



# South Canterbury Finance

EST. 1926

## Investment Statement for Secured Debentures and Unsecured Deposits

10 FEBRUARY 2010



### IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978).

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

### CHOOSING AN INVESTMENT

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

### ENGAGING AN INVESTMENT ADVISER

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- relevant experience and qualifications, and whether dispute resolution facilities are available to you;
- what types of investments the adviser gives advice about;
- whether the advice is limited to investments offered by one or more particular financial institutions;
- information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- any relationships likely to give rise to a conflict of interest.

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The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include:

- the nature and level of the fees you will be charged for receiving the advice; and
- whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

#### NEW ZEALAND DEPOSIT GUARANTEE SCHEME

In November 2008, South Canterbury Finance Limited ("South Canterbury Finance" or "the Company") entered into a deed of guarantee with the Crown under the New Zealand deposit guarantee scheme (the "Deposit Guarantee Scheme"). The Company entered into an amended deed of guarantee with the Crown on 11 December 2009.

In broad terms, the effect of the Company being part of the Deposit Guarantee Scheme is that the Crown guarantees the payment of principal and interest on the First Ranking Secured Debentures ("Stock") and Unsecured Deposits ("Deposits") offered by South Canterbury Finance under this Investment Statement (up to \$1 million for each eligible investor):

- a. if and to the extent those amounts are, or become, payable before the Deposit Guarantee Scheme expires at 12.01am on 12 October 2010; and
- b. South Canterbury Finance does not, for any reason, pay those amounts.

In addition, Stock and Deposits which would otherwise mature after the expiry of the Deposit Guarantee Scheme will, subject to the terms of the Deposit Guarantee Scheme, have the benefit of the Crown guarantee if there is an insolvency event in respect of the Company during the term of the Crown guarantee.

In particular, the Deposit Guarantee Scheme provides that the Crown:

- a. guarantees to eligible Stockholders and Depositors the payment by South Canterbury Finance of the amounts payable by it in respect of the Stock and/or Deposits (up to a maximum amount of \$1 million per eligible Stockholder or Depositor, which amount includes all other amounts payable by South Canterbury Finance to the Stockholder or Depositor in respect of any other debt securities of South Canterbury Finance held by that Stockholder or Depositor) in the period from the date of issue until 12.01am on 12 October 2010 (being the current expiry date of the Deposit Guarantee Scheme); and
- b. undertakes to each eligible Stockholder and Depositor that if South Canterbury Finance does not pay to it when due and payable any amount payable in respect of the Stock and/or Deposits during the period of the Deposit Guarantee Scheme, then the Crown will pay that amount to the Stockholder and/or Depositor when it is due and payable (unless any such payment has not been made by South Canterbury Finance solely as a result of an administrative error or technical error and is subsequently paid by South Canterbury Finance within seven days of its due date).

In order for a Stockholder and/or Depositor to have the benefit of the Deposit Guarantee Scheme:

- a. they must be a "Creditor" within the meaning of the Deposit Guarantee Scheme;

- b. they must provide the Crown with a notice of claim in respect of the amount payable to it by South Canterbury Finance; and
- c. the Crown will need to satisfy itself as to the amount payable to the Stockholder or Depositor by South Canterbury Finance and as to such other matters as the Crown reasonably considers appropriate to determine the extent of its liability to that Stockholder or Depositor under the Deposit Guarantee Scheme.

The Deposit Guarantee Scheme does not apply to all investors. Accordingly, potential investors in the Stock and Deposits should satisfy themselves that the Deposit Guarantee Scheme applies to them.

If the Deposit Guarantee Scheme is withdrawn by the Crown in the future, whether due to a breach of the terms of the Deposit Guarantee Scheme by South Canterbury Finance or otherwise, it will (subject to the terms of the guarantee) continue to apply to all Stock and Deposits issued prior to the date of withdrawal.

As indicated above, the Deposit Guarantee Scheme expires at 12.01am on 12 October 2010 and only applies to amounts payable by South Canterbury Finance in respect of Stock and Deposits to eligible investors prior to the expiry of the Deposit Guarantee Scheme. It will not apply to any amounts required to be paid by South Canterbury Finance in respect of any Stock or Deposits which become payable, in accordance with the terms of the Stock or Deposits, after the expiry date of the Deposit Guarantee Scheme.

During the term of the Deposit Guarantee Scheme, South Canterbury Finance will need to comply with the restrictions imposed under the Deposit Guarantee Scheme. In particular, South Canterbury Finance must not, and must ensure that its subsidiaries do not, without the prior written consent of the Crown:

- a. pay or effect any dividend;
- b. redeem or acquire any shares issued by it;
- c. cancel or reduce the liability to it of any of its shareholders (to the extent that any such liability arises under the terms of issue of any shares issued by it, under its constitution, or under the terms of any contract or deed for the issue of those shares); or
- d. make any other distribution (as defined in the Companies Act 1993) other than:
  - i. to any extent required by law;
  - ii. through a redemption of shares which it is required to make in accordance with the terms of those shares (in place as at 12 October 2008) (other than shares which are redeemable at the option of the holder and which are held by any person who controls, or who is under common control with, South Canterbury Finance);
  - iii. the payment of fixed dividends on shares which are required to be made in accordance with the terms of those shares (in place as at 12 October 2008);
  - iv. the payment of dividends, provided the aggregate amount of such dividends in any financial year does not exceed the profit for the previous financial year of South Canterbury Finance (as shown in its annual financial statements for that year); or
  - v. the making of a distribution by a subsidiary of South Canterbury Finance to South Canterbury Finance or to any other member of the South Canterbury Finance Group;

- e. enter into any transaction (or series of linked or related transactions) having a value exceeding 1% (at the time of entry) of the value of South Canterbury Finance's assets (at the time of entry) otherwise than on arm's length terms; or
- f. enter into any transaction (or series of linked or related transactions) having a value exceeding 1% of the value of South Canterbury Finance's assets with any person who controls, or who is under common control with, South Canterbury Finance (other than a wholly-owned subsidiary of South Canterbury Finance) unless:
  - i. that transaction is on arm's length terms; and
  - ii. an independent expert approved by the Crown in writing has certified to the Crown in writing that the transaction is, in the opinion of the expert, on arm's length terms.
- deposit taking institutions with a credit rating of 'BB' or higher can apply to participate in the extended scheme. Institutions with a lower credit rating or no credit rating will not be eligible despite being the beneficiary of a Crown guarantee under the current terms of the Deposit Guarantee Scheme; and
- eligible deposit taking institutions may apply to participate in the extended deposit guarantee scheme in respect of some or all debt securities issued by that institution, provided that any such debt securities that are to be guaranteed under the Deposit Guarantee Scheme fall within all other terms and conditions of the Deposit Guarantee Scheme.

In addition, institutions will need to meet certain criteria in order to be eligible to apply for participation in the new extended deposit guarantee scheme.

Further information about the Deposit Guarantee Scheme is available, free of charge and at all reasonable times, on the Internet site maintained by or on behalf of the Treasury ([www.treasury.govt.nz](http://www.treasury.govt.nz)).

On 18 November 2009, the Crown announced an extension to the term of the Deposit Guarantee Scheme to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. In particular:

- eligible non-bank deposit takers will be guaranteed to a maximum of \$250,000 per depositor per institution and eligible bank deposit takers will be guaranteed to a maximum of \$500,000 per depositor per institution;
- fees paid by participating institutions will be changed to reflect the risk profile of the relevant institution. Thresholds in the current scheme will be discontinued and the fees will apply to all funds in the new scheme;

On 21 January 2010, South Canterbury Finance applied to the Crown for acceptance into the extended scheme. Based on publicly available information as at the date of this Investment Statement, the Company is of the view that it will meet the criteria for participation in the extended scheme. However, in order for an applicant to be accepted for participation in the extended scheme, the Secretary to the Treasury must be satisfied that it is necessary or expedient in the public interest for the applicant to be accepted into the scheme. Accordingly, there is no assurance that the Company will have a Crown guarantee after the current Deposit Guarantee Scheme expires at 12.01am on 12 October 2010. As at the date of this Investment Statement, the Company does not have a Crown guarantee beyond the expiry of the current Deposit Guarantee Scheme at 12.01am on 12 October 2010.

## STANDARD & POOR'S RATING (BB+/Negative)

On 24 December 2009, Standard & Poor's Ratings Services affirmed its BB+ credit rating for South Canterbury Finance. At the same time, the rating was removed from CreditWatch Negative, where it was initially placed on 20 September 2009. The outlook is negative which reflects immediate pressures on South Canterbury Finance's financial profile and medium-term uncertainty concerning restructuring and recapitalisation initiatives.

Analytic services provided by Standard & Poor's Ratings Services are the result of separate activities designed to preserve the independence and objectivity of Ratings' opinions. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during each analytical process.

Analytic services and products provided by Standard & Poor's Ratings Services are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions.

Accordingly, any user of credit ratings issued by Standard & Poor's Ratings Services should not rely on any such ratings or other opinions issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services.

Standard & Poor's (Australia) Pty Limited and its subsidiaries have not authorised or caused the issue of this Investment Statement and have not made any statement that is included in the Investment Statement or any statement on which a statement made in the Investment Statement is based, other than as specified above. Standard & Poor's (Australia) Pty Limited and its subsidiaries to the maximum extent permitted by law, expressly disclaim, and take no responsibility for any part of, the Investment Statement, other than the reference to their names and the statements included in the Investment Statement.



## Chairman's Statement



**A.J. Hubbard**  
Chairman

A number of developments have occurred in respect of South Canterbury Finance over the 12 months to 30 June 2009 and in the period since then.

In October 2008, South Canterbury Finance amalgamated with its wholly-owned subsidiary finance companies. As a result, South Canterbury Finance's name is now recognised throughout New Zealand and the change in operating structure under the amalgamation (from a number of individual companies to a single company with regional branch offices) has already resulted in administrative benefits and cost savings for the Group.

In November 2008, South Canterbury Finance entered into a Deed of Guarantee with the Crown under the Deposit Guarantee Scheme\*. In broad terms, this means that (subject to the terms of the guarantee) debentures and deposits of South Canterbury Finance will have the benefit of the guarantee from the Crown up until the expiry of the Deposit Guarantee Scheme at 12.01am on 12 October 2010. The Crown has recently announced an extension to the term of the Deposit Guarantee Scheme to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. We have applied to take advantage of this extension and are currently waiting to hear back from the Crown. If South Canterbury Finance is accepted into the Scheme, we will be able to offer a greater range of investment options to investors. At this stage, however, the Company does not have a Crown guarantee beyond the expiry of the Deposit Guarantee Scheme at 12.01 am on 12 October 2010 and there is no assurance that it will have a Crown guarantee after that time.

In an endeavour to reduce the impact of the economic downturn on the Company, Southbury Group Limited (South Canterbury Finance's ultimate parent company) introduced a further \$20 million in cash as paid up capital in March 2009 and a further \$40 million of new capital in June 2009 under the acquisition by the Company of 33.6% of Dairy Holdings Limited from Southbury Group Limited for a purchase price of \$75.73 million. The \$40 million of new shares issued to Southbury Group Limited pursuant to this transaction were all credited as fully paid in part consideration for the acquisition of the Dairy Holdings Limited interest. The Company paid the balance of the purchase price, being \$35.73 million, to Southbury Group Limited in cash. This transaction was approved by an independent expert approved by the Crown who confirmed that the transaction was on arm's length terms and that the value paid for the interest in Dairy Holdings Limited represented fair value for South Canterbury Finance.

I am pleased to report that the Southbury group (of which South Canterbury Finance forms part) has recently implemented the first stages of its proposed restructuring and recapitalisation plan which has resulted in South Canterbury Finance receiving an injection of \$26.4 million of new capital. In this regard, South Canterbury Finance, Helicopters (NZ) Limited, and Scales Corporation Limited joined under the umbrella of a new parent holding company, Southbury Corporation Limited\*\* on 31 December 2009 and Southbury Corporation Limited completed a private placement of \$27.5 million of convertible notes to institutional and private investors in New Zealand under the first part of an intended two stage capital raising process. The funds raised under the private placement were used by Southbury Corporation Limited to subscribe, in cash, for \$26.4 million of new ordinary shares in South Canterbury Finance.

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I am also pleased to report, in relation to the Company's United States private placement, that formal documentation has now been entered into between the Company and the US noteholders recording their agreement for the accelerated repayment of the principal amount of the notes initially issued by South Canterbury Finance under the private placement (being US\$100 million). To date, South Canterbury Finance has repaid US\$82.5 million of principal (together with interest) to noteholders and the remaining US\$17.5 million of principal will be repaid in two instalments of US\$7.5 million and US\$10 million (plus interest) in February and March 2010 respectively.

In a further development, on 24 December 2009, Standard & Poor's Ratings Services affirmed its 'BB+' rating for South Canterbury Finance. At the same time, the rating was removed from CreditWatch Negative. The outlook is negative which reflects immediate pressures on South Canterbury Finance's financial profile and medium-term uncertainty concerning restructuring and recapitalisation initiatives. South Canterbury Finance recognises that its Standard & Poor's rating is an important factor for investors and remains committed to improving the rating over time.

We are currently in the process of preparing financial statements for the South Canterbury Finance Charging Group for the six months ended 31 December 2009 in conjunction with our new auditors, Ernst & Young. The Company is of the view that further provisioning is likely to be required due to poor economic conditions that continue to impact recoveries and asset quality particularly in the property sector. In addition, the early redemption of derivative instruments associated with the Company's obligations under the United States private placement and the impact of fair value adjustments on investments will have a negative impact on the Charging Group's results to 31 December 2009. As a result, the Company is expecting to report a loss for the Charging Group for the six months to 31 December 2009. This is discussed in more detail in the "Business Commentary" section of this Investment statement.

In other events, the Company announced the retirements of Mr Robert White and Mr Stuart Nattrass as South Canterbury Finance directors on 27 August 2009 and welcomed the appointment of Mr Bill Baylis, Mr Stuart McLauchlan and Mr Denham Shale as independent directors of the Company on 20 October 2009. As previously indicated, it is my intention to step down as Chairman of the Board within the next 12 months, in favour of appointing a new independent chairman.

In addition to the new board appointments, Mr Sandy Maier was appointed as the Chief Executive Officer of the Company and the Southbury Group on 23 December 2009. These changes to the Board and management of the Company will introduce a wide range of new commercial skills and expertise to the Company, and strengthen the independence of the Board and the Company's governance and management.

While the Board and management of South Canterbury Finance recognise that the current economic environment creates a number of challenges, it also presents the Company with some good and exciting opportunities as well.

The Company is in the process of pursuing a number of initiatives to strengthen its capital base and improve the quality of its overall asset base. In this respect, the formation of Southbury Corporation Limited and the initial capital raising undertaken by it are major steps in the Group's restructuring and recapitalisation plans. Taken together with the recent appointment of independent board members and a new Chief Executive Officer, the resolution of the United States private placement matter and the recent confirmation of South Canterbury Finance Limited's BB+/Negative credit rating, South Canterbury Finance is well on the way to a totally fresh approach to the future.

On behalf of the Board, I extend our appreciation and thanks for the support received from individual and institutional investors and to our loyal staff and management team for their efforts. We look forward to your continued support during the coming year.

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\*Further information about this scheme is set out on pages 2 to 3 of this Investment Statement and is also available, free of charge and at all reasonable times, on the Internet site maintained by or on behalf of the Treasury ([www.treasury.govt.nz](http://www.treasury.govt.nz)).

\*\*Southbury Corporation Limited and Southbury Group Limited do not guarantee the Stock and Deposits offered under this Investment Statement.



## Business Commentary



### FINANCIAL POSITION OF THE COMPANY

Like many participants in the finance industry, the Company's performance has been adversely affected by the economic downturn and, in particular, the impact of the downturn on its borrowers and their business activities. The impact of the economic downturn resulted in the Charging Group taking \$121.3 million of losses and non-cash provisions for non-performing investments and doubtful property loans in the financial year to 30 June 2009. Of these losses and provisions, \$72.3 million was unrealised. As a result of the provision, the Company announced an audited after-tax loss of \$57.8 million for the Charging Group for the financial year to 30 June 2009.

To mitigate the impact of the Charging Group's provisions for non-performing loans, the Company's shareholder at the time, Southbury Group Limited, injected \$60 million of new equity during the year ended 30 June 2009, as noted in the Chairman's report.

In addition to this, on 31 December 2009, Southbury Corporation Limited\*, the Company's new 100% shareholder and a wholly-owned subsidiary of Southbury Group Limited, subscribed for \$26.4 million of new ordinary shares in the Company (which were issued at an issue price of \$1.00 each) as discussed in more detail in the Chairman's Statement above. Southbury Corporation Limited paid \$20 million of the issue price of the new shares in cash on 31 December 2009 and the remaining \$6.4 million was paid in cash during January 2010.

The financial statements for the Charging Group for the six months ended 31 December 2009 are currently being prepared. The Company is of the view that further provisioning is likely to be required due to poor economic conditions which continue to impact recoveries and asset quality, particularly in the property sector. In addition, the early redemption of derivative instruments associated with the Company's obligations under the United States private placement and the impact of fair value adjustments on investments will have a negative impact on the Charging Group's results to 31 December 2009. Details of the level of provisioning required and the impairment on investments will be announced when the work necessary to assess these matters is completed for inclusion in the results for the six months ended 31 December 2009, which is expected to be at the end of February 2010. The Company currently expects that its results for the period ended 31 December 2009 will see South Canterbury Finance reporting a loss for the Charging Group as a result of increased provisioning, write-downs on investments and losses on foreign currency transactions.

Investment bank Forsyth Barr has been mandated by the Company to source the funding necessary to strengthen its balance sheet. The amount of new capital required will be determined at the time the Company's results for the period ended 31 December 2009 are finalised.

In addition, it has come to the Company's attention that adjustments may be required to the valuation and reporting of certain items in its 30 June 2009 audited financial statements, including, in particular, the

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fair value of the Company's investment in South Island Farm Holdings Limited preference shares (which preference shares were subsequently redeemed for their issue price of \$67.2 million). The Company is currently reviewing the issues and seeking independent advice where necessary to determine the extent of any potential prior period adjustments. Any difference arising from a fair value adjustment to the South Island Farm Holdings Limited preference shares in the year to 30 June 2009 will fully reverse in the current financial year ending 30 June 2010 as a result of South Canterbury Finance and South Island Farm Holdings Limited becoming "associates" for accounting purposes on 1 July 2009. The Company believes that the issues identified may not have a material impact on the position of the Company.

Further information will be made available once the Company's preliminary results for the six months ended 31 December 2009 are available.

#### FUNDING

In positive developments, in October 2009, the Company entered into a new senior \$75 million funding facility with New Zealand Credit Fund Limited, which arranged funding from a syndicate of professional investors from Australia and New Zealand. The facility has been fully drawn down and the funds were applied towards the repayment of the principal of the notes issued by the Company pursuant to the United States private placement.

#### UNITED STATES PRIVATE PLACEMENT ARRANGEMENTS

As previously disclosed, investors under the Company's United States private placement had the right to require the Company to repay their notes, in full, together with interest and other amounts calculated in accordance with the terms of their notes. In October 2009, the Company entered into a binding commitment letter with the noteholders for the accelerated repayment of the principal sum of US\$100 million to noteholders (together with interest) by instalments, with the last instalment being due on 31 March 2010. As indicated in the Chairman's statement, the formal documentation recording these arrangements has now been entered into between the Company and noteholders and, as at the date of this Investment Statement, South Canterbury Finance has repaid US\$82.5 million of principal to noteholders (together with interest). The remaining US\$17.5 million of principal will be repaid in two instalments of US\$7.5 million and US\$10 million (plus interest) in February and March 2010 respectively. In addition, Southbury Group Limited agreed to pay to the noteholders a refinancing fee of US\$15 million by way of three instalments, with the last instalment due on 31 March 2010.

The payments to noteholders are in full and final satisfaction of all rights which they have in respect of the notes issued to them pursuant to the United States private placement. If the Company or Southbury Group Limited fail to pay any of the instalments, in full, on the due dates or fail to comply with any of their other obligations in respect of the agreement, then the noteholders will be entitled to demand payment in full of all amounts payable to them in respect of their notes under the terms of the current private placement documentation. The directors are satisfied that the Company and Southbury Group Limited will have the necessary funds to enable them to meet their respective payment obligations to noteholders under this agreement. In this regard, the Company has already repaid US\$82.5 million of principal to noteholders (together with interest). Any default of the terms of the Trust Deed by the Company will also entitle the noteholders to demand payment under the terms of their notes.

The new agreement with noteholders includes certain restrictions including restrictions on the Company's ability to pay dividends to the holder of its ordinary shares, restrictions on related party lending, restrictions on significant restructuring or asset sales and restrictions on the Company's usage of amounts borrowed by way of Prior Charges. It is not expected that any of these restrictions will prevent South Canterbury Finance from realising assets in accordance with the statements set out in this Investment Statement. The agreement with noteholders does not and will not impose any financial covenants on the Company other than those set out in the Trust Deed. The noteholders have, in addition, agreed that their rights to require prepayment on a rating downgrade will no longer apply.

#### INVESTOR ACTIVITY

In terms of investor activity, as at the date of this Investment Statement, the Company is experiencing an encouraging inflow of funds from investors, both from new investments and from the roll-over of existing investments.

As at the date of this Investment Statement, South Canterbury Finance had cash on deposit of \$79 million and realisable investments of \$12 million.

Of the approximate \$45.1 million held on trust on behalf of investors as at 14 October 2009 pending registration of a new prospectus by the Company, \$12 million of that sum has been repaid to investors upon request while approximately \$25 million has been reinvested in South Canterbury Finance securities. Approximately \$8 million remains on trust for investors who have the right, exercisable before 1 March 2010, to avoid their subscriptions in accordance with the Securities Act 1978.

#### RESTRUCTURING, RECAPITALISATION PLANS AND FUTURE DIRECTION

As part of the proposed restructuring and recapitalisation of the Southbury group of companies, South Canterbury Finance, Helicopters (NZ) Limited and Scales Corporation Limited are now joined under the umbrella of a new holding company, Southbury Corporation Limited\*. On 31 December 2009, Southbury Corporation Limited completed a private placement of \$27.5 million of convertible notes to institutional and private investors in New Zealand as the first part of an intended two stage capital raising process. The funds raised under the private placement were used by Southbury Corporation Limited to subscribe, in cash, for \$26.4 million of new ordinary shares in South Canterbury Finance. South Canterbury Finance has guaranteed the performance by Southbury Corporation Limited of its obligations in respect of the convertible notes issued by it and has granted it a charge over its assets in support of that guarantee. The charge granted by South Canterbury Finance constitutes a prior ranking charge under the Trust Deed and, accordingly, ranks ahead of the charge granted in favour of Stock holders under the Trust Deed. Southbury Corporation Limited has agreed to indemnify South Canterbury Finance for any payments it is required to make under the guarantee.

The Company has the ability to borrow up to 7.5% of its total tangible assets under prior ranking charges under the terms of its Trust Deed, which charges rank ahead of all other obligations of the Company (including the Stock and Deposits offered under its Registered Prospectus). As indicated above, the Company has borrowed \$75 million from New Zealand Credit Fund Limited, which amount is secured by way of a prior ranking charge. In addition, South Canterbury Finance's obligations under the guarantee given by it in respect of the \$27.5 million of convertible notes issued by Southbury Corporation

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Limited are secured by way of a prior ranking charge under the Trust Deed. As at 31 December 2009, there were permitted Prior Charges of \$124,659,614. The arrangements with New Zealand Credit Fund Limited and the guarantee given by South Canterbury Finance in respect of the convertible notes issued by Southbury Corporation Limited both provide that the amount for which priority is given includes an allowance for interest at default rates for an agreed period. If interest of that nature is included in the total amount of permitted Prior Charges, then the total amount of prior charges as at 31 December 2009 was \$152,834,614.

The Company has further plans to recapitalise its balance sheet and fully restructure its business operations, to meet both the changed market conditions and the expected new capital requirements proposed by the Reserve Bank under the new regulatory regime for non-bank deposit takers. Forsyth Barr has been mandated to assist the Company with this process. The successful implementation of this recapitalisation plan is integral to the Company's ability to operate profitably in the future.

As part of the restructuring and recapitalisation process, the Company intends:

- divesting a range of non-core assets over the next 6 to 12 months (including, if appropriate, reducing its shareholding in Dairy Holdings Limited. The Dairy Holdings Limited shareholding is, in the Company's view, a high quality asset and is expected to attract wide-spread interest should the Company decide to reduce, or sell all of, its shareholding in that company. In this regard, the Company sold the 6.8 million ordinary shares in South Island Farm Holdings Limited ("SIFHL") that were previously held by it to an independent third party for \$6.8 million on 31 December 2009. At the same time, SIFHL redeemed all of the 67.2 million preference shares held by the Company for \$67.2 million (being the aggregated issue price of those preference shares) and South Canterbury Finance made an advance of that amount to SIFHL);
- refocusing its lending operations on the Company's traditional business, plant and equipment, consumer and rural lending areas;
- seeking to reduce related party lending by up to \$50 million before 30 June 2010;
- not making any new capitalised lending in the property development sector other than in very exceptional circumstances and then only where the loan is extremely well secured; and
- reviewing and implementing further changes to its lending and credit approval processes in light of the adverse market conditions.

Together with the proposed recapitalisation of the Company, the Board considers these broad-ranging restructuring initiatives should enable the Company, over the next 18 to 24 months, to comply with the Crown's proposed new regulatory regime for non-bank deposit takers should it be introduced in its current form.

The Company will make a further announcement regarding the restructuring and capital raising process as soon as it is in a position to do so.

The Company acknowledges that its lending activities have grown significantly with the Charging Group's net advances increasing from \$1,380.3 million as at 30 June 2008 to \$1,629.9 million as at 30 June 2009. The global financial crisis and, in particular, the deterioration in the property development market has adversely impacted on the quality of the Charging Group's property sector loan portfolio, as reflected in the \$48.4 million of specific impairment provisions made by the Charging Group in respect of its property sector loan portfolio. As indicated above, further provisioning is likely to be required due to poor economic conditions which continue to impact recoveries and asset quality particularly in the property sector. Accordingly, the Company intends re-focusing its lending operations on its traditional business, plant and equipment, consumer and rural lending areas, and winding down and, where possible, divesting its exposure to property development lending.

The Company's internal processes and systems are in the process of being updated to meet the demands of the Company's increased loan portfolio and, as indicated above, the Company is reviewing and implementing further changes to its lending, credit approval, and loan management, processes to reflect the current adverse market conditions. The measures will, once implemented, result in the Company being well placed to meet the challenges of the future.

In considering the impact of the events of the last year on the Company's position, it is important to bear in mind that the Company and its investors still have the benefit of the Crown guarantee under the Deposit Guarantee Scheme in respect of Stock or Deposits which mature, or otherwise become payable, on or before 11 October 2010. Further details regarding the terms of the Deposit Guarantee Scheme are set out on pages 2 to 3 of this Investment Statement.

Notwithstanding recent challenges, the Company believes it remains well positioned to continue to operate successfully in the non-bank finance sector. The Company has a number of restructuring initiatives underway designed to refocus its business on its traditional areas of core lending strength and profitability, and improve the quality of its asset base.

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\*Southbury Corporation Limited and Southbury Group Limited do not guarantee the Stock and Deposits offered under this Investment Statement.





## Notes to the Investment Statement



### INTRODUCTION

This is an Investment Statement for the purposes of the Securities Act 1978 and is prepared as at 10 February 2010. The purpose of this Investment Statement is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to invest in the Stock issued or Deposits taken by South Canterbury Finance, and to bring to the attention of such a person the fact that other important information about these investments is available to that person in other documents.

Further information about the Company and the Stock and Deposits offered under this Investment Statement can be obtained in the registered prospectus for the Stock and Deposits dated 20 October 2009 (as amended by a memorandum of amendments dated 9 February 2010) (the "Registered Prospectus"). Should you require any further information or explanation please feel free to call us on 0800 808 117.

### 1. WHAT SORT OF INVESTMENT IS THIS?

South Canterbury Finance Limited is offering two forms of investment:

- a. First Ranking Registered Debenture Stocks ("Stock"); and
- b. Unsecured Deposits ("Deposits").

Both are fixed interest securities. Options for the payment of interest are set out under the heading "What returns will I get?" on page 11.

The Stock issued under this Investment Statement will rank equally with all other Stock now existing or at any future time issued by the Company. The Stock does, however, rank behind permitted Prior Charges under the Trust Deed and statutorily preferred claims. As at 30 June 2009, there was Stock of \$2,073.38 million, in total, and there were permitted Prior Charges of \$34.123 million, in total, while as at 31 December 2009, there was Stock of \$1,783,010,143, in total, and there were permitted Prior Charges of \$124,659,614. The arrangements with New Zealand Credit Fund Limited and the guarantee given by South Canterbury Finance in respect of the convertible notes issued by Southbury Corporation Limited both provide that the amount for which priority is given includes an allowance for interest at default rates for an agreed period. If interest of that nature is included in the total amount of permitted Prior Charges, then the total amount of prior charges as at 31 December 2009 was \$152,834,614. The Company may over time borrow by way of Prior Charges the full amount permitted under the Trust Deed. Stock is available for investment for terms of between three months and five years.

Deposits are unsecured, ranking behind the Stock and all other secured stock issued by the Company under the Trust Deed, all other secured creditors, and behind statutorily preferred claims. The Deposits taken under this Investment Statement will rank equally with all other unsecured deposits now existing or at any future time taken by the Company and also will also rank equally with other unsecured creditors of the Company. As at 30 June 2009, unsecured deposits and other unsecured creditors totalled \$28.173 million. As at 31 December 2009, unsecured deposits and other unsecured creditors totalled approximately \$34.9 million. Deposits can be made at call or for terms of up to five years.

### 2. WHO IS INVOLVED IN PROVIDING IT FOR ME?

The Issuer is:

- South Canterbury Finance Limited  
19 Sophia Street, PO Box 125, Timaru, New Zealand.  
Tel. 0800 808 117 • Fax. 03 684 9550.

South Canterbury Finance has been operating continuously since 1926. The principal activities of the Company are to accept funds from the public by way of secured debentures or unsecured deposits. These funds are used to provide a balanced range of consumer finance and finance to the industrial, farming and commercial sectors. The Company offers a range of finance products by way of hire purchase, floor plan, leasing, block discounting, mortgages against property and personal loans.

Following the amalgamation of South Canterbury Finance with its wholly owned regional companies, the Company now has branches operating in place of those wholly owned subsidiaries.

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#### The Company's Charging Subsidiaries are:

- Belfast Park Ltd;
- Braebrook Properties Ltd;
- Face Finance Ltd;
- Fairfield Finance Ltd;
- Flexi Lease Ltd;
- Galway Park Ltd;
- Helicopters Nominees Ltd;
- Hornchurch Ltd;
- Rental Cars Ltd;
- SCFG Systems Ltd;
- Sophia Investments Ltd;
- Southbury Insurance Ltd; and
- Tyrone Estates Ltd.

Other Charging Subsidiaries may be added from time to time.

The Trustee for the Stockholders and Depositors is Trustees Executors Ltd, whose address is Level 5, 10 Customhouse Quay, Wellington (the "Trustee").

Neither the shareholders of South Canterbury Finance nor the Trustee guarantee repayment of the Stock issued or Deposits accepted by South Canterbury Finance or the payment of interest thereon.

South Canterbury Finance has a guarantee under the Deposit Guarantee Scheme. Further information about the Deposit Guarantee Scheme is set out on pages 2 to 3 of this Investment Statement and is also available, free of charge and at all reasonable times, on the Internet site maintained by or on behalf of the Treasury ([www.treasury.govt.nz](http://www.treasury.govt.nz)).

Currently, the Deposit Guarantee Scheme expires at 12.01am on 12 October 2010, which may be before the maturity date of Stock and Deposits issued under this Investment Statement. The Deposit Guarantee Scheme does not apply to payments required to be made in respect of Stock and Deposits after 12.01am on 12 October 2010 unless there is an insolvency event in respect of the Company before that time. In late 2009, the Crown announced an extension to the term of the Deposit Guarantee Scheme to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. The Company has applied to participate in the extended scheme and based on publicly available information as at the date of this Investment Statement, is of the view that it will meet the criteria for participation in the extended scheme. However, in order for an applicant to be accepted for participation in the extended scheme, the Secretary to the Treasury must be satisfied that it is necessary or expedient in the public interest for the applicant to be accepted into the scheme. Accordingly, there is no assurance that the Company will have a Crown guarantee after the current Deposit Guarantee Scheme expires at 12.01am on 12 October 2010. As at the date of this Investment Statement, the Company does not have a Crown guarantee beyond the expiry of the current Deposit Guarantee Scheme at 12.01am on 12 October 2010.

#### 3. HOW MUCH DO I PAY?

You pay only the face value of the investment, which, in the case of Stock, is the principal amount of the Stock applied for. A minimum investment of \$100 is required. There are no other sums payable, and any commission, brokerage or other benefits payable to investment advisers or investment brokers in respect of your investment are met by South Canterbury Finance. You are entitled by law to details of any such payments made by South Canterbury Finance to your investment adviser or investment broker by requesting disclosure of such amounts from your investment adviser or investment broker.

An investment can only proceed following completion of the appropriate Investment Application Form, copies of which accompany this Investment Statement. The completed Investment Application Form should be lodged, together with payment, with your investment adviser or investment broker, or direct with South Canterbury Finance at 19 Sophia Street, Timaru, or by mailing it to PO Box 125, Timaru.

Interest is payable on your investment from the date of receipt of your payment by the Company, subject to clearance through your bank for any payment made by cheque.

#### 4. WHAT ARE THE CHARGES?

Applicants are not required to pay any charges to South Canterbury Finance.

Details of the fees and expenses incurred in respect of this offer of Stock and Deposits and payable by South Canterbury Finance are set out in the Registered Prospectus. These expenses are estimated to be approximately \$5 million including brokerage.

South Canterbury Finance has agreed to pay brokerage to investment advisers and investment brokers at various rates dependent on the term of the investment. Brokerage rates are payable as follows:

- 3 months – 0.125%
- 6 months – 0.25%
- 12 months – 0.50%
- 18 months – 0.75%
- 2 years – 1.00%
- 30 months – 1.25%
- 3 years – 1.50%
- 4 years – 1.75%
- 5 years – 2.00%.

These payments are not payable by the investor. You will receive full credit for the amount of your investment. Brokerages are payments made by South Canterbury Finance to investment advisers and investment brokers and are not deducted from your investment.

If you request early repayment of your investment, a lower rate of interest may be paid on the amount withdrawn before maturity (see the information under the heading "Can the investment be altered?" on page 19 of this Investment Statement).

## 5. WHAT RETURNS WILL I GET?

The information set out in this section should be read in conjunction with the information on pages 11 to 19 under the heading "What are my risks?" Certain events could reduce or eliminate the returns intended to be derived from holding the Stock and Deposits.

You will receive a fixed rate of interest for the term of your investment. Interest is payable from the date on which the Company received your payment, subject to clearance through your bank where payment is made by cheque. South Canterbury Finance is legally required to pay interest to you on your investment and cannot unilaterally amend the agreed rate of interest payable on your investment before the maturity date of the investment.

The interest rates currently applying to the Stock and Deposits may be ascertained from the application form applying at the time of investment. In the event of any variation in interest rates offered by the Company, applicants whose applications are lodged on or after the date of variation will be promptly advised of the variation. Where the variation involves a decrease in interest rates, unless the applicant confirms that such a decrease is acceptable, their application money will be refunded in full within 14 days of sending notice of the variation, with interest at the Company's then current 'on call' rate.

Normally, the only permissible deduction from the agreed interest rate is the deduction required by the New Zealand Inland Revenue Department ("IRD") for Resident Withholding Tax or Non-Resident Withholding Tax.

The Company is required to deduct resident withholding tax from interest paid or credited to New Zealand resident investors and non-resident investors who have a fixed establishment (i.e. a branch) in New Zealand each quarter or on maturity, unless the investor holds a valid RWT Certificate of Exemption issued by the IRD. If applicable, resident withholding tax will be deducted at a rate of 19.5%, 33%, or 39% at the option of the investor (although a company cannot elect the 19.5% rate). The tax withheld can be claimed as a credit by investors against the investor's New Zealand income tax liability on income included in their tax returns.

An Annual Certificate is issued to each investor shortly after 31 March each year showing total interest earned and withholding tax deducted for that year. Investors are required to advise the Company of their IRD number. Where no IRD number has been supplied, the Company must deduct resident withholding tax at the no declaration rate of 39% of interest paid or credited.

The resident withholding tax rates described above are likely to change as a consequence of the Taxation (Consequential Rate Alignment and Remedial Matters) Bill which was introduced in July 2009. If passed in its current form, the applicable resident withholding tax rates for individuals (including corporate trustees) will be 12.5%, 21%, 33% and 38%. The rates for companies will be 30% and 38% and the "non-declaration" rate will be 38%. These changes are proposed to take effect from 1 April 2010 (other than the 30% company rate which will apply from 1 April 2011 unless the interest payer elects to withhold at that rate from 1 April 2010).

If you have arrears of taxation owing to the IRD, they may be empowered to order deduction from your investment. This would not occur without you being advised.

Interest, at the investor's option, is payable monthly on the last day of each month, payable quarterly or compounded quarterly. Interest will be paid or credited net of resident or non-resident withholding tax.

Interest will be paid by direct credit to a nominated bank account. Quarterly interest will be paid or credited on the last day of March, June, September and December. Compounded interest will be added to the original investment for payment at maturity.

The Company may decline to accept an application (either in whole or in part) where acceptance would be in breach of the terms of this Investment Statement or the Registered Prospectus. In such cases, the application money (or part thereof) will be returned to the investor. Unless the Company decides otherwise, no interest is payable on returned application money.

The principal factors that will determine the returns to Stockholders and Depositors are:

- the fixed interest rate payable on the Stock and Deposits by South Canterbury Finance;
- the performance by South Canterbury Finance of its obligations as the issuer of the Stock and Deposits (including its obligation to pay interest on the Stock and Deposits) and the performance of the Charging Group;
- whether South Canterbury Finance is accepted for participation under the extended deposit guarantee scheme; and
- your individual circumstances for tax purposes.

All of the obligations of South Canterbury Finance in respect of the Stock and Deposits are unconditionally guaranteed by the following companies which are the Charging Subsidiaries: Belfast Park Ltd, Braebrook Properties Ltd, Fairfield Finance Ltd, Flexi Lease Ltd, Galway Park Ltd, Helicopter Nominees Ltd, Hornchurch Ltd, Rental Cars Ltd, SCFG Systems Ltd, Sophia Investments Ltd, Southbury Insurance Ltd and Tyrone Estates Ltd (all of which are wholly-owned by South Canterbury Finance), and Face Finance Ltd (which is 75% owned by South Canterbury Finance).

Under the Trust Deed, the Charging Subsidiaries have granted charges in favour of the Trustee over their undertakings, property and assets, both present and future, to secure the performance of their obligations under their guarantee in respect of the Stock, subject to permitted Prior Charges and statutorily preferred claims.

In addition, South Canterbury Finance has a guarantee under the Deposit Guarantee Scheme. See pages 2 to 3 of this Investment Statement for further information about this scheme.

No other person guarantees the Stock and Deposits or the returns that Stockholders and Depositors may receive on their investment with South Canterbury Finance.

## 6. WHAT ARE MY RISKS?

Finance companies in general terms may be faced with risks associated with solvency, liquidity, interest rates and exchange rates. Some finance companies may specialise or concentrate their lending activities into specific market areas with the associated risks attached to those markets. Other finance companies have a diverse lending portfolio spreading the risk across a range of industry sectors. South Canterbury Finance offers a range of lending products to both the consumer and commercial sectors. Exposure to specific sectors is regularly monitored. No investment is risk-free and the Stock and Deposits are no exception.

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The principal risks for investors are that:

- they may not receive timely, or any, interest payments on the Stock and Deposits;
- South Canterbury Finance may not be able to repay the Stock and Deposits on their maturity date; or
- they may not otherwise be able to recoup their original investment.

This could happen for a number of reasons, including if:

- the price at which investors are able to sell their Stock and Deposits is less than the amount of their investment due to interest rate movements, credit rate movements, supply and demand, the market or for other reasons;
- South Canterbury Finance becomes insolvent; or
- the Crown does not, or is not able to, perform its obligations, if any, in respect of the Stock and Deposits under the Deposit Guarantee Scheme or the guarantee given by the Crown under that scheme is not able to be enforced for some reason. Further information about the Deposit Guarantee Scheme is set out on pages 2 to 3 of this Investment Statement.

Investors will not in any circumstances be required to pay any money in respect of their investment other than the principal amount of their Stock or the amount of their Deposits.

The principal factors which may, either individually or in combination, affect the future operating performance of South Canterbury Finance, and its ability to pay interest on and repay the Stock and Deposits, are set out below in this section of the Investment Statement. An applicant for Stock and Deposits should carefully consider these risks, both general and specific (together with the other information in this Investment Statement and the Registered Prospectus) before applying for any Stock or Deposits. The summary of risks presented below is not exhaustive and this Investment Statement does not take account of the personal circumstances, financial position or investment requirements of any one investor in particular. **It is imperative, therefore, that, before making any investment decision, investors give consideration to the suitability of an investment in the Stock and Deposits in light of their investment needs, objectives and financial circumstances. You should read this Investment Statement and the Registered Prospectus in their entirety and consult your sharebroker, accountant, or other professional adviser before deciding whether to apply for Stock and/or Deposits.**

South Canterbury Finance has a guarantee under the Deposit Guarantee Scheme. However, the Deposit Guarantee Scheme currently expires at 12.01am on 12 October 2010, and in the ordinary course only applies to payments which South Canterbury Finance is required to make to eligible Stockholders and Depositors in respect of their Stock and/or Deposits, in accordance with the terms of the same, before the scheme expires, unless there is an insolvency event in respect of the Company before that time. The maturity date of Stock and Deposits may be after the Deposit Guarantee Scheme expires. Accordingly, the scheme will not apply to South Canterbury Finance's obligation to pay any amounts in respect of its Stock or Deposits (including its obligation to pay interest on the Stock or Deposits) which in the ordinary course become payable in accordance with the terms of the Stock or Deposits after 12.01am on 12 October 2010. In addition, the Crown

guarantee under the Deposit Guarantee Scheme does not apply to all investors and is capped at \$1 million for each individual eligible investor. Investors should, therefore, satisfy themselves that the scheme applies to them. Full details of the scheme are available, free of charge and at all reasonable times, on the Internet site maintained by or on behalf of the Treasury ([www.treasury.govt.nz](http://www.treasury.govt.nz)).

The Crown has announced an extension to the term of the guarantee to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. The Company has applied to take advantage of the extension to the Crown Deposit Guarantee Scheme and based on publicly available information as at the date of this Investment Statement, is of the view that it will meet the criteria for participation. However, in order for an applicant to be accepted for participation in the extended scheme, the Secretary to the Treasury must be satisfied that it is necessary or expedient in the public interest for the applicant to be accepted into the scheme. Accordingly, there is no assurance that the Company will have a Crown guarantee after the current Deposit Guarantee Scheme expires at 12.01am on 12 October 2010. As at the date of this Investment Statement, the Company does not have a Crown guarantee beyond the expiry of the current Deposit Guarantee Scheme at 12.01am on 12 October 2010.

If the Company is not accepted into the extended deposit guarantee scheme, investors in the Stock and Deposits will be exposed to all of the risks outlined within this Investment Statement after the expiration of the Deposit Guarantee Scheme (i.e. after 12.01am on 12 October 2010) if the maturity date of their Stock and/or Deposits is after that time. (In addition, if due to any of the risks discussed below, the Company is unable to repay any of its indebtedness as it becomes due, that will constitute a "Default Event" under the Crown guarantee with the result that, subject to the terms of the Deposit Guarantee Scheme, all eligible investors would be entitled to repayment under the Company's Crown guarantee regardless of the maturity date of their Stock and/or Deposits.) In addition, investors who are not eligible to benefit under the Deposit Guarantee Scheme will also be exposed to all of those risks in respect of their investments in the Stock and/or Deposits. South Canterbury Finance and its directors are not aware of any reason as at the date of this Investment Statement why the Crown guarantee under the Deposit Guarantee Scheme will not apply to the Stock or Deposits (subject, of course, to the maturity date of any particular Stock or Deposit).

All investors will be exposed to the risks described in this Investment Statement if, for any reason the Crown does not perform its obligations under the Guarantee or the Guarantee is otherwise unenforceable.

#### Credit Risk

Given that the Charging Group's core business is providing lending facilities to its customers, there is a risk associated with customers not meeting their interest, repayment or other obligations under such lending facilities. In the event of default by a significant borrower or by a significant number of borrowers, the financial performance of the Company, and therefore its ability to meet its payment obligations in respect of the Stock and Deposits, could be adversely affected.

Due to current market conditions and the prevailing economic outlook, the credit risk associated with the Charging Group's core lending business has increased. The Company undertook a comprehensive review of its loan book and identified impaired loans of \$301.2 million as at 30 June 2009. In addition, it had past due loans of \$132.4 million as at 30 June 2009 including \$42.9 million of loans that were past due by more than 30 days. As a result of its review, the Company increased its provision for impairment of non-performing assets as at 30 June 2009 to \$77.9 million compared to a provision of \$21.3 for the year ended 30 June 2008. Its provision included a general collective provision of \$7.2 million for the year ended 30 June 2009. The Company has not previously taken a general collective provision.

Notwithstanding the impairment provisions made by the Company in the year ended 30 June 2009, the Company expects that its results for the six month period ended 31 December 2009 will see South Canterbury Finance reporting a loss as a result of increased provisioning, write-downs on investments and losses on foreign currency transactions. The amount of the loss is not currently quantifiable and will depend on the outcome of the finalisation of the Company's financial statements for the six months ended 31 December 2009. Further information will be made available once the Company's preliminary results for the six months ended 31 December 2009 are available.

There is a risk that impairment provisions and bad debt write-offs may impact on the Company's financial position and its financial performance, and may also impact on the Company's ability to meet the various financial covenants contained in its Trust Deed and other funding arrangements.

There is also a risk that despite further impairment provisions and write-downs, the Company will suffer greater losses in respect of its loan book than the amount provided for due to the inability of borrowers to meet their repayment obligations or the inability of the Company to recover the full amount of a loan through the exercise of its enforcement rights. If the Company experiences losses in its loan book significantly in excess of the amount of its provisions, that may impact adversely on the ability of the Company to meet its obligations to its creditors (including holders of Stock and Deposits) as and when they fall due.

In addition, if a further significant increase in provisioning or bad debt write-offs was required, that may impact on the Company's financial position and its financial performance, and may affect the Company's ability to meet the covenants under its Trust Deed, and other funding arrangements.

The Charging Group's overall credit risk is reduced due to the large number of individual borrowers and the geographic distribution of its loans throughout New Zealand and elsewhere. Further, given the current heightened credit risk environment, the Company is looking to further reduce its larger loan sizes and longer exposures to individual borrowers across its lending portfolio. In particular, the Company is looking to reduce its exposure to the property sector by limiting the amount of new loans in this sector and by divesting some of its existing property loans. Due to the current lack of liquidity in the property market, it is anticipated that this will be a gradual process.

Industry and product concentrations are managed within established credit policies and underwriting standards. The Company also has formal provisioning policies that are monitored and reviewed by both management and the Board.

The Company reviewed and implemented a number of new risk mitigation procedures in July 2009, and has subsequently added to or modified the risk mitigation procedures, that are designed to reduce the risk of South Canterbury Finance being unable to recover all the monies owing to it by a borrower or borrowers under a lending facility including:

- a rigorous loan application and credit approval process that each prospective borrower must complete to the satisfaction of the Company prior to a loan being advanced to that prospective borrower;
- ensuring the previous history of prospective borrowers and the viability of loans are scrutinised;
- ensuring that the Company takes sufficient security to protect its position including looking at industry trends and the industry outlook;
- ensuring that the Company follows stringent policies of monitoring loan performance;
- ensuring that loans are within prudent loan to valuation ratio percentages and ensuring the strategic and financial viability of the proposed loan and business;
- ensuring that the covenants in the Trust Deed, pursuant to which the Company's debenture stock is issued, continue to be met after taking account of new lending;
- the appointment of a Head of Risk with extensive finance company experience along with the tightening of credit underwriting standards; and
- the formation of an Asset Management subcommittee of the Board, together with a dedicated team to manage receivables that have become impaired.

Among new procedures, any loan application with an aggregate value (including roll-overs, top-ups and extensions) of greater than \$100,000 must now be approved by the National Credit Manager and the Group Credit Manager before it is sent to the Company's newly established Independent Credit Committee, where a unanimous decision is needed for approval. Previously, all loans up to \$1 million were approved by the Chief Executive, while loans over \$1 million had to be approved by Board members with the size of the loan determining the number of Board members who would be involved in the approval process.

The new Independent Credit Committee comprises the Chief Executive, the General Manager of Plant Lending (Face Finance) and the Chief Executive of Scales Corporation. The Company has a well established credit process to support the new Independent Credit Committee, to monitor existing policies, and to develop and implement new credit policies to manage ongoing credit risk.

In the case of loans with an aggregate total value of greater than \$3 million, a member of the Board sits on the new Independent Credit Committee in addition to its regular members.

Applications for roll-overs of existing loans are dealt with on the same basis as the application for the initial advance.

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The Charging Group may, from time to time, lend money to borrowers both inside and outside New Zealand which may be secured over assets in countries outside of New Zealand. To the extent such loans are made, there may be an increased risk associated with the Company's ability to recover those loans or to realise the security granted in respect of them.

#### Liquidity risk

As a result of recent finance company receiverships and having regard to existing and forecast economic conditions both locally and internationally, there is a risk that South Canterbury Finance may not be able to raise the money required for its lending and investment activities, nor the funding required to repay its indebtedness, from the issue of debt securities in the ordinary course of its business or from external funding sources such as banks. This is particularly the case if it is not accepted into the Crown's extended deposit guarantee scheme. In addition, if South Canterbury Finance experiences increased levels of requests for the repayment of its debt securities on their maturity date (rather than having the amounts reinvested) and it has insufficient liquid assets available to enable it to meet all of those repayment requests, there is a risk that the payment of interest on the Stock and Deposits or the repayment of the Stock and Deposits on their maturity date could be delayed, less than anticipated or not be made at all.

The Company has borrowings of approximately \$491.22 million which are due to be repaid by 30 June 2010 and a further \$640.46 million of borrowings which are due to be repaid prior to the expiry of the current Deposit Guarantee Scheme. In addition, in accordance with formal documentation entered into by the Company with noteholders under the United States Private Placement, the Company is required to repay the remaining total principal of US\$17.5 million (together with interest) to noteholders during February and March 2010.

There is also a risk that the parties to whom the Charging Group has lent money will be unable to repay all or any of those funds on the scheduled repayment date(s) and the Company will be unable to recover the amount owed to it in full through its enforcement rights. If this occurs, it may have a negative impact on liquidity and, therefore, the Company's ability to pay interest on, or repay, in full the Stock and Deposits on the due dates for the same.

South Canterbury Finance regularly reviews and monitors its liquidity position to minimise, so far as is reasonably practicable, the possibility of such a situation arising.

As at the date of this Investment Statement, South Canterbury Finance had cash on deposit of \$79 million and realisable investments of \$12 million to assist it in meeting its repayment obligations in respect of its borrowings.

The Company's liquidity position is likely to be improved through this offer of Stock and Deposits and the proceeds of the proposed recapitalisation of the Company. As indicated above, the Company and its parent have completed the first part of the intended two step capital raising in the form of a private placement of \$27.5 million of convertible notes to institutional and private investors in New Zealand. The funds raised under the private placement were used by Southbury Corporation Limited to subscribe, in cash, for \$26.4 million of new ordinary shares in South Canterbury Finance. The successful implementation of the full recapitalisation

plan is integral to the Company's ability to operate profitably in the future. The Company has mandated investment bank Forsyth Barr to assist in sourcing funding to strengthen its balance sheet and will make a further announcement regarding the next steps of the restructuring and capital raising process as soon as it is in a position to do so.

In addition, the restructuring of South Canterbury Finance's business and, in particular, the divestment of non-core assets and a reduction in related party lending will assist the Company's liquidity position to the extent the proceeds from the same are retained for liquidity purposes.

As indicated above, investors under the Company's United States private placement had the right, to require the Company to repay their notes, in full, together with interest and other amounts calculated in accordance with the terms of their notes. In October 2009, the Company entered into a binding commitment letter with the noteholders for the accelerated repayment of the principal sum of US\$100 to noteholders (together with interest) by instalments, with the last instalment being due on 31 March 2010. As indicated in the Chairman's statement, formal documentation recording these arrangements has now been entered into between the Company and noteholders and, as at the date of this Investment Statement, South Canterbury Finance has repaid US\$82.5 million of principal (together with interest) to noteholders. The remaining US\$17.5 million of principal (plus interest) will be repaid in two instalments in February and March 2010, respectively.

Last year, the Company announced that its \$100 million standby banking facilities had been cancelled by mutual agreement. The facilities had been undrawn and, as previously announced, the Company had been unable to draw under them because it was in breach of certain covenants contained in those facilities. Accordingly, their cancellation had no cash impact on the Company. In addition, cancellation has resulted in a saving of the applicable fees on the facilities. The Company may revisit banking facilities and their potential role in its future funding requirements once the restructuring and recapitalisation plan discussed below is completed. In the meantime, the Company has entered into a new \$75million credit facility from New Zealand Credit Fund Limited which has been fully drawn down and applied towards the repayment of the principal of the notes issued by the Company pursuant to the United States private placement.

The Company has the ability to borrow up to 7.5% of its total tangible assets under prior ranking charges under the terms of its Trust Deed, which charges rank ahead of all other obligations of the Company (including the Stock and Deposits offered under this Investment Statement). As at 30 September 2009, there were existing prior ranking charges of \$34.1 million while as at 31 December 2009, there were permitted Prior Charges of \$124,659,614. The arrangements with New Zealand Credit Fund Limited and the guarantee given by South Canterbury Finance in respect of the convertible notes issued by Southbury Corporation Limited both provide that the amount for which priority is given includes an allowance for interest at default rates for an agreed period. If interest of that nature is included in the total amount of permitted Prior Charges, then the total amount of prior charges as at 31 December 2009 was \$152,834,614.

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The Company holds a portfolio of listed and unlisted securities and investments. In the past, the Company has relied on these types of investments as a diversification from bank deposits and as part of its overall liquidity management. Recently, the market for such securities and investments has become less liquid. There is a risk, therefore, that investments may not be readily realisable in future, that they may not be able to be realised for their full value if they have to be realised urgently, and that investments that are being held to maturity date may not be repaid on the relevant maturity date. A failure to realise assets (including loans), or to realise them for full value, may have an adverse impact on the ability of the Company to meet its payment obligations to its creditors (including holders of Stock and Deposits) as and when those obligations fall due. Subsequent to 30 June 2009, the Company has sought to mitigate this risk by reducing the portfolio of securities and investments that it holds by realising in excess of \$136 million of its investments.

If the Company is unable to realise assets (including loans) as and when required, or to raise sufficient funds from the issue of Stock and Deposits under this Investment Statement, to enable it to repay its indebtedness as it becomes due during the term of the current Deposit Guarantee Scheme (or the extended deposit guarantee scheme if it is accepted into that scheme), then that will constitute a "Default Event" under the Crown guarantee with the result that, subject to the terms of the Deposit Guarantee Scheme, all eligible investors would be entitled to payment under the terms of the Crown guarantee irrespective of whether or not their Stock or Deposits were due to mature before or after the expiry of the Deposit Guarantee Scheme.

In addition, there is a risk that the Company's ability to raise the funds required to fund its business activities from the issue of Stock and Deposits to the public, and, therefore, its liquidity, will be impacted adversely once it loses the benefit of the Crown guarantee at the expiry of the Deposit Guarantee Scheme (or the expiry of the recently announced extended deposit guarantee scheme should the Company be accepted into the extended scheme). The Company's ability to raise sufficient funds from the public to fund its business activities, and meet its payment obligations in respect of the securities issued by it, following the expiry of the Deposit Guarantee Scheme will depend, amongst other matters, on the economic environment, and the Company's financial performance and financial position, at that time. (Further information about the Deposit Guarantee Scheme and the extended deposit guarantee scheme is set out on pages 2 to 3 of this Investment Statement).

#### Interest Rate Risk

Interest rate risk is the risk that market interest rates will change and impact on the Company's financial performance by affecting the interest margin between its interest earning assets and its interest bearing liabilities.

The Company monitors market interest rates on a daily basis and regularly reviews its interest rate exposure. Interest rate risk is managed by the constant monitoring of the interest rate maturity profiles of the Company's borrowings and its receivables.

The Company has introduced a comprehensive externally benchmarked treasury policy that ensures all known interest rate risks are appropriately managed, including by way of a derivative programme with leading trading banks. In addition, the Company is looking to convert a significant proportion of its assets and liabilities from fixed rates into floating rates.

#### Exchange Rate Risk

Exchange rate risk is the risk that the Company may face a loss on the repatriation of funds that have been transferred, borrowed or lent from offshore due to changes in the exchange rate. This risk is considered by the directors to be minimal, as only a limited amount of foreign currency is held at any time. The Company has entered into exchange rate swaps with a registered bank in respect of its Australian denominated loans. The Company has a NZ\$13 million loan receivable denominated in Euros, for which no foreign exchange cover is held. All remaining loans advanced overseas prior to 31 December 2005 are denominated in New Zealand currency dollars and any risk arising from exchange rates is borne by the investor. Using exchange rate swaps or passing the exchange rate risk on to borrowers offers certainty as to NZ dollar monies payable to the Company in respect of such loans.

All principal monies payable by South Canterbury Finance in relation to the \$US100 million United States Private Placement have been swapped into New Zealand dollars.

#### Property Market Risk

South Canterbury Finance's property-based loans are mainly in respect of commercial, residential and rural property developments and investments. Negative movements in the New Zealand property market may lead to a decline in the value of the properties in respect of which loans have been made by South Canterbury Finance and, as a result, may also affect the ability of borrowers to repay those loans. There is also a risk that negative movements in New Zealand property markets may affect the value of the underlying security held by South Canterbury Finance in respect of its loans. There is also a further risk that the failure of other property development companies or financiers could have an adverse impact on the value of the property market which may have a negative impact on the security value held in respect of loans made by South Canterbury Finance. In addition, the current state of the property market may make it difficult for lenders such as the Company to recover the full amount of their loans in full through enforcement of their security rights. It is not known when property market conditions will improve nor whether they will worsen further in the future. If the property market does materially worsen from its current position, this will have a further negative impact on the value of the Company's property loans and other property-based assets and, therefore, on the Company's financial performance and financial position.

Property development funding is subject to further risks that the development may not be completed in time or at all, that the costs of construction may exceed the budgeted amount and that the building contractor may become insolvent and fail to complete the development.

These risks have increased significantly over the last 12 to 18 months as a result of a range of factors including the global credit crisis, interest rates, the economic downturn and the general economic outlook and impacted adversely on the Company's profitability in the year ended 30 June 2009. Accordingly, the Company has undertaken a review of its property lending exposures.

As at 30 June 2009, South Canterbury Finance had property loans totalling approximately \$485.7 million after taking provisions into account. The Charging Group carried an impairment provision of \$48.4 million in respect of the property sector loans and related property assets for the year ended 30 June 2009 and Mr A.J. and Mrs M.J. Hubbard have underwritten up to \$25 million of the Company's non-performing property loans. The obligations of Mr A.J. and Mrs M.J. Hubbard under the Deed of Underwrite and Guarantee are limited to the value of the assets of North Wind Holdings (2009) Limited. The effect of the deed was to reduce provisioning within the Charging Group for the year to 30 June 2009 by \$25 million. Under these arrangements, the Company also entered into an Amending Deed of Underwrite and Guarantee providing for Subordination under which the Company is able to ensure that North Wind Holdings (2009) Limited maintains sufficient net assets to enable Mr A.J. and Mrs M.J. Hubbard to meet their obligations under the Deed of Underwrite and Guarantee. Impaired loans accounted for 40% of the total property sector loan exposure in the Charging Group as at 30 June 2009. The Company is of the view that further provisioning is likely to be required in respect of property loans. Details of the level of provisioning required will be announced when the work necessary to assess these matters is completed for inclusion in the results for the six months ended 31 December 2009, which is expected to be at the end of February 2010.

As part of its restructuring and recapitalisation process, the Company is actively seeking to reduce its exposure to the property development sector over the next 6 to 12 months by pro-actively working with its existing clients to reduce their level of borrowings from South Canterbury Finance. Due to the current lack of liquidity in the property market, it is anticipated that this will be a gradual process. In addition, as part of its restructuring of its business operations, South Canterbury Finance intends refocusing its lending operations on traditional business, plant and equipment, consumer and rural lending sectors, and only lending on a capitalised interest basis to the property development sector in very exceptional circumstances and then only where the loan is extremely well secured.

#### Continuity of Supply of Funding

The Company is in the business of lending money that has been invested or deposited with it by way of secured debentures and unsecured deposits. Secured debenture and unsecured deposit funds are received via a network of brokers and financial advisers as well as directly from the public.

The ability of the Company to lend depends on the continued support of these financial intermediaries and the investing public. If those financial intermediaries or the investing public cease to support the Company's products or their level of support significantly reduces, whether due to any Company specific reasons, general economic conditions, the collapse of another company in the finance sector or for any other reason, then the Company may

not have the funds available to on-lend to prospective borrowers. This may adversely impact upon the Company's liquidity, and the growth and continuing financial performance of the Company.

Traditionally, South Canterbury Finance has enjoyed a strong reputation in investment markets, as evidenced by the growth in retail funding over the last several years. The impact of adverse publicity arising from the Company's recent performance, its credit rating downgrade and general investor sentiment towards finance companies may affect South Canterbury Finance's ability to raise ongoing funding. A reduction in the level of support for the Company's debenture stock and deposits may also result in it being unable to pay interest on the Stock and Deposits on the due date or repay the Stock and Deposits in full, or at all, on the maturity date for the same.

The directors believe that the Company has a sufficiently wide range of financial intermediaries and investors, including its own direct investor base, to enable it to mitigate against this potential risk. The directors' confidence in this regard is strengthened by the Company's long established track record in raising funds along with the significant amount of repeat business from customers.

The Company's four week rolling average reinvestment rate, by number, did decrease during the year to 30 June 2009, falling from 67.2% as at 31 December 2008 to 65.15% over the later months of the financial year while the four week rolling average reinvestment rate, by value, fell from 71.74% to 60.10% over the same period. The Company attributes this fall in reinvestment rates principally to the interest rates it was offering compared to those offered by other entities which had the benefit of a guarantee under the Deposit Guarantee Scheme. The Company is confident that by offering competitive interest rates, it will be able to improve its reinvestment rates over time and, thereby, raise the funds required to enable it to meet its commitments through the issue of Stock and Deposits.

The Deposit Guarantee Scheme and the recently announced extended deposit guarantee scheme, should the Company be accepted into this scheme, should also mitigate against this risk for the period of the Crown guarantee. The Company's ability to raise sufficient funds from the public to fund its business activities, and meet its payment obligations in respect of the securities issued by it, following the expiry of the Deposit Guarantee Scheme will depend, amongst other matters, on the economic environment, and the Company's financial performance and financial position, at that time. Further information about the Deposit Guarantee Scheme and the extended deposit guarantee scheme is set out on pages 2 to 3 of this Investment Statement.

As indicated above, South Canterbury Finance no longer has a banking facility with a registered bank following the cancellation, by mutual agreement, of its \$100 million standby banking facilities last year. The facilities had been undrawn and the Company had, at the time of cancellation, been unable to draw under them. The Company may revisit banking facilities and their potential role in its future funding requirements once the restructuring and recapitalisation plan discussed in this Investment Statement is completed. The cancellation of its banking facilities means that the Company is now even more dependent on raising funds from the public through the issue of Stock and Deposits to provide it with the funds required to enable it to fund its business activities and, in particular, to meet its payment obligations in respect of the Stock and Deposits offered under this Investment Statement.



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In the meantime, the Company has, as indicated elsewhere in this Investment Statement, entered into a \$75 million facility provided by New Zealand Credit Fund Limited.

The Company has reached agreement and entered into formal documentation with the noteholders under the United States private placement under which the Company will make accelerated repayment of the principal sum of \$US100 million to noteholders (together with interest on that sum) by way of instalments, with the last instalment being due on 31 March 2010. The payments to the noteholders will be in full and final satisfaction of all rights which the noteholders have in respect of the notes issued to them pursuant to the private placement. If the Company or Southbury Group Limited fail to pay any of the instalments, in full, on the due dates or fail to comply with any of their other obligations in respect of the agreement, then the noteholders will be entitled to demand payment in full of all amounts payable to them in respect of their notes under the terms of the current private placement documentation. The directors are satisfied that the Company and Southbury Group Limited will have the necessary funds to enable them to meet their respective payment obligations to noteholders under this agreement. Any default of the terms of the Trust Deed by the Company will also entitle the noteholders to demand payment under the terms of their notes. To date, South Canterbury Finance has repaid US\$82.5 million of principal to noteholders (together with interest) and the remaining US\$17.5 million of principal will be repaid in two instalments of US\$7.5 million and US\$10 million (plus interest) in February and March 2010 respectively.

A further credit rating downgrade (if there was to be one), may adversely impact on the Company's ability to raise, through the issue of Stock and Deposits, the funds required to enable it to fund its business activities and, in particular, meet its payment obligations in respect of the Stock and Deposits offered under this Investment Statement. South Canterbury Finance currently has a credit rating of BB+/Negative.

#### Credit Rating Downgrade

On 24 December 2009, Standard & Poor's Ratings Services affirmed its 'BB+' credit rating for South Canterbury Finance. At the same time, the rating was removed from CreditWatch Negative, where it was initially placed on 20 September 2009. The outlook is negative which reflects immediate pressures on South Canterbury Finance's financial profile and medium-term uncertainty concerning restructuring and recapitalisation initiatives.

If the Company's credit rating is downgraded, this may further impact the Company's ability to raise funds from local and offshore institutions and investors under its offers of debenture stock and deposits with the result that the Company may not be able to raise the funds it requires to fund its business activities and meet its payment obligations in respect of the Stock and Deposits offered under this Investment Statement. A further downgrade may also impact the Company's eligibility to participate in the extended deposit guarantee scheme (for further details refer to pages 2 to 3 of this Investment Statement) and its ability to operate as a non-bank deposit taker under the Government's proposed new regulatory regime for non-bank deposit takers.

#### Loss of Key Personnel

The current Board (including the Chairman who is no longer active in the Company in an executive role) and the Company's executive team play an important role in establishing the Company's reputation and driving its financial performance. In the normal course of business, the Company faces the risk of the loss of one or more of these individuals for a variety of reasons. The Company has spent considerable time and effort bringing together a wide range of individuals in its executive team who have the skills, experience and ability to achieve sound results for the Company including the introduction of three new independent directors, the new CEO, Sandy Maier, and new members of the senior management team.

Allan Hubbard, current Chairman of the Board, has indicated that he plans to step down as Chairman within the next 12 months and appoint a new independent chairman as part of the current restructuring that is being undertaken by the Company.

#### Economic Downturn

With the economy having entered into a recessionary phase of the business cycle, the Company is exposed to the risk of the downturn affecting its customers' ability or willingness to borrow funds from South Canterbury Finance or to meet their payment obligations in respect of borrowed funds, and the willingness of its investors to invest in the Company's debenture stock and unsecured deposits. Such a downturn may adversely impact the Company's ability to maintain its lending margins, the ability of borrowers from the Company to repay their loans, or the Company to realise assets from which to recover those loans if they are not repaid when due.

The financial performance and stability of the Company could be adversely affected by further developments or changes in the economic conditions in the New Zealand and world economies. Such changes could include:

- a. changes in inflation and interest rates, which will particularly affect the net interest margin achieved by the Company;
- b. changes in employment levels and labour costs, which will affect the cost structure of the Company and the cost structures of its borrowers;
- c. changes in aggregate investment and economic output;
- d. changes in economic conditions, which may affect the creditworthiness of the Company's borrowers and the quality of the Company's loan portfolio;
- e. changes in property and other asset values and in the demand for loans which could reduce the Company's loan receivables and net interest income, and its ability to recover, in full, the amounts owed to it through the enforcement of the securities held by it;
- f. changes in economic conditions that affect the stability of the finance and bank sectors caused by the failure of a major borrower or the collapse of a major financial institution; and
- g. changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, will affect the financial performance of the Company through its operations and its investments in financial services and associated businesses.

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### Operational Risk

Operational risk is the risk of direct or indirect loss resulting either from external events or from inadequate or failed internal processes, people and systems.

Whilst the Company has various operational risk management practices in place, its profitability will continue to be subject to a variety of operational risks including technology risk (including business systems failure), reputation risk (including damage to brands), fraud, compliance with legal and regulatory obligations, counterparty performance under outsourcing arrangements, business continuity planning, legal risk, data integrity risk, key person risk and external events (including pandemics).

### Competition in the Finance Industry

The Company faces competition from both incumbent financial service providers including savings institutions and banks, other finance companies and new entrants to the market.

Customers are able to choose from a large number of providers in all of the areas of financial services offered by the Company. Risks that may affect the Company's ability to obtain new and retain existing customers or investors, thereby adversely affecting the profitability of the Company, include, but are not limited to, the relative position of the Company compared with its competitors in the:

- pricing and performance of its products and services;
- convenience and ease of access to products and services;
- level and efficiency of service provided; and
- ability to develop new products and services to meet the changing needs of customers.

### Technology Risks

Technology plays an increasingly important role in the delivery of financial services to customers in a cost effective manner. South Canterbury Finance relies on its information technology platforms to process transactions efficiently and accurately and with a high degree of consistency across its regional offices and subsidiaries. The Company's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate technology platform for the efficient delivery of its products and services.

South Canterbury Finance has an externally reviewed and tested business continuity plan and risk controls and mitigation procedures in place. Notwithstanding, it is not possible to eliminate all inherent risks.

### Finance Company Regulation

In accordance with the Government's on-going review of the regulatory framework that applies to New Zealand's financial services sector, the Government has proposed legislative and other regulatory changes in relation to the financial services sector. In particular, it has introduced a new regulatory regime for non-bank deposit takers ("NBDTs"), which includes finance companies. The increased regulation of NBDTs, introduced under an amendment to the Reserve Bank Act 1989, includes licensing all financial services providers and granting the Reserve Bank of New Zealand broad powers to make regulations establishing, amongst other things, rules specifying requirements for credit ratings, standards of governance, risk management capital adequacy, minimum capital ratios, exposures to related parties and liquidity.

In December 2008, the Reserve Bank published a consultation paper on proposed capital ratio requirements for NBDTs, in which it indicated that a minimum capital ratio requirement of 8% of tier one capital may be introduced for NBDTs. These proposals, including the detail of how the capital requirements and asset risk weighting will work, have not yet been confirmed by the Reserve Bank. There is a risk, however, that the rules, when enacted, will adversely affect the Company. These regulations are expected to come into force in 2010, and are likely to impose further regulatory requirements on NBDTs such as South Canterbury Finance. However, it is expected that the new rules will only be introduced following consultation with the Securities Commission and affected parties.

If further capital is required by South Canterbury Finance to meet the capital ratio requirements of the NBDT regime in the future, there is a risk that the Company will be unable to access the requisite level of capital and, therefore, be unable to meet the requirements for carrying on business as an NBDT in the future. It is likely that the Company's related party lending and investments may currently be higher than the limits currently proposed by the Reserve Bank for NBDTs. The Company intends to restructure and reduce its related party exposures to comply with the proposed new rules, but this will require the recapitalisation plan to be completed and will also depend on the transition period allowed for NBDTs (such as the Company) to meet the new requirements.

On 12 June 2009, the Reserve Bank of New Zealand issued draft risk management programme guidelines for consultation. The final guidelines were released on 13 July 2009 and require all NBDTs to implement and comply with a risk management programme by 1 September 2009. South Canterbury Finance has, in accordance with requirements of this regime, put in place a risk management programme as at 1 September 2009 that has been approved by the Trustee.

Under the amendment to the Reserve Bank Act, the Company is required to have a credit rating from an approved agency by 1 March 2010. On 19 March 2009, the Reserve Bank approved the following rating agencies for the purposes of that Act:

- Fitch Ratings;
- Moody's Investors Service; and
- Standard & Poor's Ratings Services.

On 17 February 2009, the Reserve Bank released a consultation paper proposing the type of credit rating NBDTs are required to hold from 1 March 2010. The paper proposes the use of local currency, long term, issuer ratings. As set out on page 3 of this Investment Statement, the Company currently has a BB+/Negative rating from Standard & Poor's.

Although the nature of any future legislative and regulatory changes to the finance sector cannot be predicted with certainty, changes such as those referred to above are likely to impact on the environment in which South Canterbury Finance operates. In particular, they may result in additional regulatory and compliance costs for South Canterbury Finance and may limit its ability to undertake certain types of transactions.

### Consequences of Insolvency

In the event of the insolvency of the Company, investors will not be liable to pay any money to any person. In these circumstances:

- a. Stockholders will receive payment in respect of their Stock in priority for repayment ahead of all other amounts owed by the Company with the exception of Prior Charges and certain statutorily preferential claims. The Stock will rank equally in all respects and without preference among Stockholders; and
- b. Depositors will receive payment in respect of their Deposits behind First and Second Ranking Stock and any other secured debts, and behind statutorily preferred claims. The Deposits will rank equally in all respects and without preference among Depositors and other unsecured creditors.

### 7. CAN THE INVESTMENT BE ALTERED?

Your investment, whether in Stock or Deposits, is for a fixed term which cannot be altered by the Company without your agreement. In normal circumstances, the term also cannot be altered by you.

However, in some circumstances, such as the death of an investor or unexpected financial difficulty, the Company may be prepared to consider an application for early termination on 30 days notice.

In the event that early termination is agreed to by the Company, there is no fee payable, however the interest rate payable in respect of the investment may, at the Company's discretion, be amended to reflect the reduced term of the investment. This reduced rate will reflect the rate that would apply for the actual term of your investment.

At the option of the Trustee, the Stock and Deposits become immediately due and repayable and the security enforceable if there is any default in the payment on due date of the Principal Moneys secured by the Stock or the Existing Stock or if, after a period of 14 days from the due date, any interest remains outstanding. Similarly, Stock and Deposits become payable and, in relation to the Stock, the security enforceable if there is any breach of the covenants of the Trust Deed or upon the happening of a number of other events which are specified.

The Trustee may concur with South Canterbury Finance in making any modifications to the Trust Deed if:

- the same is made to correct a manifest error or is of a formal, technical or administrative nature or is convenient for the purpose of obtaining or maintaining a quotation of any securities issued pursuant to the Trust Deed on any stock exchange in New Zealand or elsewhere and is not prejudicial to the general interests of the security holders;
- the same is authorised by an extraordinary resolution of First Ranking Stockholders and Second Ranking Stockholders;
- the same is considered by the Trustee not to be, or likely to become, prejudicial to the general interests of security holders;
- the Trustee is satisfied that the same will not be inconsistent with provisions generally accepted as appropriate and reasonable for including in debenture trust deeds of financial intermediaries; or
- the security holders approve the same in writing.

In addition, the Trustee may, by notice in writing to the Company, with the prior written approval of a majority of First Ranking Stockholders and Second Ranking Stockholders, temporarily waive the provisions of any clause of the Trust Deed, in each case for such a period and on such terms as the Trustee may agree.

### 8. HOW DO I CASH IN MY INVESTMENT?

The listing of the Stock and Deposits on the New Zealand Stock Exchange is not being sought.

Stock and Deposits may be transferred to another person by completing a Security Transfer Form and forwarding it, together with your Stock Certificate or Deposit Certificate, to the Company. There is no secondary market for the Company's Stock and Deposits.

Prior to expiry of the term of your investment, the Company will advise you of the pending maturity date and will offer you the following options:

- repayment, by cheque or to a nominated bank account;
- renewal for a further period at the then current interest rates on such conditions as to term, interest payable, and interest compounded as may be available at that time;
- renewal of principal and repayment of compounded interest; or
- part reinvestment and part repayment of principal and/or interest.

On the maturity date of your investment, the Company will, on return of your Stock or Deposit Certificate and your written reinvestment/repayment instructions, promptly action your instructions.

#### Early Termination

There is no right to early termination, however South Canterbury Finance may, in certain circumstances, allow redemption prior to expiration of the term of your investment. There is no charge for early termination, however, the rate of interest payable may be amended to reflect the actual term of your investment. Please refer to information under the heading "Can the investment be altered?" on this page of the Investment Statement.

### 9. WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

Enquiries should be directed to the Issuer:

- South Canterbury Finance Limited  
19 Sophia Street, PO Box 125, Timaru, New Zealand  
Tel. 0800 808 117 • Fax. 03 684 9550

OR

- to the investment adviser or investment broker through whom the investment was arranged.

### 10. IS THERE ANYONE I CAN COMPLAIN TO IF I HAVE PROBLEMS WITH THE INVESTMENT?

Complaints should be directed to South Canterbury Finance:

- South Canterbury Finance Limited  
19 Sophia Street, PO Box 125, Timaru, New Zealand  
Tel. 0800 808 117 • Fax. 03 684 9550

OR to the Trustee:

- Trustees Executors Limited  
Level 5, 10 Customhouse Quay, Wellington, New Zealand  
Tel. 04 495 0999 • Fax. 04 496 2952

OR to the industry association to which we belong:

- Executive Director, Financial Services Federation (Inc.)  
6th Floor, Wakefield House, 90 The Terrace  
PO Box 10053, Wellington, New Zealand  
Tel. 04 472 1731.

Complaints about the Stock or Deposits cannot be made to an Ombudsman.

## 11. WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

### Registered Prospectus

This Investment Statement provides only a brief summary of the terms of issue of the Stock and Deposits.

A copy of the Registered Prospectus and financial statements which further describes the Stock and Deposits and contains more detailed information about South Canterbury Finance (including audited financial statements) can be obtained, free of charge, from the Company at the address set out under the heading "Who do I contact with enquiries about my investment?" on page 19 of this Investment Statement or from the Companies Office at [www.companies.govt.nz](http://www.companies.govt.nz).

Potential investors should note that no person is authorised by South Canterbury Finance to give any information to investors or to make any representation not contained in this Investment Statement or the Registered Prospectus. Nothing in this Investment Statement or the Registered Prospectus should be construed as a recommendation by South Canterbury Finance, any associate of them, or any other person, concerning an investment in the Stock or Deposits.

### Annual Report

A copy of the latest Annual Report or audited half year accounts for the Charging Group is printed in or accompanies the Registered Prospectus, and is available, free of charge, by contacting the Company at the address set out under the heading "Who do I contact with enquiries about my investment?" on page 19 of this Investment Statement.

### Trust Deed

A Trust Deed has been entered into between the Company and Trustees Executors Limited as Trustee for the Stockholders and Depositors to protect their respective interests. Through a regular reporting framework, it enables the Trustee to be confident that the various financial covenants governing the Company's borrowings are being met, and gives the Trustee the right in the event of default, to intervene on behalf of the Stockholders and Depositors.

A copy of the Trust Deed is available for inspection, free of charge, at the following places:

- South Canterbury Finance Limited  
19 Sophia Street, Timaru, New Zealand
- HC Partners, Chartered Accountants  
39 George Street, Timaru, New Zealand
- Trustees Executors Limited  
Level 5, 10 Customhouse Quay, Wellington, New Zealand
- Registrar of Companies – [www.companies.govt.nz](http://www.companies.govt.nz)

### Further Notifications

South Canterbury Finance advises that, in terms of the Registered Prospectus, it reserves the right to cease or suspend receipt of applications for Stock or Deposits to ensure its on-going compliance with the Securities Act 1978 and the terms and conditions of its Trust Deed.

### Other Information

A statement and resident withholding tax deduction certificate (if applicable) relating to the investment will be forwarded to you annually. Approximately two weeks prior to the investment maturing, a maturity advice will also be sent to you. You may request information about your investment, such as the balance, from the Company, from time to time. You have rights of access to personal information that the Company holds about you under the Privacy Act 1993.

Further information about the Deposit Guarantee Scheme is set out on page 2 to 3 of this Investment Statement and is also available, free of charge and at all reasonable times, from the Internet site maintained by or on behalf of the Treasury ([www.treasury.govt.nz](http://www.treasury.govt.nz)). In addition, the most recent audited statement of financial position of the Crown is available, free of charge, and at all reasonable times, on the Internet site maintained by, or on behalf of, the Treasury.



**South Canterbury Finance**

#### FOR FURTHER INFORMATION PLEASE CONTACT:

South Canterbury Finance Limited  
19 Sophia Street, PO Box 125, Timaru, 7910, New Zealand  
tel. 0800 808 117 • fax. 03 684 9550