

Mascot Finance Limited (In Receivership)

Receiver's Fifth Report

Pursuant to Section 24 of the Receiverships Act 1993

2 March 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.

Impact of the February Earthquake

The earthquake in February has impacted on the operations of Mascot Finance.

Critical systems and files were recovered from the Deloitte's Christchurch office four weeks after the earthquake. The Mascot Finance loan management system is in the process of being updated to enable access to loan reporting and management functions. This is expected to be completed by 2 May 2011.

At the time of preparation of this report, we have been unable to access the Mascot Finance electronic loan records and certain financial data. Consequently we have not had access to key records and other information since 22 February. Therefore we have prepared this report based on the information currently available to us. The accuracy of the report is limited by these circumstances.

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 March 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:

- 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 loans mature or default.

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 March 2011 comprised 61 loans with a net loan receivable of \$33.1 million. No further impairment consideration is reflected in the \$33.1 million net loan receivable.

Based on the accounting records of the Company, the status of the loan receivables as at 2 March 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 prior mortgagee;
- 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 and the demand for the types of property over which Mascot is secured including bareland;

- The Christchurch earthquake on February 22 that has severely affected the ability of Mascot and Borrowers to sell security properties in Christchurch.

The recovery prospects for the property loan book has deteriorated over the six month reporting period. There are a number of larger property exposures which will be subject to significant write offs when the secured assets 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. Approximately 77% of the loans have been realised with minimal losses to date. However as the loan book repays and reduces in size, the average quality of the receivables declines.

The personal loan book contains a number of loans which will not be fully recoverable. These loans make up approximately 75% of the total personal loan book balance as at the date of this report.

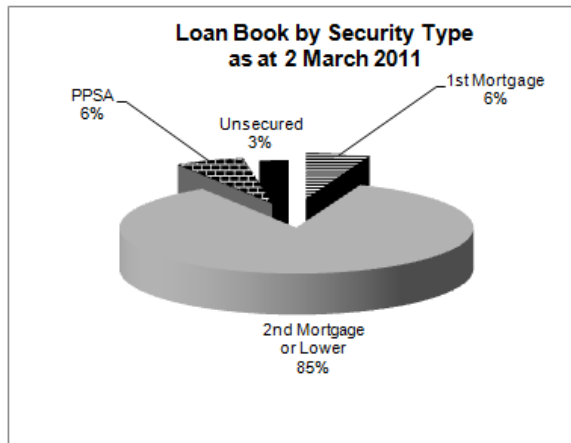
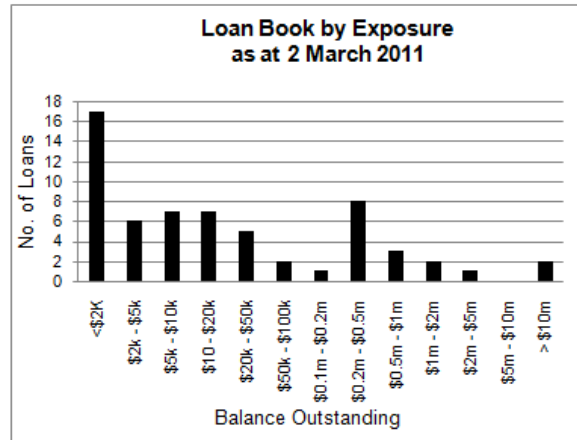
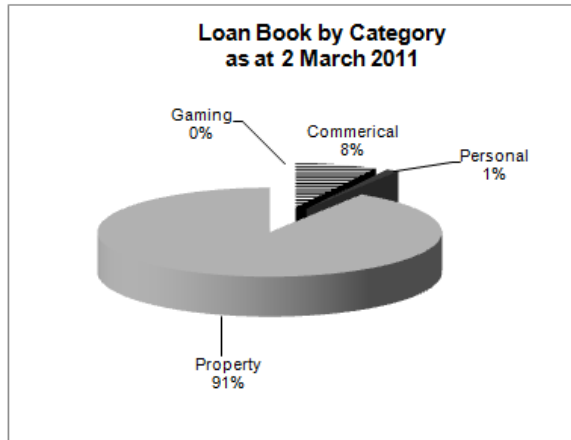
Gaming Loans

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

Active management of the commercial loan book has seen repayment or refinancing of \$3.215m since receivership reducing the balance of the commercial loan book to \$2.565m. The remaining commercial loans includes a number of loans that are past maturity and for which realisation prospects are uncertain. There are 5 loans that make up 63% of the commercial loan book balance that are unlikely to be fully recoverable. Enforcement action is ongoing for these loans. 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 March 2011, by category, exposure and security type.



Loan Book by Category

| Loans | As at date of Receivership (\$ Million) | As at 2 March 2011 (\$ Million) |
|------------|---|---------------------------------|
| Property | 52.2 | 30.1 |
| Personal | 1.7 | 0.4 |
| Gaming | 5.8 | - |
| Commercial | 5.8 | 2.6 |
| | 65.5 | 33.1 |

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 third distribution of \$0.65 million or 1 cent in the dollar of principal outstanding was distributed on 26 November 2010 to secured debenture stock holders who submitted a claim to the Receivers. This brings the total balance distributed to date to \$39.8 million or 61 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 \$25.4 million.

Interest is owed to secured debenture stock holders until date of full repayment. As at the date of this report \$8.5 million of interest is owed to secured debenture stock holders. 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.

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 March 2011 approximately 99% of Mascot investors have been repaid under the Guarantee. The remaining 1% of investors have been paid 61 cents in the dollar of principal (in line with the distributions to date) or have these sums held in the unclaimed monies account as they have not submitted a claim.

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"*. As such secured debenture stock holders and unsecured depositors that were previously deemed ineligible or had not submitted a claim to the Treasury were repaid by the Treasury the remaining 40 cents in the dollar of principal outstanding plus interest owing on 18 November 2010.

2.4. Amounts Owing to Other Secured Creditors

A Personal Property Securities Register ("PPSR") search dated 28 April 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 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 creditors is difficult to assess as the outcome will be dependent on the values realised from a small number of larger loan balances.

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 March 2011, 61 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.

3. State of Affairs

3.1. Assets Comprising the Property in Receivership

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

A summary of the assets as 2 March 2011 as per the Company records available to the Receivers (and based on the accounting book value) is set out below. The records available to the Receivers were limited by the February earthquake and this may affect the accuracy of these statements.

The finance receivables are categorised as follows:

| Loan Receivables | Book Value |
|-----------------------------|-----------------|
| Property | \$30.05m |
| Commercial | \$2.57m |
| Gaming | \$0.00m |
| Personal Loans | \$0.39m |
| Net Loan Receivables | \$33.01m |

The only other assets remaining at 2 March 2011 are:

| Other Assets | Book Value |
|-------------------------------|----------------|
| Bank | \$1.32m |
| Office Equipment ¹ | \$0.00m |
| Deferred Tax | \$5.17m |
| Total | \$6.49m |

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 \$39.50 million as at 2 March 2011 or \$34.33 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 | \$33.96m |
| Perpetual Trust (for Secured Debenture Holders) ¹ | \$33.96m |
| Preferential Creditors² | \$0.00m |
| Employees | \$0.00m |
| Inland Revenue | \$0.00m |
| Unsecured Creditors | \$4.12m |
| Unsecured Debenture and Deposit Holders ⁴ | \$4.04m |
| Creditors (IRD, Employees and Suppliers) ³ | \$0.08m |
| Redeemable Preference Shares | \$3.86m |
| Total | \$41.94m |

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. We have not yet received all creditor claims.
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 28 April 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 September 2010 to 2nd March 2011
 (all figures exclude GST)

| Receipts | \$ |
|--|------------------|
| Bad debts recovered | 16 |
| Interest received from banks | 12,487 |
| Loan receipts | 1,593,888 |
| RWT refund | - |
| Total receipts in the period | 1,606,392 |
| Payments | |
| Capitalised Loan Costs: Legal | 1,262 |
| General expense | - |
| Interest and Bank fees | 442 |
| IT Software and Support | 6,924 |
| Investor payments (secured debenture stock) | 649,719 |
| Legal fees: Receivership related | 17,240 |
| PPSR, title search, registration & release | 513 |
| Monies paid to Receivers: Core receivership (including 2nd distribution) | 2,151 |
| Daily operations management | 27,705 |
| Loan recovery and management | 20,414 |
| Crown Guarantee administration | 121 |
| Records Management | 864 |
| Salaries, wages and contractor costs | 14,561 |
| Telephone and communications | 1,576 |
| Trustee fees | 3,282 |
| Total payments in the period | 746,774 |
| Net receipts (payments) in the period | 859,618 |

5. Receivers' Contact Details

The Receivers can be contacted at the address below.

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