents in the dollar. The costs of enforcement and recovery action on the remaining loans do not warrant investment of the Receiver's time.

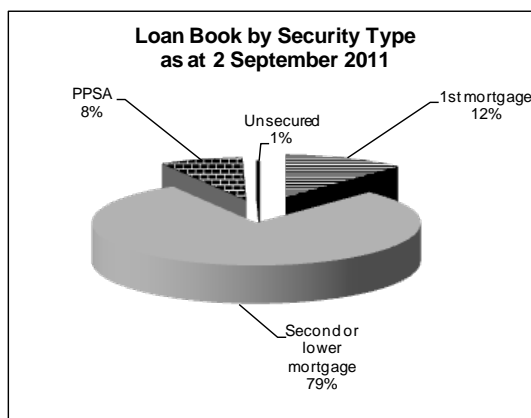
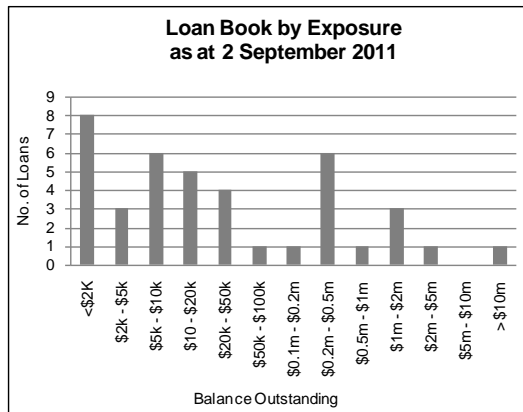
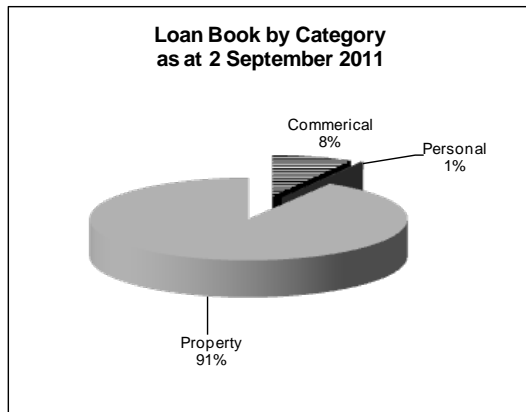
### **Gaming Loans**

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.

### **Commercial Loans**

The commercial loan book has seen repayment or refinancing of \$0.247 million in the last six months. In addition \$0.508 million of loans have been assessed as non-recoverable reducing the balance of the commercial loan book to \$1.8 million. There are 3 loans that make up 77% of the commercial loan book balance for which recovery prospects are uncertain. These loans are proving difficult to recover due to poor security and inherent difficulties in realising the security. The Receivers are pursuing repayment of the balance of the loan book by collecting contracted payments for current loans and strongly pursuing repayment of loans overdue or in payment default.

The graphs below show Mascot's net loan receivable as at 2 September 2011, by category, exposure and security type.



**Loan Book by Category**

Loans	As at date of Receivership (\$ Million)	As at 2-Sep-11 (\$ Million)
Property	52.2	19.4
Personal	1.7	0.1
Gaming	5.8	-
Commercial	5.8	1.7
	65.5	21.5

## Mascot Loan Book Recovery Estimate

The Receivers have distributed recoveries of \$41.8 million or 64 cents in the dollar of principal outstanding to the Secured Debenture Stock Holders to date.

The Receivers estimate the following total loan recoveries over the next twelve months. The recoveries include principal and interest:

- Recovery estimate 2 September 2011 to 2 March 2012 \$2.54 million
- Recovery estimate 3 March 2012 to 2 September 2012 \$1.98 million.

This equates to 6.92 cents in the dollar of principal projected to be recovered in the next 12 months.

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.

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

\* subsequently destroyed in the earthquake of 22 February 2011.

### 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 deposits. All secured debenture stock is secured under a Trust Deed.

Since the date of the last Receivers Report a fourth distribution of \$2.0 million or 3 cents in the dollar of principal outstanding was distributed on 26 August 2011 to The Crown as the subrogated creditor. This brings the total balance distributed to date to \$41.8 million or 64 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 \$23.4 million.

Interest is owed to secured debenture stock holders until date of full repayment. The Receivers ceased charging interest on the principal balance owed to secured debenture stock holders on 2 March 2011 on the basis that funds will not be realised to repay the interest accrued on the principal balance outstanding. As at 2 March 2011, \$8.5 million of interest was 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 2011 approximately 99% of Mascot investors have been repaid under the Guarantee. The remaining 1% of investors have been paid 64 cents in the dollar of principal (in line with the distributions to date) or have these sums held by the Trustee in the unclaimed monies account as they have not submitted a claim.

### 2.4. Amounts Owing to Other Secured Creditors

A Personal Property Securities Register ("PPSR") search dated 19 October 2011 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 the date of full repayment. As at the date of this report \$0.7 million of interest has been accrued. The Receivers ceased charging interest on the principal balance owed to unsecured depositors on 2 March 2011 on the basis that funds will not be realised to repay the interest accrued on the principal balance outstanding.

## 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 expect we are unlikely to receive any further confirmations of debt from 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

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.

As at 2 September 2011, 64 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.

The Receivers indicated at commencement of the receivership that the ultimate outcome is reliant on the recovery of a small number of larger loans and this is still the case. The execution of recovery strategies is still in progress with no new strategies to action. The Receivers costs continue to reduce as these recovery actions near completion.

## 3. State of Affairs

### 3.1. Assets Comprising the Property in Receivership

The assets of Mascot as at 2 September 2011 principally comprise the loan book assets and cash in the bank.

A summary of the assets as 2 September 2011 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	\$19.43m
Commercial	\$1.75m
Gaming	\$0.00m
Personal Loans	\$0.06m
<b>Net Loan Receivables</b>	<b>\$21.24m</b>

The only other assets remaining at 2 September 2011 are:

Other Assets	Book Value
Bank	\$0.71m
Office Equipment <sup>1</sup>	\$0.00m
Deferred Tax	\$5.17m
<b>Total</b>	<b>\$5.88m</b>

**Notes:**

1. Remaining office equipment is a small number of computers and a 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 \$27.37 million as at 2 September 2011 or \$22.20 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
<b>Secured Creditors</b>	<b>\$31.90</b>
Perpetual Trust (for Secured Debenture Holders) <sup>1</sup>	\$31.90m
<b>Preferential Creditors<sup>2</sup></b>	<b>\$0.00m</b>
Employees	\$0.00m
Inland Revenue	\$0.00m
<b>Unsecured Creditors</b>	<b>\$4.12m</b>
Unsecured Debenture and Deposit Holders <sup>4</sup>	\$4.04m
Creditors (IRD, Employees and Suppliers) <sup>3</sup>	\$0.08m
<b>Redeemable Preference Shares</b>	<b>\$3.86m</b>
<b>Total</b>	<b>\$39.88m</b>

**Notes:**

1. The 'secured creditors' amount shown above includes accrued interest to 2 March 2011.
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.
4. The 'unsecured debenture and deposit holders' amount shown above includes interest to 2 March 2011.

## 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 19 October 2011 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 2011 to 2nd September 2011**  
 (all figures exclude GST)

<b>Receipts</b>	<b>\$</b>
Bad debts recovered	-
Interest received from banks	29,957
Loan receipts	1,426,040
RWT refund	-
<b>Total receipts in the period</b>	<b>1,455,997</b>
<b>Payments</b>	
Capitalised loan costs: Legal	-
Crown payments	1,955,343
General expense	-
Interest and bank fees	273
IT software and support	903
Legal fees: Receivership related	6,271
PPSR, title search, registration and release	356
Monies paid to Receivers: Core receivership (including distributions)	13,136
Daily operations management	10,781
Loan recovery and management	25,233
Crown Guarantee administration	-
Records management	344
Salaries, wages and contractor costs	23,248
Telephone and communications	1,007
Trustee fees	6,710
<b>Total payments in the period</b>	<b>2,043,604</b>
<b>Net receipts (payments) in the period</b>	<b>(587,607)</b>

## 5. Receivers' Contact Details

The Receivers can be contacted at the address below.

Mascot Finance Limited (In Receivership)

C / - Deloitte

60 Grove Road

P O Box 248

Christchurch 8140

+64 3 379 7010

[www.deloitte.com/nz/mascot](http://www.deloitte.com/nz/mascot)



Paul Munro  
**Receiver and Manager**



Brett Chambers  
**Receiver and Manager**

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