



South Canterbury Finance

EST. 1926

Memorandum of Amendments – dated 9 February 2010 to South Canterbury Finance Limited Prospectus No. 60 dated 20 October 2009 (the Registered Prospectus)

In accordance with section 43 of the Securities Act 1978, the directors of South Canterbury Finance Limited (South Canterbury Finance) amend the Registered Prospectus as follows:

1. Amending the cover page by inserting after "20 October 2009" the words "(as amended by a Memorandum of Amendments dated 9 February 2010)".
2. Amending the Table of Contents on current page 1 to include the words "As at 20 October 2009" in point 2 and 3 after the headings Chairman's Statement and Chief Executive's Report, respectively, and inserting a new point 6 "Developments since 20 October 2009" and consequential numbering amendments.
3. Deleting the current page 2 in its entirety and replacing it with a new page 4 and 5 "Directorate and Advisers" in the form set out in Schedule 1 to this Memorandum of Amendments and amending all page numbering and references accordingly.
4. Inserting the words "AS AT 20 OCTOBER 2009" in the heading Chairman's Statement on current page 3.
5. Inserting the following at the end of the Chairman's Statement on current page 3: "The Chairman's Statement was prepared as at 20 October 2009. PLEASE READ THE "DEVELOPMENTS SINCE 20 OCTOBER 2009" SECTION ON PAGE 3 OF THIS MEMORANDUM OF AMENDMENTS IN CONJUNCTION WITH THE CHAIRMAN'S STATEMENT."
6. Inserting the words "AS AT 20 OCTOBER 2009" in the heading Chief Executive's Report on current page 4.
7. Inserting the following as a footnote to the Chief Executive's report on current page 6: "As indicated on page 2, Lachie McLeod resigned as Chief Executive Officer of South Canterbury Finance on 26 November 2009 and Sandy Maier replaced him as Chief Executive Officer on 23 December 2009".
8. Inserting the following at the end of the Chief Executive's Report on current page 6: "The Chief Executive's Report was prepared as at 20 October 2009. PLEASE READ THE "DEVELOPMENTS SINCE 20 OCTOBER 2009" SECTION ON PAGE 3 OF THIS MEMORANDUM OF AMENDMENTS IN CONJUNCTION WITH THE CHIEF EXECUTIVE'S REPORT."
9. Deleting the words "Over the last 12 to 18 months" in the last paragraph on current page 7 and replacing them with the following: "Over the 12 to 18 months preceding registration of this Prospectus on 20 October 2009".
10. Inserting the following sentence at the end of the third full paragraph on current page 8 of the Prospectus: "As at 9 February 2010, the Company is continuing to seek to divest its exposure to property development lending."
11. Inserting the following sentence at the end of the fifth full paragraph on current page 8 of the Prospectus:

"Since 30 June 2009, poor economic conditions have continued to impact recoveries and asset quality particularly in the property sector. 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."
12. Inserting the following sentence at the end of the third full paragraph on current page 10 of the Prospectus: "As discussed in more detail on page 8 of this Memorandum of Amendments, South Island Farm Holdings Limited redeemed the 67.2 million preference shares for \$67.2 million on 31 December 2009. At the same time, South Canterbury Finance made an advance to South Island Farm Holdings Limited of that amount."
13. Adding new pages 7 to 9 "DEVELOPMENTS SINCE 20 OCTOBER 2009" in the form set out in Schedule 2 to this Memorandum of Amendments and amending all page numbering and references accordingly.
14. Amending the fourth paragraph on the current page 12 under the heading "PROSPECTUS" by inserting after "20th day of October 2009" the words "as amended by a Memorandum of Amendments dated 9 February 2010".
15. Deleting the second to last sentence of the first paragraph under the heading "Investment Options" on current page 12 and replacing it with the following:

"Subsequent to 30 June 2009, the Company has, as indicated above, borrowed \$75 million secured by way of a prior ranking charge. In addition, the guarantee given by South Canterbury Finance in respect of the \$27.5 million of convertible notes issued by Southbury Corporation Limited is secured by way of a prior ranking charge under the Trust Deed. 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 capital notes issued by Southbury Corporation Limited both provide that the amount for which priority is given includes allowance for interest at default rates for an agreed period. On the basis that interest is included in the total amount of permitted Prior Charges, then the total amount was \$152,834,614."
16. Inserting the following sentence: "The contract between South Canterbury Finance and Fairfield Finance regarding this transaction is dated 3 April 2008." after the sentence beginning "On 11 April 2008..." in the third full paragraph under the heading "Material Contracts" on current page 14.
17. Deleting the fifth full paragraph under the heading "Material Contracts" on current page 14 and replacing it with the following:

"South Canterbury Finance entered into a deed of guarantee with the Crown, dated 19 November 2008, under the Deposit Guarantee Scheme. Further information about this scheme is set out on pages 34 to 36 of this Prospectus. In accordance with the Deposit Guarantee Scheme, South Canterbury Finance also entered into a revised deed of guarantee with the Crown on 11 December 2009. A copy of the deed of guarantee and the revised deed of guarantee may be inspected on The Treasury's website at www.treasury.govt.nz or, free of charge, at the registered office of South Canterbury Finance."

18. Inserting the following sentence: "The contract between South Canterbury Finance and Southbury Group Limited regarding the Dairy Holdings Limited transaction is dated 29 June 2009." after the sentence beginning "On 30 June 2009..." in the sixth full paragraph under the heading "Material Contracts" on current page 14.
19. Inserting the following paragraph on current page 15 under the heading "Material Contracts" at the end of the paragraph beginning "A Noteholder Standstill Agreement...":
- "The Company and certain members of the Charging Group (being Belfast Park Limited, Braebrook Properties Limited, Face Finance Limited, Fairfield Finance Limited, Flexi Lease Limited, Galway Park Limited, Helicopter Nominees Limited, Hornchurch Limited, Rental Cars Limited, SCFG Systems Limited, Sophia Investments Limited, Southbury Insurance Limited and Tyrone Estates Limited) entered into an Amended & Restated Note Purchase Agreement dated as at 23 December 2009 to record the agreement regarding US noteholder arrangements."
20. Deleting the words "As at the date of this Prospectus" from the third full paragraph under the heading "Credit Rating" on current page 15 and replacing them with the words "As at 20 October 2009" and changing the word "reflects" in that paragraph to "reflected".
21. Inserting the following paragraph after the third full paragraph beginning "In the Company's view..." on current page 16:
- "On 24 December 2009, Standard & Poor's Ratings Services affirmed its 'BB+' long-term rating on 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. The negative outlook reflects immediate pressures on South Canterbury Finance's financial profile and medium-term uncertainty concerning restructuring and recapitalisation initiatives."
22. Deleting the number "70" on current page 17 in the paragraph beginning "In addition to the restrictions set out in..." and replacing it with the figure "7.5".
23. Adding the following paragraph to the end of the paragraph under the heading "Restrictions on Borrowing Group" on current page 17:
- "The new senior \$75 million funding facility entered into with New Zealand Credit Fund Limited provides for the issue of certain tranches of bonds by South Canterbury Finance. The documentation for the issue of bonds contains the same restrictions on prior charges as those contained in the Company's Trust Deed. In addition, it contains restrictions on the Company's ability to incur indebtedness which ranks prior to the claims of bonds issued under the facility with New Zealand Credit Fund."
24. Inserting the following sentence "Further information about the extended guarantee scheme can be found on The Treasury's website www.treasury.govt.nz" at the end of the paragraph beginning "In addition, institutions will need to meet..." on current page 19 and deleting the paragraph beginning "The Company currently intends applying..." on current page 19 and replacing it with the following:
- "On 21 January 2009, the Company applied for inclusion under the Crown's extended guarantee scheme which provides for an extension of the guarantee covering certain retail deposits until 31 December 2011. 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. South Canterbury Finance is uncertain how long the approval process will take nor whether it will be accepted into the extended scheme. Accordingly, there is no assurance that South Canterbury Finance will have a Crown guarantee beyond the expiry of the current Deposit Guarantee Scheme at 12.01 am on 12 October 2010."
25. Inserting the following paragraph under a new capitalised heading "AMENDED DEPOSIT GUARANTEE SCHEME DEED" at the end of the "Deposit Guarantee Scheme" section on current pages 18 to 19:
- "On 18 November 2009, The Treasury announced that, with effect from 1 January 2010, it would make the Deposit Guarantee Scheme more flexible by withdrawing existing deeds and replacing them with revised deeds to reflect modifications made by the Crown to the terms and conditions of the current Deposit Guarantee Scheme. South Canterbury Finance entered into a revised deed with the Crown on 11 December 2009 (for further information, see page 27 under the heading "Material Contracts"). The revised deed became effective on 1 January 2010.
- In broad terms, the revised deed clarifies various arrangements that may arise if a deposit taking institution (such as the Company) defaults. In particular, the revised deed entered into by the Company:
- allows the Company to offer both guaranteed and non-guaranteed debt securities;
 - allows a 14 day "stand down" period between a potential default and invoking the Crown guarantee, which could provide time for the Company to resolve any issues that have arisen; and
 - allows the Crown to set a timeframe for claims to be made after a default."
26. Deleting the last sentence of the third full paragraph on current page 22 under the heading "Ranking of Securities" and replacing it with the following:
- "As indicated above, as at 31 December 2009, the amount of permitted Prior Charges was \$124,659,614. This amount includes the sum of \$75 million drawn down by South Canterbury Finance under the facility entered into with New Zealand Credit Fund Limited and the guarantee given by South Canterbury Finance in respect of the \$27.5 million of convertible notes issued by Southbury Corporation Limited. The arrangements with New Zealand Credit Fund Limited and the guarantee given by South Canterbury Finance in respect of the capital notes issued by Southbury Corporation Limited both provide that the amount for which priority is given includes allowance for interest at default rates for an agreed period. On the basis that interest is included then the total amount of permitted Prior Charges was \$152,834,614 as at 31 December 2009. The \$27.5 million raised by Southbury Corporation Limited under the convertible note issue was predominantly used by it to subscribe for \$26.4 million of new ordinary shares in South Canterbury Finance."
27. Inserting the following sentence "As at 31 December 2009, Prior Charges (including allowance for interest) were 7.25% of total tangible assets." at the end of the sentence under subparagraph (f) on current page 23.
- A copy of the Registered Prospectus, as amended pursuant to the foregoing, accompanies this Memorandum of Amendments. Page numbering in this amended Prospectus has been updated to take into account changes due to the inclusion of the above amendments.
- Signed by the directors of South Canterbury Finance Limited (or their agents duly authorised in writing) in accordance with section 43 of the Securities Act 1978:

Arthur William Baylis

Allan James Hubbard

Stuart James McLauchlan

James Denham Shale

Edward Oral Sullivan

Schedule 1 – Directorate and Advisers

DIRECTORS AS AT 9 FEBRUARY 2010

- **Allan James Hubbard**
B.Com., FCA. (Chairman), Timaru, Chartered Accountant
- **Edward Oral Sullivan**
KSt.J., LL.B. Timaru, Barrister and Solicitor
- **Arthur William Baylis** (Appointed as a director on 20 October 2009)
M.Comm (Hons), FCA, FNZIM, AFINtstD, Queenstown, Chartered Accountant
- **Stuart James McLauchlan** (Appointed as a director on 20 October 2009)
B Com., FCA (PP), AF Inst D. Dunedin
- **James Denham Shale** (Appointed as a director on 20 October 2009)
LL.B., AF Inst D, Auckland

The Directors may be contacted through the Registered Office of the Company.

SENIOR MANAGEMENT AS AT 9 FEBRUARY 2010

- **Sandy Maier, Chief Executive Officer**
Doctor of Jurisprudence (J.D.), Harvard Law School –1975;
B.A. (Magna cum laude with honors), Yale University.
- **Kevin Gloag, Timaru General Manager – Funding**
- **David Jarman, Acting Chief Financial Officer**
B.Comm, CA, MIntstD. Christchurch
- **Mark Hensley, Auckland, national head of credit**
- **Warrick Baxter, Christchurch, General Manager – Lending**

Resignations and appointments subsequent to 20 October 2009:

- Lachie McLeod resigned as Chief Executive Officer of South Canterbury Finance on 26 November 2009. Sandy Maier was appointed as the Company's Chief Executive Officer on 23 December 2009. (Nigel Gormack acted as the Company's interim Chief Executive Officer during the period from 1 December 2009 until Sandy Maier was appointed).
- Graeme Brown resigned as Chief Financial Officer of South Canterbury Finance on 18 December 2009. David Jarman was appointed as acting Chief Financial Officer on 18 December 2009.
- Peter Bosworth resigned as Group Credit Manager of South Canterbury Finance on 3 December 2009.

Auditors*

- Ernst & Young Chartered Accountants, Christchurch

Solicitors

- Bradley West, Timaru
- Raymond Sullivan McGlashan, Timaru
- Bell Gully, Wellington

Trustee for Stockholders and Depositors

- Trustees Executors Ltd, Level 5, 10 Customhouse Quay
P.O. Box 3222, Wellington

Registered Office and location of Securities Register of the Company

- 39 George Street, P.O. Box 125, Timaru
Telephone (03) 688 8117 or 0800 808 117

Securities Registrar

- The Registrar, South Canterbury Finance Ltd, 19 Sophia Street, Timaru

*Woodnorth Myers retired as South Canterbury Finance's auditors on 30 October 2009 and Ernst & Young were appointed as the Company's auditors with effect from that date. Ernst & Young did not audit South Canterbury Finance's financial statements for the year ended 30 June 2009.

Schedule 2 – Developments since 20 October 2009

New CEO and independent directors

As indicated above, three new independent directors (Arthur William Baylis, James Denham Shale and Stuart James McLauchlan) were appointed to the board of directors of South Canterbury Finance on 20 October 2009. Sandy Maier was appointed as Chief Executive Officer of South Canterbury Finance and the Southbury Group on 23 December 2009. Further information is set out on page 4 of this Prospectus.

\$75 million credit facility

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 (as alluded to in the Chief Executive's Report on page 8) the funds used to repay, in part, the sum of US\$55 million issued pursuant to the US Private Placement. The facility is secured by way of a prior ranking charge under the Company's Trust Deed.

Status of United States Private Placement as at 9 February 2010

South Canterbury Finance repaid US\$50 million of principal in October 2009 to US noteholders issued pursuant to the US Private Placement. A further US\$12.5 million was repaid to US noteholders in November 2009, US\$12.5 million was repaid in December 2009 and a further US\$7.5 million was repaid in January 2010. Interest on those amounts was also paid at the relevant time. The remaining US\$17.5 million will be repaid progressively in accordance with the timetable set out on pages 8 and 9 of this Prospectus.

Formal documentation has been entered into between the Company and the US noteholders. Further information can be found under the heading "Material Contracts" on page 28 of this Prospectus.

South Canterbury Finance's credit rating confirmed

On 24 December 2009, Standard & Poor's Ratings Services affirmed its 'BB+' long-term rating on 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. The negative outlook reflects immediate pressures on South Canterbury Finance's financial profile and medium-term uncertainty concerning restructuring and recapitalisation initiatives.

Extended Crown Deposit Guarantee Scheme

South Canterbury Finance has applied to participate in the extended Crown deposit guarantee scheme. Further information can be found on pages 34 to 36 of this Prospectus.

Investment in South Island Farm Holdings Limited (SIFHL)

The financial statements for the year ended 30 June 2009 contained in this Prospectus (and certain other sections of the Prospectus) disclose that South Canterbury Finance acquired 67.2 million preference shares in SIFHL in the year ended 30 June 2009. As also disclosed, on 1 July 2009, South Canterbury Finance acquired 6.8 million ordinary shares in SIFHL. This acquisition of ordinary shares resulted in South Canterbury Finance and SIFHL becoming "associates" for financial reporting purposes.

In accordance with the Company's restructuring plans (as indicated in the Chairman's Statement), the Company sold the 6.8 million ordinary shares in SIFHL held by it to an independent third party for \$6.8m on 31 December 2009. At the same time, SIFHL redeemed all of the 67.2 million preference shares issued to the Company for \$67.2 million and South Canterbury Finance made an advance of that amount to SIFHL.

Management discussion and analysis for the period from 30 June 2009 to 31 December 2009

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 US Private Placement liability and the impact of fair value adjustments on investments will have had a negative impact on the 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. As at 9 February 2010, the Company expects that its results for the 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.

Accordingly, investment bank Forsyth Barr has been mandated to source funding to strengthen the balance sheet of South Canterbury Finance. 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 the 30 June 2009 audited financial statements, including the Company's preference share investment in SIFHL as outlined below. The Company is currently reviewing the issues and seeking independent advice where necessary to determine the extent of any potential prior period adjustments. 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.

The Chief Executive's Report as at 20 October 2009 provides that, as at 14 October 2009, approximately \$45.1 million was being held on trust under the Securities Act 1978. Following registration of this Prospectus, approximately \$25 million of that sum has been reinvested in South Canterbury Finance securities and \$12 million of that sum has been repaid to investors. 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.

30 June 2009 financial statements

Note 25 on page 72 of the Prospectus refers to the security sharing arrangement entered into by South Canterbury Finance. The Company wishes to add, in relation to that disclosure, that the consideration for the acquisition of the loans under the security sharing agreement comprised 67.2m preference shares issued by South Island Farm Holdings Ltd ("SIFHL") at an issue price of \$1 per share (which rank ahead of the SIFHL ordinary shares), \$12m for a 40% interest in Commtest Instruments Ltd and \$10.5m for 5.25m shares in Scales Corporation Ltd. The fair value of \$67.2m attributed to the SIFHL preference shares (being the aggregate issue price of the shares) was agreed by the Board of South Canterbury Finance, after taking into account an assessment by a qualified farm valuer (who is an employee of South Canterbury Finance), based on a sample review of the underlying farming assets of SIFHL.

As at 9 February 2010, the Company has recently become aware that it did not comply with the applicable financial reporting standard when valuing its investment in the 67.2 million SIFHL preference shares in its 30 June 2009 financial statements. In particular the methodology used is inconsistent with

the fair value methodology for such an investment as set out in Note 20 to the financial statements for the year ended 30 June 2009. The methodology used to assess fair value of the SIFHL preference shares has been assessed by the Company's current auditors, Ernst & Young, who have indicated that the fair value assessment should have used techniques such as a discounted cash flow model and taking account of the returns from a similar instrument. The fair value using such techniques may have been less than the value attributed to the SIFHL preference shares by the Company in its 30 June 2009 financial statements. South Canterbury Finance has instructed an independent valuer to value the SIFHL preference shares in accordance with the correct methodology.

South Canterbury Finance has subsequently sold the 6.8 million SIFHL ordinary shares that were held by it to an independent third party for \$6.8 million (being the price initially paid by it for those shares) while the 67.2 million SIFHL preference shares held by it have all been redeemed for \$67.2 million and South Canterbury Finance has made an advance of that amount to SIFHL. A material difference between the \$67.2m value attributed by the Company to the SIFHL preference shares and the fair value that is determined following independent advice on the matter may result in a prior period adjustment being required in respect of the year ended 30 June 2009. It is noted that any difference arising from a revaluation of the SIFHL preference shares will fully reverse in the financial year ending 30 June 2010.

The value attributed to the Commtest Instruments shares was agreed by the Board of South Canterbury Finance, after taking into account an assessment by an accountant in public practice at a firm of chartered accountants (in which the Chairman of South Canterbury Finance was formerly a partner). The value attributed to the Scales Corporation shares was assessed by the Board at \$10.5 million and reflected prevailing market share price and value.

Status of recapitalisation plans for South Canterbury Finance and its parent company as at 9 February 2010

On 31 December 2009, South Canterbury Finance, Helicopters (NZ) Limited and Scales Corporation Limited were joined under the umbrella of a new parent holding company, Southbury Corporation Limited. Southbury Group Limited owns 100% of the shares in Southbury Corporation Limited. Southbury Corporation Limited is now the sole holder of all of the ordinary shares in the Company.*

As part of the group restructuring described above, Southbury Corporation Limited has 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 majority of funds raised under the private placement were used by Southbury Corporation Limited to subscribe for \$26.4 million of 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 a prior ranking charge in favour of Southbury Corporation Limited over its assets in support of that guarantee. The guarantee is secured by a prior ranking charge 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.

Further details about the restructuring and recapitalisation of South Canterbury Finance will be announced to the market once the Company is in a position to do so.

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



South Canterbury Finance

FOR FURTHER INFORMATION ON ANY INFORMATION CONTAINED IN OUR PROSPECTUS PLEASE CONTACT:

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tel. 0800 808 117 • fax. 03 684 9550 • email. enquiry@scf.co.nz