



# South Canterbury Finance

EST. 1926

## Investment Statement for Secured Debentures and Unsecured Deposits

23 JUNE 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.

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 CROWN RETAIL DEPOSIT GUARANTEE SCHEME

South Canterbury Finance has a guarantee under a Crown retail deposit guarantee scheme, being a guarantee that expires on 31 December 2011.

In broad terms, eligible investors in first ranking secured debenture stock ("Stock") issued under this Investment Statement will have the benefit of a Crown guarantee up to \$1 million, until 12 October 2010, under the terms of the deeds of guarantee between South Canterbury Finance and the Crown dated 19 November 2009 and 11 December 2009 (the "Deposit Guarantee Scheme"), and up to \$250,000, from 12 October 2010 until 31 December 2011, under the terms of the deed of guarantee between South Canterbury Finance and the Crown dated 1 April 2010 (the "Extended Guarantee Scheme").

**However, none of South Canterbury Finance's obligations under or in respect of unsecured deposits ("Unsecured Deposits") taken under this Investment Statement will have the benefit of a Crown guarantee and an investor in Unsecured Deposits will not be able to rely on the Crown guarantee in the event South Canterbury Finance defaults on its obligations in respect of that investment.**

## DEPOSIT GUARANTEE SCHEME

In November 2008, South Canterbury Finance entered into a deed of guarantee with the Crown under 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") 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 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 the payment by South Canterbury Finance of the amounts payable by it in respect of the Stock (up to a maximum amount of \$1 million per eligible Stockholder, which amount includes all other amounts payable by South Canterbury Finance to the Stockholder in respect of any other debt securities of South Canterbury Finance held by that Stockholder) in the period from the date of issue until 12.01am on 12 October 2010 (being the expiry date of the Deposit Guarantee Scheme); and

- b. undertakes to each eligible Stockholder that if South Canterbury Finance does not pay to it when due and payable any amount payable in respect of the Stock during the period of the Deposit Guarantee Scheme, then the Crown will pay that amount to the Stockholder when it is due and payable (unless, in the case of investments made before 1 January 2010, 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 or, in the case of investments made after 1 January 2010, any such payment has not been made by South Canterbury Finance within 14 days after it has become due and payable).

In order for a Stockholder 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 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 under the Deposit Guarantee Scheme.

The Deposit Guarantee Scheme does not apply to all investors. Accordingly, potential investors in the Stock should satisfy themselves that the Deposit Guarantee Scheme applies to them. As indicated above, the Deposit Guarantee Scheme does not apply to the Unsecured Deposits taken under this Investment Statement.

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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 or the Crown guarantee under it by South Canterbury Finance or otherwise, the Deposit Guarantee Scheme will (subject to the terms of the guarantee) continue to apply to all Stock issued prior to the date of withdrawal.

As indicated on page 2, 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 issued 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 which become payable, in accordance with the terms of the Stock, after the expiry date of the Deposit Guarantee Scheme. (The Extended Guarantee Scheme may, however, apply. Full details of the Extended Guarantee Scheme are set out below.)

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);
- 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 arms' 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 arms' 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 arms' length terms.

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)). 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.

#### Amended Deposit Guarantee Scheme deed

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. 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.

#### EXTENDED GUARANTEE SCHEME

On 1 April 2010, the Company was accepted for inclusion under the Extended Guarantee Scheme, which provides for an extension of the guarantee covering certain retail securities until 31 December 2011. The Extended Guarantee Scheme has materially different terms to the Deposit Guarantee Scheme.

In broad terms, under the Extended Guarantee Scheme, the Crown guarantees the payment of principal and interest on Stock (up to \$250,000 for each eligible investor):

- a. if and to the extent those amounts are, or become, due and payable during the period from 12.01am on 12 October 2010 until 11.59pm on 31 December 2011 (being the current expiry date of the Extended Guarantee Scheme); and
- b. South Canterbury Finance does not, for any reason, pay those amounts.

In particular, the Crown:

- a. guarantees to eligible Stockholders the payment by South Canterbury Finance of the amounts that become due and payable by it in respect of the Stock (up to a maximum amount of \$250,000 per eligible Stockholder, which amount includes all other amounts payable by South Canterbury Finance to the Stockholder in respect of any other debt securities of South Canterbury Finance held by that Stockholder) during the period from 12.01am on 12 October 2010 until 11.59pm on 31 December 2011 (being the current expiry date of the Extended Guarantee Scheme); and
- b. undertakes to each eligible Stockholder that if South Canterbury Finance does not pay to it when due and payable any amount referred to under (a) above, then the Crown will pay that amount to the Stockholder no later than 14 days after it is due and payable if the amount is not otherwise paid on or before that day.

In order for a Stockholder to have the benefit of the Extended Guarantee Scheme:

- a. the Stockholder must be a "Creditor" within the meaning of the Extended Guarantee Scheme;

- b. the Stockholder must provide the Crown with a notice of claim in respect of the amount payable to it by South Canterbury Finance within (in most cases) 180 days of the date on which the amount payable to it became due; and
- c. the Crown must satisfy itself as to the amount payable to the Stockholder 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 under the Extended Guarantee Scheme.

The Extended Guarantee Scheme does not apply to all investors. Accordingly, potential investors in the Stock should satisfy themselves that the Extended Guarantee Scheme applies to them. In addition, the Extended Guarantee Scheme does not apply to Unsecured Deposits taken under this Investment Statement. Accordingly, while eligible Stockholders will have the benefit of a Crown guarantee under the Extended Guarantee Scheme investors in Unsecured Deposits will not be able to rely on the Crown guarantee in the event South Canterbury Finance defaults on its obligations in respect of Unsecured Deposits taken by it under this Investment Statement.

If the Extended Guarantee Scheme is withdrawn by the Crown in the future, whether due to a breach of the terms of the Extended Guarantee Scheme or the deed of guarantee entered into by South Canterbury Finance under it or otherwise, the Extended Guarantee Scheme will (subject to the terms of the guarantee) continue to apply to all Stock issued prior to the date of withdrawal. However, eligible Stockholders have no right to be paid interest under the Extended Guarantee Scheme after the date of a "Default Event" (as that term is defined in the Extended Guarantee Scheme deed).

As indicated above, the Extended Guarantee Scheme only applies to amounts due and payable by South Canterbury Finance in respect of Stock to eligible investors during the period from 12.01am on 12 October 2010 until 11.59pm on 31 December 2011. It will not apply to any amounts required to be paid by South Canterbury Finance in respect of any Stock which become due and payable, in accordance with the terms of the Stock, after the expiry date of the Extended Guarantee Scheme, or in respect of any Stock issued after the Extended Guarantee Scheme is withdrawn in respect of South Canterbury Finance or after there has been a "Default Event" under the guarantee in respect of South Canterbury Finance.

During the term of the Extended Guarantee Scheme, South Canterbury Finance will need to comply with the restrictions imposed under the Extended 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. make any distribution (within the meaning of the Companies Act 1993) on the ordinary shares of South Canterbury Finance other than:

- i. 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);
  - ii. 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);
  - iii. 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);
  - iv. 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; or
  - v. the provision of financial assistance by a wholly-owned subsidiary of South Canterbury Finance to South Canterbury Finance or to any wholly-owned subsidiary of South Canterbury Finance;
- b. 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 otherwise than on arms' length terms; or
  - c. 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:
    - i. to which any person who controls, or who is under common control with, South Canterbury Finance (other than a wholly-owned subsidiary of South Canterbury Finance) is party; or
    - ii. in which any person who controls, or who is under common control with, South Canterbury Finance (other than a wholly-owned subsidiary of South Canterbury Finance) derives a material financial benefit or is otherwise materially interested in South Canterbury Finance or its relevant subsidiary/ies.

Further information about the Extended 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)). 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.

**While eligible Stockholders will have the benefit of the Crown guarantee under the Extended Guarantee Scheme, none of South Canterbury Finance's obligations under or in respect of the Unsecured Deposits taken under this Investment Statement will have the benefit of that guarantee.**

## STANDARD & POOR'S CREDIT RATING: B- (CreditWatch Negative)

The Company currently has a 'B-' long term issuer credit rating on CreditWatch Negative from Standard & Poor's and a short-term rating of 'C' (CreditWatch Negative).

On 22 June 2010, Standard & Poor's downgraded the Company's credit rating to B- placing the outlook on CreditWatch Negative. The Company's short term credit rating was also downgraded from B to C and was also placed on CreditWatch Negative. A CreditWatch Negative listing by Standard & Poor's implies a one-in-two likelihood of a downgrade of the credit rating within the next three months (from 22 June 2010).

Standard & Poor's states that, under a long term issuer credit rating, an issuer rated 'B' is more vulnerable to adverse business, financial and economic conditions than other issuers but currently has the capacity to meet financial commitments. Under a short term issuer credit rating, an issuer rated 'C' is regarded as having highly vulnerable obligations and other defined circumstances.

A summary of the general ratings categories published by Standard & Poor's is as follows:

'AAA'	Extremely strong capacity to meet financial commitments. Highest Rating
'AA'	Very strong capacity to meet financial commitments
'A'	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
'BBB'	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions. Considered lowest investment grade by market participants
'BB+'	Considered highest speculative grade by market participants
'BB'	Less vulnerable in the near-term but faces major ongoing uncertainties due to adverse business, financial and economic conditions
'B'	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
'CCC'	Currently vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments
'CC'	Currently highly vulnerable
'C'	Currently highly vulnerable obligations and other defined circumstances
'D'	Payment default on financial commitments

Further information about Standard & Poor's credit ratings can be obtained from [www.standardandpoors.com](http://www.standardandpoors.com). In addition, further information on the Company's credit rating history can be found in the Company's current registered Prospectus.

In announcing the downgrade to 'B-' and the CreditWatch Negative assignment on 22 June 2010, Standard & Poor's referred to a number of factors that influenced its rating. The principal reasons referred to by Standard & Poor's for the downgrade may be summarised as follows:

- In Standard & Poor's view, the news regarding the appointment of statutory managers in respect of Allan and Margaret Hubbard (and certain entities associated with them) will likely erode debenture investor confidence, which Standard & Poor's view as critical to South Canterbury Finance's ability to manage its liquidity and its significant debenture reinvestment requirements.

- Standard & Poor's were also concerned that the Company's recapitalisation efforts could be compromised or delayed as a result of the appointment of statutory managers in respect of Mr and Mrs Hubbard.
- Standard & Poor's indicated that South Canterbury Finance's cash balance has not increased as rapidly as factored into the previous B+ rating, and there is now greater uncertainty around the support from the Company's shareholder.

Standard & Poor's indicated that it will review the CreditWatch Negative listing over the next few weeks (from 22 June 2010) after some additional clarity is gained around debenture investor reaction to the news regarding the appointment of statutory managers in respect of Mr and Mrs Hubbard and entities associated with them.

Standard & Poor's indicated that the Company's credit rating could be lowered to the 'CCC' category if general debenture investor support were to materially weaken. Specifically if:

- the momentum of improvement in South Canterbury Finance's management of forward maturities for coming months was not maintained;
- the Company's ability to raise new debentures weakened materially from recent experience;
- the likelihood of success in recapitalisation efforts was materially delayed or compromised; or
- further new credit concerns emerged.

Standard & Poor's noted in its report dated 22 June 2010 that even if South Canterbury Finance were able to address these negative rating pressures, the rating, after the CreditWatch is resolved, would likely remain at 'B-' with a negative outlook until the Company restored stability to its financial profile and its underlying business prospects became more evident. Equally important to the rating from Standard & Poor's perspective is evidence that the Company would be able to build up its cash balance to comfortably cover monthly debenture maturities and meet ongoing working capital needs.

Standard & Poor's did acknowledge that supporting the rating is Treasury's announcement that eligible South Canterbury Finance debenture stock investors remain covered under the Crown guarantee.

While the Company acknowledges the action by the Ratings Agency, the Company was not relying on Mr and Mrs Hubbard to provide any further capital under its current capital raising initiatives.

South Canterbury Finance recognises that the independent rating is an important factor for investors and the Company remains committed to improving the rating over time.

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.

Credit ratings issued by Standard & Poor's 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 opinion issued by Standard & Poor's Ratings Services in making any investment decision. Ratings are based on information received by Standard & Poor's Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services.

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## Chairman's Statement



### Dear Investor



**Bill Baylis**  
Chairman of Directors

On behalf of the Board of Directors of South Canterbury Finance I am pleased to present to you an offer to subscribe for debt securities to be issued by the Company.

South Canterbury Finance is one of New Zealand's largest privately-owned finance companies. It has a proud history and has operated continuously since 1926 when it commenced trading as South Canterbury Loan & Finance Company.

With the exception of the 1933 and 1934 Depression years and the eighteen month period to 31 December 2009, South Canterbury Finance has been profitable and has consistently paid dividends every year throughout its history. South Canterbury Finance's ultimate owners have held an interest in the Company since the late 1950s.

Over approximately the last two years, South Canterbury Finance has been adversely affected by the impact that the global financial crisis has had on its receivables and other assets, especially in the property sector. For the six months ended 31 December 2009, South Canterbury Finance and its Charging Group recorded a net loss after tax of \$198.6 million. The loss largely resulted from provisions that the Company has had to make for losses on impaired and non-performing assets and investments of \$209.4 million. While provisions have been made in respect of these assets, there is potential for recoveries to be made in the future against the losses. Impairment allowances for loans and advances increased from \$77.9 million as at 30 June 2009 to

\$244.2 million as at 31 December 2009. South Canterbury Finance has completed a number of initiatives to counteract the impact of the global financial crisis, including significantly improving its governance, management, capital structure, and underlying business.

In particular, in October 2009 South Canterbury Finance welcomed the appointment of Mr Stuart McLauchlan, Mr Denham Shale and myself as independent directors of the Company. These changes to the Board of Directors have introduced new commercial skills and expertise to the Company, strengthened the independence of the Company's Board, and significantly improved its governance.

In a further development, Mr Sandy Maier was appointed Chief Executive Officer in late December 2009. Together with the senior management team, Sandy has made significant progress with restructuring the Group's financial affairs and overseeing the management of the Company's loan book. Sandy brings to the Company 35 years' experience in corporate restructuring and has quickly established a strong working relationship with the Board and Company staff.

South Canterbury Finance is now wholly-owned by Southbury Corporation Limited ("Southbury Corporation") which, in turn, is wholly-owned by Southbury Group Limited.\* The Company received an equity injection of \$26.4 million in cash from its parent, Southbury Corporation, following a private placement of convertible notes by Southbury Corporation.

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Later, in February 2010, South Canterbury Finance purchased 100% of the shares in Helicopters (NZ) Limited ("Helicopters (NZ)"), and a 64% shareholding in Scales Corporation Limited ("Scales Corporation") (taking the Company's total shareholding in Scales Corporation to approximately 80%) from Southbury Corporation for a purchase price of \$162.5 million. The purchase price was satisfied through the payment of \$10 million in cash and the issue of 317.7 million new ordinary shares in the Company with an aggregate issue price of \$152.5 million, all of which were credited as fully paid. These transactions added \$152.5 million of new equity to the Company's capital position, substantially boosting its capital base, and effectively offsetting the loss in equity incurred by the Company as a result of impairments and provisions in its 31 December 2009 result.

Helicopters (NZ) and Scales Corporation are substantial and profitable companies with which I have had a long and personal association. In the year ended 30 June 2009, the combined results for Helicopters (NZ) and Scales Corporation returned a net (unaudited) profit after tax of approximately \$29.8 million and both companies have traded satisfactorily since then. The earnings contributions of these two successful companies are now part of South Canterbury Finance and substantially change the earnings profile of the Company for the benefit of all stakeholders, including investors in debentures, listed bonds and perpetual preference shares.

In addition, on 31 March 2010, the Company and its parent Southbury Corporation agreed terms for an additional injection of equity capital involving Torchlight Fund No.1 LP. Subject to the arrangements between Southbury Corporation and Torchlight Fund No.1 LP becoming unconditional, it had been agreed that Southbury Corporation would issue between \$22 million and \$37.5 million of secured convertible notes to Torchlight Fund No.1 LP, and use the proceeds to subscribe for between \$22 million and \$37.5 million of new, fully paid ordinary shares in the Company on or before 31 May 2010. As at 31 May 2010, the Crown's consent to these arrangements under the Company's Crown guarantee deeds under the New Zealand retail deposit guarantee scheme had not been obtained and, accordingly, the transaction was not completed.

Since November 2008, South Canterbury Finance has had the benefit of a Crown guarantee under the Crown's Retail Deposit Guarantee Scheme. The Stock to be issued under this Investment Statement will have the benefit of this guarantee until it expires at 12:01 am on 12 October 2010. The Unsecured Deposits taken under this Investment Statement, however, do not have the benefit of the Crown guarantee. On 1 April 2010, the Company was accepted into the Crown's extended retail deposit guarantee scheme which effectively extends the Crown guarantee period covering certain retail deposits until 11.59pm on 31 December 2011. Accordingly, eligible investors in Stock issued pursuant to this Investment Statement will have the benefit of the Extended Guarantee Scheme until 31 December 2011 although, broadly speaking, the guarantee is only for up to an aggregate of \$250,000 per eligible investor in the period from 12 October 2010 to 31 December 2011.\*\*

South Canterbury Finance is continuing to pursue a number of initiatives to strengthen its capital position and improve the quality of its asset base. In combination with recent improvements to its capital structure and governance, South Canterbury Finance is well on the way to a fresh approach to the future which will look to see it benefit significantly in the coming years.

The Board considers that, following a successful restructuring, the Company should move to a position of being able to comply with the Reserve Bank of New Zealand's proposed new regulatory regime for non-bank deposit takers should it be introduced in its current form.

In other developments, on 28 May 2010 Mr Hubbard resigned as a director and as Chairman of the Board of South Canterbury Finance and accepted the position as President for Life. Edward Sullivan also resigned from the board of directors with effect from 31 May 2010.

On behalf of the Board, I extend our appreciation and thanks for the support received from investors and to our loyal staff and management team for their efforts during what has been a challenging economic climate. We look forward to your continued support during the coming year.

**Bill Baylis**  
Chairman of Directors

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\* Neither Southbury Corporation Limited nor Southbury Group Limited guarantees any of the securities offered in this Investment Statement.

\*\* Further information about the New Zealand Deposit Guarantee Scheme and the Extended Guarantee Scheme is set out on pages 2 to 4. Information 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)).

Investors are reminded that they should read this Investment Statement and the Registered Prospectus in their entirety before making a decision to invest in Stock or Unsecured Deposits, particularly the "What are my risks?" section on pages 16 to 23 of this Investment Statement.



## Business Commentary



### FINANCIAL POSITION OF THE COMPANY

Like many participants in the finance industry, South Canterbury Finance'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. This has resulted in the Charging Group taking \$209.4 million of losses and non-cash provisions for non-performing investments and doubtful loans in the six months ended 31 December 2009. As a result of this provisioning, the Charging Group made an after tax loss of \$198.6 million for the six months ended 31 December 2009.

The audited loss for the Charging Group of \$198.6 million arises primarily as a result of a rigorous review of all asset valuations by the Company's board and new senior management team and the provisions that the Company has had to make for losses on impaired and non-performing assets, which increased by \$209.4 million. Further details about the Company's performance during the six months to 31 December 2009 is set out in the Company's current registered prospectus.

The Company's auditor has stated in its audit report in respect of the financial statements for the six months ended 31 December 2009 that there were fundamental uncertainties regarding the going concern assumption and the valuation of advances. Further information is set out in the current registered prospectus.

Despite the difficult environment, South Canterbury Finance has, however, completed a number of initiatives to counteract the impact of the global financial crisis, including significantly improving its governance, management, capital structure, and underlying business. Further details about the Company's restructuring initiatives are set out on pages 10 to 11 of this Investment Statement.

### TRUST DEED COMPLIANCE

As a result of the Company's loss for the six months to 31 December 2009, it would have breached certain financial covenants contained in its Trust Deed based on the final audited 31 December 2009 financial statements. On 28 February 2010, Trustees Executors Limited, the Trustee, granted South Canterbury Finance a waiver from breaches of the covenants contained in clauses 16.1(a) and 16.1(d) of the Trust Deed as at 1 March 2010, which waiver has been confirmed by the Trustee as remaining in force based on the final audited 31 December 2009 financial statements.

In addition, the Trustee has waived any breach of the financial covenants that subsisted between 31 December 2009 and 1 March 2010.

In broad terms:

- a. clause 16.1(a) of the Trust Deed requires the aggregate book value of equity securities held by members of the Charging Group not to exceed 100% of the Charging Group's Shareholders' Funds. This covenant would have been breached as at 28 February 2010, but for the waiver, as a result of the Company's acquisitions of all of the ordinary shares in Helicopters (NZ) Limited ("Helicopters (NZ)") and 64% of the ordinary shares in Scales Corporation Limited ("Scales Corporation") as, following completion of those transactions, the aggregate book value of the equity securities held by members of the Charging Group was approximately 136.1% of the Charging Group's Shareholders' Funds when measured at 28 February 2010. The Company will seek to comply with this covenant by, if necessary, selling equity securities held by it or raising additional capital;

- b. clause 16.1(d) of the Trust Deed limits the aggregate exposure of the Charging Group to any Person or Single Group to an amount not exceeding 35% of Shareholders' Funds. The Charging Group had made loans to Helicopters (NZ) at the time it was acquired by the Company. As a result of the acquisition, the Charging Group's aggregate exposure to Helicopters (NZ) increased to approximately 57.6% of the Charging Group's Shareholders' Funds as at 28 February 2010. The Company will seek to comply with this covenant by reducing its overall exposure to Helicopters (NZ) or raising additional capital; and
- c. the waiver from any covenant breaches that subsisted from 31 December 2009 to 1 March 2010 is a technical waiver and does not relate to any specific or identified breaches that may have occurred over that period. In particular, the Company has reported its covenant compliance as at 1 March 2010, as it is required to under the Trust Deed. It has sought and received a waiver for the period from 31 December 2009 until 1 March 2010 to ensure that it was not in technical breach of the Trust Deed during this period.

The waiver granted by the Trustee was subject to certain conditions, including the following:

- a. that during the subsistence of the waiver of clause 16.1(a), the Charging Group must not, without the prior written consent of the Trustee, have an interest in equity securities in terms of the restrictions other than in relation to the Helicopters (NZ) and Scales Corporation shares and all other equity securities in which the Charging Group had an interest before the date of the waiver letter;
- b. that the acquisitions of the ordinary shares in Helicopters (NZ) and the ordinary shares in Scales Corporation were approved as being on arms' length terms by independent experts approved by the Crown under the terms of the Crown guarantee;
- c. that the Company register a memorandum of amendments to the then current registered prospectus incorporating disclosures of the acquisitions and the nature of the Trust Deed breaches referred to above;
- d. Auditor's confirmation that the purchase price of these assets does not exceed the value that would be disclosed in audited financial statements as at the date of the transactions; and
- e. that the Company's directors provide a certificate to the Trustee certifying certain matters including that the information provided in support of the application for the waiver from compliance with the Trust Deed breaches is accurate, that the acquisition of the shareholdings acquired are fair and reasonable from the Company's point of view and do not exceed what would be payable in an arms' length transaction, that the transactions will not prejudice the general interests of the Security Holders and that there will be no material change between the purchase price of the shareholdings acquired and the fair value recognition of them at the transaction date as stated in the audited financial statements for the six months to 31 December 2009.

The Company has satisfied the conditions in paragraphs (b) to (e) and continues to satisfy the condition in paragraph (a).

As a result of the increase in provisions made for impaired and other non-performing assets and adjustments made to the value of certain assets of the Charging Group in the Charging Group's financial statements for the six month period to 31 December 2009, clause 16.1(c) of the Trust Deed would also have been breached by the Company based on the final audited 31 December 2009 financial statements. However, the Trustee had granted South Canterbury Finance a waiver from this breach in April 2010 provided it was cured by 31 May 2010.

Clause 16.1(c) of the Trust Deed requires the weighted average value of certain assets to exceed the aggregate principal amount of First and Second Ranking Stock, Total Contingent Liabilities secured by First and Second Ranking Stock and the principal amount of Prior Charges. As a result of

increased provisions for the six months to 31 December 2009, there was a margin deficit of approximately \$21.6 million in an aggregate weighted average value of the specified assets of \$1,826 million when measured as at 28 February 2010.

It was expected that the transaction involving Torchlight Fund No.1 LP and Southbury Corporation would have provided South Canterbury Finance with the additional equity required to bring it into compliance with clause 16.1(c). However, as noted in the Chairman's Statement, that transaction was not completed because the necessary consents had not been obtained by 31 May 2010. On 3 June 2010, the Trustee granted South Canterbury Finance a further waiver from compliance with clause 16.1(c) of the Trust Deed (as described above) with effect from 1 June 2010 until 31 August 2010.

The further waiver contains a number of conditions, including that:

- a. the Company's guarantees under the New Zealand deposit guarantee scheme remain available during the period of the waiver;
- b. no event of default or potential event of default arises under the Trust Deed during the period of the waiver;
- c. the Company's directors report to the Trustee fortnightly as to the status of the capital raising initiatives being pursued by the Company and provide a director's certificate within five business days of the end of each of June, July and August 2010 based on the estimated month-end financial position of the Company;
- d. during the period of the waiver, there is no material deterioration in the extent of the breach of clause 16.1(c) as described to the Trustee by the Company in its application for the waiver; and
- e. the Company's directors provide a certificate to the Trustee certifying that the information provided by the Company in support of the application for the waiver from compliance with clause 16.1(c) of the Trust Deed is true and accurate.

The Company is pursuing a number of initiatives which it expects will result in it being in compliance with clause 16.1(c) of the Trust Deed by 31 August 2010.

Under the April 2010 waiver, the Trustee also confirmed that the previous waiver referred to above continues in force until South Canterbury Finance is required to provide the Trustee with a covenant compliance certificate in respect of its financial statements for the period to 30 June 2010. In carrying out the calculations required under the various covenants set out above, the Company has, with the Trustee's consent, taken into account the equity received by the Company in the period between 31 December 2009 and 1 March 2010.

In connection with the Trust Deed waivers granted by the Trustee described above, the Trustee agreed to allow Helicopters (NZ), a wholly owned subsidiary of the Company, to remain a non-charging subsidiary as part of the acquisition by the Company in February 2010.

#### ADJUSTMENTS TO 30 JUNE 2009 FINANCIAL STATEMENTS

Various adjustments have been identified and made in respect of the financial statements for the year ended 30 June 2009. These adjustments are included in the audited interim financial statements for the six months ended 31 December 2009 set out in the current registered prospectus. The material adjustments are described below. Readers are referred to note 2.5 of the Notes to the Financial Statements in the current registered prospectus for further details of the prior period adjustments in respect of the financial statements for the year ended 30 June 2009.

- In May 2009, South Canterbury Finance acquired 67.2 million preference shares in South Island Farm Holdings Limited ("SIFHL"). On 1 July 2009, South Canterbury Finance acquired 6.8 million ordinary shares in SIFHL. This acquisition of ordinary shares resulted in SIFHL becoming an associate of South Canterbury Finance.

In early February 2010, the Company became 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 to value those preference shares at acquisition was 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 Company obtained an independent valuation from Deloitte of the fair value of the preference shares as at the time of their acquisition. The valuation resulted in an impairment provision of \$8.0 million being required to reflect the fair value of the preference shares as at 31 May 2009. This provision has been recorded as a prior period adjustment to the year ended 30 June 2009 in the financial statements for the six months ended 31 December 2009. As mentioned above, on 1 July 2009 SIFHL became an associate company of South Canterbury Finance for financial reporting purposes. As a result, the difference arising from the revaluation of the SIFHL preference shares was fully reversed in the period of six months ended 31 December 2009.

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. South Canterbury Finance has recorded an impairment in the amount of \$5.14 million in respect of this advance in its financial statements for the six months to 31 December 2009, due to the interest rate on the advance being at 9% per annum, which was considered by the Company to be at lower than market rate.

- During the year ended 30 June 2009 the Company entered into an agreement with Southbury Group Limited, under which the risks and rewards attached to certain advances with a carrying value of \$108 million were acquired by Southbury Group Limited. In reporting this transaction in the financial statements for the year ended 30 June 2009, the proceeds received from the ultimate parent were applied to the respective loan balances and the loans were derecognised by the Company. At the time of derecognition, these loans were, however, impaired. As a result, the Company should have recorded a further impairment on advances of \$90 million with a corresponding contribution of equity by Southbury Group Limited. This has been restated in the 30 June 2009 comparative figures. The restatement results in an increase to the June 2009 loss of \$90 million which is offset by the capital contribution of \$90 million. Accordingly, the effect of this restatement on the Company is neutral.
- During the year ended 30 June 2009, the Company sold an advance to an unrelated third party. Since significant credit risk remained with the Company, the advance should have remained on the Company's balance sheet with a corresponding liability. It was also found that this advance was fully impaired which should have been recognised at the time it was sold by the Company. This resulted in an understatement in liabilities and an impairment expense of \$10.25 million in the year ended 30 June 2009.

#### RESTRUCTURING, RECAPITALISATION PLANS AND FUTURE DIRECTION OF THE COMPANY

In December 2009, the Company commenced a major restructuring and recapitalisation plan and South Canterbury Finance was joined with Helicopters (NZ) Limited ("Helicopters (NZ)") and Scales Corporation Limited ("Scales Corporation") under a newly-created parent company, Southbury Corporation Limited ("Southbury Corporation").

Shortly after, South Canterbury Finance received an injection of \$26.4 million of new equity capital in cash from Southbury Corporation, through an issue of new ordinary shares in the Company, after Southbury Corporation issued convertible notes to investors by way of a private placement. (South Canterbury Finance has guaranteed the performance by Southbury Corporation of its obligations in respect of the convertible notes issued by it and has granted a prior ranking charge over its assets under the Trust Deed in support of that guarantee. Southbury Corporation has agreed to indemnify South Canterbury Finance for any payments it is required to make under the guarantee.)

In February 2010, South Canterbury Finance acquired from its immediate parent company, Southbury Corporation, 100% of Helicopters (NZ), and 64% of Scales Corporation (taking the Company's total shareholding in Scales Corporation to approximately 80%). The purchase price of \$162.5 million payable by the Company for the acquisitions of those shares was satisfied through the issue of 317.7 million new ordinary shares in the Company with an aggregate issue price of \$152.5 million (all of which shares were credited as fully paid on issue), and the payment of \$10 million in cash. The acquisitions significantly boosted the capital position of the Company by injecting \$152.5 million of new equity. In addition, the Company made an advance of NZ\$15.6 million to Southbury Corporation on a secured, subordinated basis as part of the above acquisitions and group restructuring. The amount advanced to Southbury Corporation was applied, in full, towards repayment of third party debt of Southbury Corporation, a necessary pre-requisite for the restructuring and sale of Helicopters (NZ) and Scales Corporation shareholdings to the Company. The loan is for a two year term with an interest rate of 10% per annum reviewable on the first anniversary of the loan.

Because Southbury Corporation is a "related party" of South Canterbury Finance, independent reports were provided by Simmons Corporate Finance and Northington Partners (being independent experts approved by the Crown) certifying that the acquisitions (and the related advance) were on arms' length terms in accordance with the terms of the Company's guarantee under the Deposit Guarantee Scheme. Under the Crown Deposit Guarantee Scheme deed, a transaction is not on arms' length terms, in the case of an acquisition of shares, if the value of the consideration given or to be given for the acquisition at the time of acquisition exceeds the open market value (as between a willing but not anxious seller and a willing but not anxious buyer) of the shares. As the acquisitions were effected substantially by the issue of new ordinary equity by South Canterbury Finance, the Directors considered the transactions to be favourable for South Canterbury Finance debenture and perpetual preference share investors.

Helicopters (NZ) and Scales Corporation are not members of the Borrowing Group. Accordingly, neither company guarantees the obligations of the South Canterbury Finance Borrowing Group to holders of Stock issued or Unsecured Deposits taken under this Investment Statement nor are their assets charged under the Trust Deed as security for Stock issued under this Investment Statement. However, South Canterbury Finance's shareholdings in both Helicopters (NZ) and Scales Corporation do form part of the assets of the Charging Group which are subject to the Trust Deed and charged as security for the Stock.

The recent injections of new capital of approximately \$178 million follow the injection of \$60 million of new equity into South Canterbury Finance in the year to 30 June 2009. South Canterbury Finance's ultimate parent company, Southbury Group Limited, injected \$20 million in cash to the Company as paid up capital in March 2009 and a further \$40 million of new capital in June 2009 following the acquisition by the Company of 33.6% of Dairy Holdings Limited from Southbury Group Limited for a purchase price of \$75.7 million. The \$40 million of new shares issued to Southbury Group

Limited pursuant to this transaction were all credited as fully paid on issue. The Company paid the balance of the purchase price for the acquisition of the Dairy Holdings Limited shareholding, being \$35.7 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 arms' length terms and that the price paid for the interest in Dairy Holdings Limited was fair to South Canterbury Finance.

As a further step to reduce the impact of non-performing loans on the Company for the year to 30 June 2009, Mr A.J. and Mrs M.J. Hubbard entered into a Deed of Underwrite and Guarantee with the Company under which they agreed to underwrite losses which the Company incurred in respect of certain specified loans up to a maximum aggregate amount of \$25 million by procuring the payment of that sum, or the transfer of assets of that value, to the Company. 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 in the year to 30 June 2009 by \$25 million.

The transactions outlined above demonstrate the ongoing commitment and support of the Company's shareholder, Southbury Corporation, and the significant support shown by the Company's ultimate controlling shareholders, Mr A.J. and Mrs M.J. Hubbard. (Mr A.J. and Mrs M.J. Hubbard do not guarantee any of the securities offered in this Investment Statement.)

As indicated in the Chairman's Statement, on 31 March 2010, the Company and its parent Southbury Corporation agreed terms for an additional injection of equity capital involving Torchlight Fund No.1 LP. Subject to the arrangements between Southbury Corporation and Torchlight Fund No.1 LP becoming unconditional, Southbury Corporation would issue between \$22 million and \$37.5 million of secured convertible notes to Torchlight Fund No.1 LP, and would use the proceeds to subscribe for an equal dollar amount of new, fully paid ordinary shares in the Company. As at 31 May 2010, Crown consent to the transaction under the Company's Crown guarantee deeds under the New Zealand retail deposit guarantee scheme had not been obtained. Accordingly, the transaction was not completed. If the transaction had been completed by 31 May 2010, it would have cured a breach of the risk-weighted asset covenant in clause 16.1(c) of the Trust Deed. In April 2010, South Canterbury Finance was granted a waiver from the Trustee from compliance with clause 16.1(c) until 31 May 2010. On 3 June 2010, South Canterbury Finance sought and obtained a further waiver from compliance with the risk-weighted asset covenant with effect from 1 June 2010 until 31 August 2010 on certain terms and conditions which are set out in more detail on page 9 of this Investment Statement.

The Company has further plans to restructure its business operations to meet both the changed market conditions and the expected new capital requirements proposed by the Reserve Bank of New Zealand under the new regulatory regime for non-bank deposit takers.

In this regard, the Company established three distinct operational groups in April 2010: the first is responsible for the core well-performing finance business which will contain the bulk of the Company's performing business, rural, consumer and plant and equipment loans; the second is responsible for the non-core finance business containing non-performing and impaired loans, together with the majority of the Company's property receivables; and the third is responsible for all of the Company's existing investments. Each of these three divisions will be managed by personnel with specific skills and expertise aligned to each division. It is intended that this operational restructuring will improve the efficiency and effectiveness of the Company across all asset classes, with the aim of decreasing the volume of non-performing assets. In addition, the Company is currently investigating

options for the sale of impaired or non-performing loans (although there is no set timetable for the completion of any such sales). It is expected that the growth rate of performing assets would increase, while non-performing assets will be managed and dealt with in order to achieve the most optimal outcome for the Company, with the result that the Company's performance should improve for the benefit of all stakeholders.

In addition, the Company:

- has refocused its lending operations on the Company's traditional business, plant and equipment, consumer and rural lending areas;
- intends reviewing related party lending with the aim of reducing it;
- intends divesting non-core assets. 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;
- proposes selling a number of its investments which will provide further liquidity; and
- will not make 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.

The Company notes that while net receivables have declined from \$1,535.8 million in December 2008 to \$1,501.7 million in December 2009, gross receivables (i.e., the amount before taking into account provisions) have grown from \$1,558.4 million as at 31 December 2008 to \$1,745.9 million as at 31 December 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 further impairment provisions of \$116.4 million on a pre-tax basis made by the Charging Group in respect of its property sector loan portfolio as at 31 December 2009. Accordingly, the Company has re-focussed its lending operations on its traditional business, plant and equipment, consumer and rural lending areas, and intends winding down and, where possible, divesting its exposure to property development lending.

The Company's internal processes and systems have recently been updated to meet the demands of the Company's increased loan portfolio. In particular, changes have been made to the Company's lending, credit approval, and loan management processes to reflect the current adverse market conditions. An Asset Management Unit was established within South Canterbury Finance in March 2010 to manage impaired loans, primarily in the property sector. Further information regarding the Company's internal processes are set out in page 17 of this Investment Statement.

#### EXTENDED CROWN GUARANTEE SCHEME

On 1 April 2010, the Company was accepted into the Crown's extended retail deposit guarantee scheme which effectively extends the Crown guarantee period covering certain retail deposits until 11.59pm on 31 December 2011. Accordingly, eligible investors in Stock issued pursuant to this Investment Statement will have the benefit of the Extended Guarantee Scheme until 31 December 2011 although, broadly speaking, the guarantee is only for up to an aggregate of \$250,000 per eligible investor in the period from 12 October 2010 to 31 December 2011.

Further information about the New Zealand Deposit Guarantee Scheme and the Extended Guarantee Scheme is set out on pages 2 to 4 of this Investment Statement.

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## CREDIT RATING

As at the date of this Investment Statement, South Canterbury Finance has a B- (CreditWatch Negative) long term issuer credit rating and a short term issuer credit rating of C (CreditWatch Negative).

On 22 June 2010, Standard & Poor's downgraded the Company's long term issuer credit rating from B+ to B- and placed the outlook on CreditWatch Negative. In addition, the Company's short term credit rating was lowered from 'B' to 'C' and placed on CreditWatch Negative. A CreditWatch Negative listing by Standard & Poor's implies a one-in-two likelihood of a downgrade of the credit rating within the next three months (from 22 June 2010).

Further information about the Company's current credit rating is set out on pages 4 and 5 of this Investment Statement.

## UNITED STATES PRIVATE PLACEMENT ARRANGEMENTS

As previously disclosed, the Company repaid investors under the Company's United States private placement in full and ahead of schedule all amounts payable by it under the private placement on 28 February 2010.

## FUNDING

In October 2009, the Company entered into a 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 was 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. (As noted above, the amount drawn down by the Company under the United States private placement, together with all interest, has subsequently been repaid in full by the Company). On 4 June 2010, New Zealand Credit Fund Limited transferred the \$75 million funding facility it provided to the Company in October 2009 to Torchlight Security Trustee Limited and Torchlight Security Trustee Limited agreed to increase the amount of the facility to \$100 million and extend the term of the facility to 30 November 2010. The increase in the amount of the facility has resulted in new funding for South Canterbury Finance in the amount of \$25 million.

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 Unsecured Deposits offered under this Investment Statement). As at 31 December 2009, there were permitted Prior Charges of \$124,659,614. The permitted Prior Charges equated to 6.36% of Total Tangible Assets at 31 December 2009. The funding facility with Torchlight Security Trustee Limited (which was, as noted above, transferred by New Zealand Credit Fund Limited to Torchlight Security Trustee Limited on 4 June 2010) and the guarantee given by South Canterbury Finance in respect of the convertible notes issued by Southbury Corporation Limited under the institutional private placement completed by Southbury Corporation in January 2010, both provide that the amount for which priority is given includes an allowance for interest at default rates for an agreed period. The \$100 million facility is secured by a prior charge under the Company's Trust Deed. The \$25 million increase in the amount of the facility resulted in the amount of the Company's Prior Charges also increasing by \$25 million, to approximately \$151 million as at 4 June 2010. This equates to 7.2% of Total Tangible Assets (as calculated at 30 April 2010, taking into account the increased funding under the facility). This increase in the amount of Prior Charges, as a result of the increase in the funding facility, was approved by the Crown under the terms of the Company's Crown guarantee deeds on 4 June 2010. The extension and increase in the amount of the facility has improved the liquidity position of the Company.

## GOING FORWARD

In considering the impact of last year's events on the Company's position, it is important to bear in mind that the Company and eligible investors still have the benefit of the Crown guarantee under the Deposit Guarantee Scheme and the Extended Guarantee Scheme in respect of Stock which matures, or otherwise become payable, on or before 11 October 2010 in the case of the Deposit Guarantee Scheme and 31 December 2011 in the case of the Extended Guarantee Scheme. Further details regarding the terms of the Deposit Guarantee Scheme and Extended Guarantee Scheme are set out on pages 2 to 4 of this Investment Statement. While the Stock have the benefit of the Crown guarantee, as indicated above, the Unsecured Deposits taken under this Investment Statement do not have the benefit of a Crown guarantee under the Deposit Guarantee Scheme or the Extended Guarantee Scheme.

Notwithstanding recent challenges, the Company believes it is well positioned to continue to operate successfully in the non-bank finance sector. The long-term outlook is very positive given the significant consolidation that has occurred in the sector, departures from it and the new regulations which will raise the barriers to entry.

While there are challenges ahead due to the current economic climate, the Company's new Board and senior management have made, and continue to make, strong and diligent efforts to position South Canterbury Finance for success in the future.

## MR AND MRS HUBBARD – STATUTORY MANAGEMENT

On 20 June 2010 Commerce Minister Simon Power announced that Mr A.J and Mrs M.J Hubbard and certain entities associated with them (being Aorangi Securities Limited and seven charitable trusts) had been placed under statutory management under the Corporations (Investigations and Management) Act 1989 and that certain matters relating to Mr and Mrs Hubbard had been referred to the Serious Fraud Office.

Mr Power expressly confirmed that South Canterbury Finance is not part of the statutory management order. In addition, Treasury has confirmed, in a press release dated 20 June 2010, that all eligible South Canterbury Finance investors remain covered by the Crown's retail deposit guarantee scheme until 31 December 2011.

The implications of the statutory management for the various arrangements between the Company and entities associated with Mr and Mrs Hubbard are unclear at this stage. The Company is currently working through matters in detail to identify the consequences for it (both direct and indirect) as a result of the statutory management appointments. South Canterbury Finance was not relying on Mr and Mrs Hubbard to provide further capital to the Company as part of its current capital raising initiatives. Accordingly, the Company will continue to progress its capital raising initiatives.

Further announcements will be made by the Company as and when the Company is in a position to do so.

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\*Southbury Corporation Limited and Southbury Group Limited do not guarantee the Stock and Unsecured 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 31 May 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 Unsecured 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 Unsecured Deposits offered under this Investment Statement can be obtained in the registered prospectus for the Stock and Unsecured Deposits dated 9 April 2010 (as amended by memoranda of amendments dated 4 June, 21 and 22 June 2010, respectively) (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 Stock ("Stock") which has the benefit of the Crown guarantee; and
- b. Unsecured Deposits ("Unsecured Deposits") **which do not have the benefit of the Crown guarantee and are, therefore, "Excluded Securities" as defined in the amended Crown Deed of Guarantee dated 11 December 2009 and the Crown Deed of Guarantee for the Extended Guarantee Scheme dated 1 April 2010. Accordingly, none of South Canterbury Finance's obligations under or in respect of the Unsecured Deposits taken under this Investment Statement have the benefit of the Crown guarantee under either the Deposit Guarantee Scheme or the Extended Guarantee Scheme.**

Both are fixed interest securities. Options for the payment of interest are set out under the heading "What returns will I get?" on pages 15 to 16.

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 31 December 2009, there was Stock of \$1,783,010,143 in total, and there were permitted Prior Charges of \$124,659,614. The permitted Prior Charges equated to 6.36% of Total Tangible Assets at 31 December 2009. The funding facility with Torchlight Security Trustee Limited (which was transferred by New Zealand Credit Fund Limited to Torchlight Security Trustee Limited on 4 June 2010) and the guarantee given by South Canterbury Finance in respect of the convertible notes issued by Southbury Corporation Limited under the institutional private placement completed by Southbury Corporation in January 2010 both provide that the amount for which priority is given includes an allowance for interest at default rates for an agreed period. As indicated in the Chief Executive Officer's Report, the term of the \$75 million funding facility was extended to 30 November 2010, and the amount of the facility was increased to \$100 million, on 4 June 2010. This resulted in an increase in the amount of Prior Charges by \$25 million. As at 4 June 2010, the amount of permitted Prior Charges was approximately \$151 million which equates to 7.2% of Total Tangible Assets (as calculated at 30 April 2010, taking into account the increased funding under the facility). 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 Unsecured

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 31 December 2009, unsecured deposits and other unsecured creditors totalled approximately \$35.2 million. The Unsecured Deposits taken under this Investment Statement will not have the benefit of the Crown guarantee. Unsecured Deposits can be made at call or for terms of up to five years.

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

#### Issuer

The Issuer is:

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

#### Activities

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, through various regional branches operating across New Zealand, offers a range of finance products by way of hire purchase, floor plan, leasing, block discounting, mortgages against property and personal loans.

#### Charging Subsidiaries

The following Charging Subsidiary Companies have guaranteed the Stock and Unsecured Deposits:

- 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.

On 28 February 2010, Helicopters (NZ) Limited ("Helicopters (NZ)") and Scales Corporation Limited ("Scales Corporation") became subsidiaries of the Company. However, neither Helicopters (NZ) nor Scales Corporation are members of the Borrowing Group. Accordingly, Helicopters (NZ) and Scales Corporation do not guarantee the obligations of the South Canterbury Finance Borrowing Group to holders of Stock or Unsecured Deposits issued under this Investment Statement nor are their assets charged as security for Stock under the Trust Deed. South Canterbury Finance's shareholdings in Helicopters (NZ) and Scales Corporation do, however, form part of the assets of the Charging Group which are subject to the Trust Deed and charged as security for the Stock.

#### Directors

At the date of this Investment Statement, the Directors of South Canterbury Finance are Arthur William Baylis, Stuart James McLauchlan and James Denham Shale. The Directors can be contacted at the Company's registered office, 19 Sophia Street, Timaru. The Directors may change from time to time.

#### Trustee

The Trustee for the Stockholders and Unsecured 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 Unsecured Deposits accepted by South Canterbury Finance or the payment of interest thereon.

#### New Zealand Crown Retail Deposit Guarantee Scheme

South Canterbury Finance has a guarantee under the Deposit Guarantee Scheme. Accordingly, eligible investors in Stock issued pursuant to this Investment Statement will have the benefit of the Deposit Guarantee Scheme until 12.01 am on 12 October 2010. 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)).

In addition, South Canterbury Finance was accepted into the Extended Guarantee Scheme on 1 April 2010. This means that eligible investors in Stock issued pursuant to this Investment Statement will have the benefit of the extended guarantee scheme until 31 December 2011. Information about this scheme is set out on pages 3 to 4 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)).

**While the Stock has the benefit of a Crown guarantee under the Deposit Guarantee Scheme and Extended Guarantee Scheme, none of South Canterbury Finance's obligations under or in respect of the Unsecured Deposits taken under this Investment Statement have the benefit of a Crown guarantee.**

### 3. HOW MUCH DO I PAY?

You pay only the face value of the investment. In the case of Stock, which is issued at \$1.00 per unit of Stock, this is the principal amount of the Stock applied for.

A minimum investment of \$100 is required for Stock and Unsecured Deposits.

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.

The minimum amount of any investment and the rate of interest payable on that investment are shown on the application form or rate card issued by South Canterbury Finance from time to time or as otherwise agreed between you and South Canterbury Finance. You can obtain a copy of the current rate card by going to the Company's website [www.scf.co.nz](http://www.scf.co.nz) or by calling our Funding Department freephone on 0800 808 117. 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 (by cheque), 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.

### 4. WHAT ARE THE CHARGES?

#### No charges are payable by you

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

#### Charges payable by South Canterbury Finance

Details of the fees and expenses incurred in respect of this offer of Stock and Unsecured 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.

#### 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.

#### Early repayment

If you request early repayment of your investment and South Canterbury Finance agrees to make an early repayment, South Canterbury Finance will not charge a fee for the early repayment. However, 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 23 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 16 to 23 under the heading "What are my risks?" Certain events could reduce or eliminate the returns intended to be derived from holding the Stock and Unsecured Deposits.

### Nature of returns

You will receive a fixed rate of interest for the term of your investment.

### Key factors that determine your returns

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

- the fixed interest rate payable on the Stock and Unsecured Deposits by South Canterbury Finance;
- the performance by South Canterbury Finance of its obligations as the issuer of the Stock and Unsecured Deposits (including its obligation to pay interest on the Stock and Unsecured Deposits) and the performance of the Charging Group;
- in relation to the Stock, if the Crown does not, or is not able to, perform its obligations, if any, in respect of the Stock under the Deposit Guarantee Scheme or the Extended Guarantee Scheme or the guarantee given by the Crown under either scheme is not able to be enforced for some reason. Further information about the Deposit Guarantee Scheme and the Extended Guarantee Scheme is set out on pages 2 to 4 of this Investment Statement; and
- your individual circumstances for tax purposes.

### Payment of interest

Interest is payable from the date on which the Company receives your payment, subject to clearance through your bank where payment is made by cheque.

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.

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 Unsecured 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.

### Tax on your interest earnings

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 ("RWT") 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 the relevant rate (discussed below). 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.

Under the Taxation (Consequential Rate Alignment and Remedial Matters) Act 2009, the applicable resident withholding tax rates for individuals (including corporate trustees) are 12.5%, 21%, 33% and 38%. The rates for companies are 30% and 38% and the "non-declaration" rate is 38%. These changes became effective 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). Where no IRD number has been supplied, the Company must deduct resident withholding tax at the no declaration rate of 38% of interest paid or credited.

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.

### Right of Company to decline an application

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.

### Guarantors and New Zealand Crown Retail Deposit Guarantee Scheme

All of the obligations of South Canterbury Finance in respect of the Stock and Unsecured 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.

Helicopters (NZ) Limited ("Helicopters (NZ)") and Scales Corporation Limited ("Scales Corporation") became subsidiaries of South Canterbury Finance on 28 February 2010. South Canterbury Finance now owns all of the ordinary shares in Helicopters (NZ) and approximately 79.7% of the ordinary shares in Scales. However, neither Helicopters (NZ) nor Scales Corporation are members of the Charging Group and, accordingly, do not guarantee the Stock or Unsecured Deposits issued under this Investment Statement.

In addition, South Canterbury Finance has a guarantee under the Deposit Guarantee Scheme and the Extended Guarantee Scheme. Accordingly, eligible investors in Stock issued pursuant to this Investment Statement will have the benefit of the Deposit Guarantee Scheme until 12.01 am on 12 October 2010 and/or the Extended Guarantee Scheme until 11.59pm on 31 December 2011. See pages 2 to 4 of this Investment Statement for further information about the two schemes. **It is important to note that while the Stock has the benefit of a Crown guarantee, none of South Canterbury Finance's obligations under or in respect of the Unsecured Deposits taken under this Investment Statement have the benefit of the Crown guarantee under either the Deposit Guarantee Scheme or the Extended Guarantee Scheme.**

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

## 6. WHAT ARE MY RISKS?

All investments carry 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 Unsecured Deposits are no exception. The principal risks for investors are that:

- they may not receive timely, or any, interest payments on the Stock and Unsecured Deposits;
- South Canterbury Finance may not be able to repay the Stock and Unsecured 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 Unsecured 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
- in relation to the Stock, the Crown does not, or is not able to, perform its obligations, if any, in respect of the Stock under the Deposit Guarantee Scheme (or the Extended Guarantee Scheme) or the guarantee given by the Crown under either scheme is not able to be enforced for some reason. Further information about the Deposit Guarantee Scheme and the Extended Guarantee Scheme is set out on pages 2 to 4 of this Investment Statement. **Investors are reminded that none of South Canterbury Finance's obligations under or in respect of the Unsecured Deposits taken under this Investment Statement have the benefit of the Crown guarantee under either the Deposit Guarantee Scheme or the Extended Guarantee Scheme.**

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 Unsecured 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 Unsecured Deposits, are set out below in this section of the Investment Statement and in the Registered Prospectus. An applicant for Stock and Unsecured 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 Unsecured 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 Unsecured 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 Unsecured Deposits.**

As noted above, 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 in respect of the Stock issued under this Investment Statement and, 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 may be after the Deposit Guarantee Scheme expires. Accordingly, the Deposit Guarantee Scheme will not apply to South Canterbury Finance's obligation to pay any amounts in respect of Stock issued under this Investment Statement (including its obligation to pay interest on that Stock) which in the ordinary course become payable in accordance with the terms of the Stock after 12.01am on 12 October 2010. (The Extended Guarantee Scheme may, however, apply. Full details of the Extended Guarantee Scheme are set out on pages 3 to 4 of this Investment Statement). 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 in Stock 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 term of the Crown guarantee has been extended pursuant to the Extended Guarantee Scheme to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. The Company was accepted into the Extended Deposit Guarantee scheme by the Crown on 1 April 2010. (Full details of the Extended Guarantee Scheme are set out on pages 3 to 4 of this Investment Statement.) Investors who are not eligible to benefit under the Deposit Guarantee Scheme or the Extended Guarantee Scheme will be exposed to all of the risks outlined in this Investment Statement and the Registered Prospectus in respect of their investments in the Stock. 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 or the Extended Guarantee Scheme will not apply to the Stock (subject, of course, to the maturity date of any particular Stock). 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 and/or the Extended Guarantee Scheme, all eligible investors would be entitled to repayment under the Company's Crown guarantee regardless of the maturity date of their Stock. However, eligible Stockholders have no right to be paid interest under the Extended Guarantee Scheme after the date of a "Default Event" (as that term is defined in the Extended Guarantee Scheme deed).

**While eligible investments in Stock issued under this Investment Statement have the benefit of a Crown guarantee under the Deposit Guarantee Scheme or the Extended Guarantee Scheme, the Unsecured Deposits do not. Accordingly, investors in Unsecured Deposits taken under this Investment Statement will be exposed to the risks described in this Investment Statement and Registered Prospectus. Investors in Unsecured Deposits should therefore carefully read this section of the Investment Statement.**

Investors in Stock will be exposed to the risks described in this Investment Statement and the Registered Prospectus if, for any reason, the Crown does not perform its obligations under the Crown guarantee, the Crown guarantee does not apply to them 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 Unsecured 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 \$293.7 million as at 30 June 2009. In addition, it had past due loans of \$121.7 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 million 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.

Notwithstanding the impairment provisions made by the Company in the year ended 30 June 2009, the Charging Group made a net after tax loss of \$198.6 million for the six months to 31 December 2009. The Charging Group result includes impairment expenses of \$209.4 million on a pre-tax basis for losses on impaired or non-performing assets in the six months to 31 December 2009. The loss for the Charging Group of \$198.6 million arises primarily as a result of a rigorous review of all asset valuations by the Company's board and new senior management team. In addition, as at 31 December 2009, the Company had past due loans of \$74.2 million in total including \$32.6 million of loans that were past due by more than 30 days.

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. As a result of the Company's financial performance for the six months to 31 December 2009, the Company would have breached certain financial covenants contained in its Trust Deed. The Trustee has granted South Canterbury Finance a waiver from breaches of certain covenants contained in the Trust Deed. For further information see pages 8 to 9 of this Investment Statement.

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 Unsecured 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, particularly throughout New Zealand. 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.

South Canterbury Finance's credit approval processes were reviewed and amended in September 2009 to provide for a more rigorous loan application and credit approval process than was previously the case.

A further detailed review of the credit approval process has been initiated following the appointment of the three new independent directors to the Board in October 2009. As a result, a new credit process has been implemented. The new processes have been established with a view to minimising, to the extent possible, the incidence of bad debts in the future.

The credit approval process is overseen by a Credit Committee (comprising the Chief Executive Officer, Head of Risk, General Manager Lending and the Chief Financial Officer) whose function is to implement the credit risk management programme approved by the Board, and monitor credit risk on a group-wide basis.

Formal lending authorities are delegated by the Credit Committee to specialist credit staff who manage the day to day lending activities.

All loans in excess of \$500,000 are now authorised by at least one member of the credit team (holding sufficient delegated discretion) and who is independent of the loan origination process. All loan approvals require unanimous support of all required signatories under the Company's Credit Process policy. Loans under \$500,000 are typically approved by the relevant General Manager to whom the Credit Committee has delegated authority, with approvals being reviewed by an officer at the next level up in the credit department.

An Asset Management Unit was established within South Canterbury Finance in March 2010 to manage impaired loans, primarily in the property sector.

As part of the operational restructuring referred to above, the Asset Management Unit is responsible for the management of all non-performing and impaired loans. In addition, all property loans will be managed by the Asset Management Unit.

These impaired loans require a specific focus to determine options for recovery and then to implement and manage the recovery process. The Asset Management Unit is a specialised team comprising six full time members and a part time member with expertise in the management of property developments, credit recovery and project management.

In addition, property and management consultants will be engaged by the Asset Management Unit to assist as and when required.

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

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 finance company receiverships over the last couple of years 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. 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 Unsecured Deposits or the repayment of the Stock and Unsecured Deposits on their maturity date could be delayed, less than anticipated or not be made at all.

As at 31 March 2010, the Company had borrowings of approximately \$461.1 million including interest, which are due to be repaid by 30 June 2010 and a further \$1,088.6 million of borrowings, including interest, which are due to be repaid prior to the expiry of the Extended Guarantee Scheme at 11.59pm on 31 December 2011. The Company will need to manage its liquidity position carefully over that period to ensure that it is in a position to repay those borrowings as and when they fall due. In particular, the Company intends to meet its obligations using funds raised through a variety of means including the issue of Stock and Unsecured Deposits under this Investment Statement, the realisation of assets, loan repayments and recoveries and through the raising of further additional capital.

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 Unsecured Deposits on the due dates for the same. Where this occurs, the Company may have to have recourse to other funds held by it (which may include funds raised by it from new investors under this Investment Statement) to enable it to meet its obligations in relation to maturing investments.

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 7 April 2010, South Canterbury Finance had cash on deposit of \$31.6 million and realisable investments of \$8.8 million to assist it in meeting its repayment obligations in respect of its borrowings. As at 21 June 2010, South Canterbury Finance had cash on deposit of approximately \$64 million and realisable investments of approximately \$12 million.

The Company's liquidity position is likely to be improved through this offer of Stock and Unsecured Deposits and the proceeds of the proposed further recapitalisation of the Company. As indicated above, the Company and its parent have completed the first part of the intended 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. In addition, as part of the recapitalisation initiatives for the Company, it acquired all of the ordinary shares in Helicopters (NZ) Limited ("Helicopters (NZ)") and approximately 64% of the ordinary shares in Scales Corporation Limited ("Scales Corporation") from Southbury Corporation Limited. The purchase price payable by the Company for the Helicopters (NZ) and Scales Corporation shareholdings was satisfied through the issue of new ordinary shares in the Company with an aggregate issue price of \$152.5 million to Southbury Corporation Limited, all of which shares were credited as fully paid, and by the payment of \$10 million in cash to Southbury Corporation Limited. On 31 March 2010, the Company and its parent Southbury Corporation Limited agreed terms for an additional injection of \$22 million equity capital by Southbury Corporation Limited. As set out in more detail in the "Business Commentary" section on page 9 of this Investment Statement, this transaction did not proceed because the necessary consents were not obtained by 31 May 2010. However, taking account of the \$25 million increase in the funding facility from Torchlight Security Trustee Limited, the liquidity position of the Company is no worse than if the equity transaction had proceeded and the Company is pursuing a number of initiatives with a view to improving its equity position.

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. The successful implementation of the planned restructuring and recapitalisation of the Company is integral to its ability to operate profitably in the future.

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 entered into a \$75 million credit facility with New Zealand Credit Fund Limited in October 2009 which was 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. This facility was transferred to Torchlight Security Trustee Limited on 4 June 2010, and was, by agreement with Torchlight Security Trustee Limited, increased to \$100 million and its term was extended to 30 November 2010.

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 Unsecured Deposits offered under this Investment Statement). As at 31 December 2009, there were permitted Prior Charges of \$124,659,614 including the \$75 million facility 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. The permitted Prior Charges equated to 6.36% of Total Tangible Assets at 31 December 2009. Both of those arrangements provide that the amount for which priority is given includes an allowance for interest at default rates for an agreed period. The \$25 million increase to the funding facility, now with Torchlight Security Trustee Limited, (bringing the total facility to \$100 million) is also secured by a prior ranking charge under the Trust Deed. The Crown's consent to this increase in the amount of Prior Charges under the terms of the Company's Crown guarantee deeds was obtained on 4 June 2010. As at 4 June 2010, the total amount of permitted Prior Charges was \$151 million which equates to 7.2% of Total Tangible Assets (as calculated at 30 April 2010, taking into account the increased funding under the facility). The Company will, where necessary, continue to utilise its ability to borrow by way of Prior Charges to the extent permitted under the Trust Deed to improve its liquidity.

The Company also 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 Unsecured Deposits) as and when those obligations fall due. In the six months to 31 December 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 \$113 million of its investments. In addition, the Company proposes selling non-core assets to provide further liquidity.

Notwithstanding the realisation of these assets, the Company acknowledges that it still holds a number of assets (including loans) that it may have difficulty realising for their full value in the current economic climate, particularly if it was required to realise those assets urgently. However, the directors of the Company are confident that, by taking advantage of its ability to raise funds with the benefit of the Deposit Guarantee Scheme until 12 October 2010 and with the benefit of the Extended Guarantee Scheme until the end of December 2011, the Company will be able to realise assets in an orderly manner and, thereby, recover their full value over time. In addition, there may be borrowers from the Company who, while currently meeting their interest obligations on their loans, may not be able to repay their loans in full on the scheduled maturity date. Again, the Company is confident that, over time, it will be able to receive the amount of those loans in full.

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 Unsecured 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 Guarantee 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 and/or Extended Guarantee Scheme, all eligible investors would be entitled to payment under the terms of the Crown guarantee irrespective of whether or not their Stock was due to mature before or after the expiry of the Deposit Guarantee Scheme or Extended Guarantee Scheme.

The appointment, on 20 June 2010, of statutory managers in respect of Mr and Mrs Hubbard, Aorangi Securities and seven charitable trusts associated with Mr and Mrs Hubbard may adversely affect the ability of the Company to raise funds from the public given the long-standing relationship that Mr and Mrs Hubbard have had with the Company and the public perception likely to be created by the appointment of statutory managers in respect of Mr and Mrs Hubbard.

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 Unsecured 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 Extended Guarantee 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 Extended 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 Guarantee Scheme is set out on pages 2 to 4 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.

### 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 18 to 24 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 have impacted adversely on the Company's profitability in the year ended 30 June 2009 and the six months to 31 December 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 \$414.2 million after taking provisions into account. The Charging Group carried an impairment provision of \$47.6 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 has made further impairment provisions of \$116.4 million in respect of its property lending portfolio as at 31 December 2009.

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. Notwithstanding the impairment provisions made to date in respect of the property portfolio, there is a risk that further provisions may be required in future.

### Lending Policies and Practices

The Charging Group lends money to a diverse range of borrowers based on specified credit approval processes in force at the time of approving the loan.

The Company's credit approval processes were reviewed and amended in September 2009, and were further reviewed and amended in January 2010, to provide for a more rigorous loan application and credit approval process than was previously the case. The new processes have been established with a view to minimising, to the extent possible, the incidence of bad debts in the future.

There remains the risk that when a specific loan was approved prior to September 2009, the credit approval processes in place at that time were not strictly followed and/or that such credit approval processes were not sufficiently rigorous or independent and that further impairment provisions may need to be taken in respect of such loans as a result.

### Repayment of Loans upon Maturity

There is a risk, in relation to loans made by the Charging Group that do not require the borrower to make regular payments of principal and interest over the course of the loan (i.e., non-amortising loans), that, on the expiration of such a loan, the borrower has insufficient funds, or is unable to refinance the loan with another lending institution, to repay the loan together with any unpaid or capitalised interest. This may force the Company to roll-over existing loans and/or impact on the Company's ability to recover the amounts due and payable on such loans in full.

This risk applies, in particular, to the Charging Group's property lending portfolio which consists of a higher proportion of non-amortising and capitalising interest loans which may be particularly difficult for borrowers to refinance in the current market environment. While the Charging Group's business and rural lending portfolios also have a relatively high proportion of non-amortising loans, these loans should, generally, be more readily able to be refinanced by borrowers in the current market should the borrower be unable to repay the loan in full on the maturity date. By contrast, almost all of the Charging Group's consumer loan portfolio and to a lesser extent its plant and equipment lending portfolio consist of loans under which the borrowers are required to pay regular instalments of interest and principal over the course of the loan (i.e., amortising loans) and, in the Company's view, are more readily able to be refinanced.

### 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 Unsecured Deposits may also result in it being unable to pay interest on the Stock and Unsecured Deposits on the due date or repay the Stock and Unsecured 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. However, the appointment, on 20 June 2010, of statutory managers in respect of Mr and Mrs Hubbard, Aorangi Securities and seven charitable trusts associated with Mr and Mrs Hubbard may adversely affect the ability of the Company to raise funds from the public given the long-standing relationship that Mr and Mrs Hubbard have had with the Company and the public perception likely to be created by the appointment of statutory managers in respect of Mr and Mrs Hubbard

The Company's four week rolling average reinvestment rate, by number, decreased during the year to 30 June 2009, falling from 67.2% as at 31 December 2008 to 65.2% over the later months of the financial year, while the four week rolling average debenture reinvestment rate, by value, fell from 71.7% to 60.1% over the same period. Overall, reinvestment rates in the period from 30 June 2009 to 31 March 2010 have continued to decline. In the Company's view, the reinvestment rates have been materially affected by several factors including the fact that the Company was unable to accept investments for a period of approximately nine weeks due to the fact that its debenture prospectus was out of the market, and by adverse events such as the Company's credit rating downgrades and the Company's financial performance over that period. As well, the Company believes that as the expiry date of the Deposit Guarantee Scheme became closer, reinvestment rates became further affected as investors were limited to shorter periods of investment with the Company. At the same time, however, the Company has experienced increased investment demand from new investors seeking the protection of the Crown guarantee. The funds provided by these new investors have to a large extent off-set the reduction in reinvestment rates. The Company believes that by offering stock under the Extended Guarantee Scheme and at competitive interest rates, it is likely to 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 Unsecured Deposits.

On 1 April 2010, the Company was accepted into the Extended Guarantee 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 Extended 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 Extended Guarantee Scheme is set out on pages 3 to 4 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 Unsecured 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 Unsecured Deposits offered under this Investment Statement. The Company entered into a \$75 million funding facility with New Zealand Credit Fund Limited in October 2009. This facility was transferred from New Zealand Credit Fund Limited to Torchlight Security Trustee Limited on 4 June 2010 and the amount of the facility was increased to \$100 million, and its term was extended to 30 November 2010, by agreement with Torchlight Security Trustee Limited.

Further credit rating downgrades (if there are any) 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.

#### Credit Rating Downgrade

As at 22 June 2010, the Company has a long term issuer credit rating of B- (CreditWatch Negative) and a short term issuer rating of C (CreditWatch Negative). A CreditWatch Negative listing by Standard & Poor's implies a one-in-two likelihood of a downgrade of the credit rating within the next three months (from 22 June 2010).

On 2 March 2010, Standard & Poor's Ratings Services lowered its long term issuer credit rating on South Canterbury Finance from 'BB+' (Negative Outlook) to 'BB' (CreditWatch Negative). The Company's BB (CreditWatch Negative) long-term issuer credit rating was further downgraded by Standard & Poor's to B+ (CreditWatch Developing) on 28 May 2010. A CreditWatch Developing listing by Standard & Poor's implies a one-in-two likelihood that the rating may be raised, lowered or affirmed within the next three months (from 28 May 2010). As noted above, on 22 June 2010, Standard & Poor's further downgraded the Company's long term issuer credit rating to 'B-' (CreditWatch Negative) and downgraded its short term credit rating to C (CreditWatch Negative).

In the Company's view, if the credit rating is downgraded further, this may further impact the Company's ability to raise funds from local and offshore institutions and investors under its offers of Stock and Unsecured 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 Unsecured Deposits offered under this Investment Statement. Further downgrades may also impact on the Company's 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 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 Chief Executive Officer, Mr Sandy Maier, and new members of the senior management team.

### Economic Downturn

Notwithstanding that the recessionary phase of the business cycle has technically come to an end in New Zealand, 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.

### 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 these factors, 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.

The Reserve Bank has developed draft regulations in relation to proposed capital ratio requirements and related party exposures for NBDTs. The draft regulations indicate that a minimum capital ratio requirement of 8% of tier one capital may be introduced for NBDTs. The regulations, 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. As at the date of this Investment Statement, the Reserve Bank's current expectation is that these regulations will come into force in late 2010. These regulations are likely to impose further regulatory requirements on NBDTs such as South Canterbury Finance.

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.

Under the amendments to the Reserve Bank Act 1989, the Company is required to have:

- a. implemented a risk management programme from 1 September 2009. The Company has put in place a risk management programme which complies with the Reserve Bank's requirements and which was approved by the Trustee; and
- b. 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.

NBDTs are required to hold a local currency, long term, issuer rating from 1 March 2010. As set out on pages 4 and 5 of this Investment Statement, the Company currently has a B- (CreditWatch Negative) long term, issuer 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 preferred claims. The Stock will rank equally in all respects and without preference among Stockholders; and
- b. Depositors will receive payment in respect of their Unsecured Deposits behind First and Second Ranking Stock and any other secured debts, and behind statutorily preferred claims. The Unsecured Deposits will rank equally in all respects and without preference among Depositors and other unsecured creditors. **The Unsecured Deposits taken under this Investment Statement do not have the benefit of a Crown guarantee under the Deposit Guarantee Scheme or the Extended Guarantee Scheme.**

#### 7. CAN THE INVESTMENT BE ALTERED?

Your investment, whether in Stock or Unsecured 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 Unsecured 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 Unsecured 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?

##### Right to Sell Securities

The listing of the Stock and Unsecured Deposits on any exchange is not being sought.

Stock and Unsecured 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 Unsecured 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 this Investment Statement.

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

Enquiries about your investment 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?

Any complaints about your investment 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 Unsecured 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 Unsecured Deposits.

A copy of the Registered Prospectus and financial statements which further describes the Stock and Unsecured Deposits and contains more detailed information about South Canterbury Finance 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 this page of this Investment Statement or from the Companies Office Internet Site: [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 Unsecured Deposits.

### Annual Report

A copy of the latest audited full year financial statements and latest audited half year accounts for the Charging Group are either contained in or referred to in the Registered Prospectus, and are 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 23 of this Investment Statement.

The Company's latest Annual Report can be viewed on the Companies Office Internet Site: [www.companies.govt.nz](http://www.companies.govt.nz).

### Trust Deed

A Trust Deed has been entered into between the Company and Trustees Executors Limited as Trustee for the Stockholders and Unsecured 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 Unsecured 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
- 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 Unsecured 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. Any personal information provided by you will be held by South Canterbury Finance at its registered office, 19 Sophia Street, Timaru or such other place as is notified upon request. This information will be used for the purpose of managing your investment in Stock and/or Unsecured Deposits but may also be disclosed to the Crown in accordance with the Crown Deed of Guarantee. You have rights of access to personal information that the Company holds about you under the Privacy Act 1993. You must make this request during normal business hours at the Company's registered office, 19 Sophia Street, Timaru.

### New Zealand Crown Retail Deposit Guarantee Scheme

Further information about the Deposit Guarantee Scheme and the Extended Guarantee Scheme is set out on page 2 to 4 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



South Canterbury Finance

BROKERS STAMP

OFFICE USE ONLY

Client No.

Client No.

Invest. No.

## SECURED DEBENTURE STOCK APPLICATION

APPLICANT

I/We hereby apply for First Ranking Registered Secured Debenture Stock as set out below and upon the terms and conditions contained in the current registered prospectus issued by South Canterbury Finance Ltd and enclose payment in full. All cheques should be crossed NOT TRANSFERABLE and made payable to order of SOUTH CANTERBURY FINANCE LTD.

### 1. INVESTOR PLEASE COMPLETE IN BLOCK LETTERS

Title: First Names: \_\_\_\_\_

Surname: \_\_\_\_\_

Date of Birth Compulsory for Non-Residents: \_\_\_\_\_

IRD Number: \_\_\_\_\_

### JOINT INVESTOR

Title: First Names: \_\_\_\_\_

Surname: \_\_\_\_\_

Date of Birth Compulsory for Non-Residents: \_\_\_\_\_

IRD Number: \_\_\_\_\_

### 2. CORPORATE COMPANY / SOCIETY / TRUST / OTHER

Name: \_\_\_\_\_ IRD Number: \_\_\_\_\_

### 3. INVESTOR DETAILS

Address: \_\_\_\_\_

Non-resident Address (If different from above): \_\_\_\_\_

Telephone: ( ) Email: \_\_\_\_\_

Tax Rate: Please circle 12.5% 21% 30% 33% 38% Other: If you are exempt from withholding tax please enclose a copy of your RWT exemption certificate

### 4. INVESTMENT DETAILS: Effective 6 July 2010

TERM	RATE	AMOUNT (Minimum \$100.00)
3 months	4.50%	\$
6 months	6.00%	\$
9 months	7.00%	\$
12 months	8.00%	\$
Matures May 2011	8.00%	\$
Matures June 2011	8.00%	\$
Matures July 2011	8.00%	\$
Matures Sept. 2011	8.00%	\$
Matures Nov. 2011	8.00%	\$

NB: The Company reserves the right to vary all or any of the above rates without notice. New rates shall not affect applications lodged before the date of variation.

The Secured Debenture Stock is first ranking subject to permitted prior charges under South Canterbury Finance Limited's Trust Deed and statutory preferred claims. Further details about the Secured Debenture Stock are set out in South Canterbury Finance's current Investment Statement.

### 5. INTEREST PAYMENT METHOD

- Compounded Quarterly (interest added to principal)
- Direct Credit to Bank Account – Quarterly (details below)
- Direct Credit to Bank Account – Monthly (details below)

Please note: Interest is paid on the last business day of each month or quarter (March, June, September, December) as applicable.

### 6. BANK ACCOUNT DETAILS

Bank Branch Account No. Suffix

Account Name: \_\_\_\_\_

Reference (if required): \_\_\_\_\_

### 7. HOW DID YOU FIND OUT ABOUT THIS INVESTMENT?

- Existing investor
- Broker/Adviser
- Newspaper
- Internet
- Other (please specify): \_\_\_\_\_
- OR  www.scf.co.nz

I/We acknowledge that we have received a copy of South Canterbury Finance's current Investment Statement and that I/we have read the information contained on the reverse of this application.

Signature(s): \_\_\_\_\_ Date: / /

A copy of the current prospectus is available from South Canterbury Finance Ltd.

South Canterbury Finance Ltd. PO Box 125, 19 Sophia Street, Timaru 7910 • Telephone 03 688 8117, Facsimile 03 684 9550, Freephone 0800 808 117

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**How to Invest**

Please complete this application form as follows:

1. List your full name and requested details in block letters. In the case of a joint application, the person whose details are set out under the heading "Investor" will be shown as the taxpayer on all tax certificates as only one name and address can be recorded for receiving these under the Tax Administration Act 1994.
2. If you are applying in the name of a company, society or trust please complete section 2 and enter your correct registrable title and the IRD number for the entity. Please note that all trustees must sign the application form in the case of a trust.
3. Fill in your address and indicate the tax rate applicable. These details are requested due to the requirements of the Tax Administration Act 1994. If we do not have your IRD number on file, we are required to deduct resident withholding tax at the default rate (which may be higher than your actual rate).
4. Show amount to be invested beside the term or terms you have chosen. **Minimum investment is \$100.00.**
5. Nominate whether you require interest to be:
  - i. Retained and added to principal each three months (compounded)
  - ii. Paid quarterly direct to your bank.
  - iii. Paid monthly direct to your bank.
6. Please provide the details of the bank account into which you wish your interest payments to be paid.
7. Please indicate how you found out about South Canterbury Finance.
8. Sign and date the application. In the case of a joint application, all persons must sign the application.

This application must be signed personally or by the applicant's authorised Attorney and if made under Power of Attorney the donee of such Power states that the donee has received no notice of revocation thereof.

Please consult the current Investment Statement issued by South Canterbury Finance Limited if further information is required.

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**Use of Personal Information**

South Canterbury Finance Limited ("SCF" or "the Company") is committed to protecting your privacy in accordance with the Privacy Act 1993. By completing this application, you authorise SCF to collect, retain, and use your personal information.

The information is being collected by SCF to allow us to communicate with you regarding, and administer, your investment with SCF. We may also use it to provide you with newsletters, promotional materials and information about other services and products we offer. We would be happy to put an "indicator" on your file if you notify us in writing that you do not wish to receive any promotional material about services and products offered by the Company. If no such request is received from you, we will take it that you have accepted and agreed to the Company using your personal information for this purpose.

SCF provides a range of services including finance and investments. To avoid duplication of your personal information, and to ensure that information held is kept completely up-to-date, all information is stored on the Company's central database.

Your personal information may be disclosed to members of the SCF group of companies, Trustees Executors Limited (the trustee) or any other entity that provides services in relation to SCF's products and services. In addition, SCF may, from time to time, disclose information relating to your investment for regulatory purposes or if required by law. Where this application has been submitted by a broker, unless instructed otherwise, SCF may provide information held in respect of this investment to that broker which may include personal information about you.

Please note that under the Privacy Act 1993, you have a right of access to, and correction of, your personal information held by SCF free of charge.

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**Identity Confirmation**

The Financial Transactions Reporting Act 1996 requires the identity of all investors to be verified. If the account name on the application cheque is different from the name of the entity or person(s) that will own the Secured Debenture Stock to which this application relates, please ask your Adviser to complete the declaration below. Alternatively please supply a certified copy of your photo drivers license, passport or birth certificate with your application form.

**DECLARATION OF ADVISER AS AGENT OF SOUTH CANTERBURY FINANCE LIMITED:**

I have seen an original or certified copy of the identification for each investor to whom this application relates and I have kept a copy of this identification for my files. I have no reason to believe that each investor is not who he or she claims to be.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Date:        /        /

Company/Firm: \_\_\_\_\_

Identification Used: \_\_\_\_\_

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South Canterbury Finance

BROKERS STAMP

OFFICE USE ONLY

Client No.

Client No.

Invest. No.

## UNSECURED DEPOSIT (NO CROWN GUARANTEE) APPLICATION

APPLICANT

I/We hereby apply for Unsecured Deposits as set out below and upon the terms and conditions contained in the current registered prospectus issued by South Canterbury Finance Ltd and enclose payment in full. **I/We understand that by investing in the Unsecured Deposits, none of South Canterbury Finance's obligations under or in respect of my/our investment will have the benefit of a guarantee from the Crown.** All cheques should be crossed NOT TRANSFERABLE and made payable to order of SOUTH CANTERBURY FINANCE LTD.

### 1. INVESTOR PLEASE COMPLETE IN BLOCK LETTERS

Title: First Names: \_\_\_\_\_

Surname: \_\_\_\_\_

Date of Birth Compulsory for Non-Residents: \_\_\_\_\_

IRD Number: \_\_\_\_\_

### JOINT INVESTOR

Title: First Names: \_\_\_\_\_

Surname: \_\_\_\_\_

Date of Birth Compulsory for Non-Residents: \_\_\_\_\_

IRD Number: \_\_\_\_\_

### 2. CORPORATE COMPANY / SOCIETY / TRUST / OTHER

Name: \_\_\_\_\_ IRD Number: \_\_\_\_\_

### 3. INVESTOR DETAILS

Address: \_\_\_\_\_

Non-resident Address (If different from above): \_\_\_\_\_

Telephone: ( ) \_\_\_\_\_ Email: \_\_\_\_\_

Tax Rate: Please circle 12.5% 21% 30% 33% 38% Other: If you are exempt from withholding tax please enclose a copy of your RWT exemption certificate

### 4. INVESTMENT DETAILS: Effective 6 July 2010

TERM	RATE	AMOUNT (Minimum \$100.00)
Call	3.00%	\$
3 months	5.00%	\$
6 months	5.50%	\$
12 months	8.75%	\$
18 months	9.00%	\$
24 months	9.25%	\$
36 months	9.50%	\$
48 months	9.50%	\$
60 months	9.75%	\$

NB: The Company reserves the right to vary all or any of the above rates without notice. New rates shall not affect applications lodged before the date of variation.

The Unsecured Deposits are unsecured securities of South Canterbury Finance Limited. Further details about the Unsecured Deposits are set out in South Canterbury Finance's current Investment Statement.

### 5. INTEREST PAYMENT METHOD

- Compounded Quarterly (interest added to principal)
- Direct Credit to Bank Account – Quarterly (details below)
- Direct Credit to Bank Account – Monthly (details below)

Please note: Interest is paid on the last business day of each month or quarter (March, June, September, December) as applicable.

### 6. BANK ACCOUNT DETAILS

Bank Branch Account No. Suffix

Account Name: \_\_\_\_\_

Reference (if required): \_\_\_\_\_

### 7. HOW DID YOU FIND OUT ABOUT THIS INVESTMENT?

- Existing investor
- Broker/Adviser
- Newspaper
- Internet OR  www.scf.co.nz
- Other (please specify): \_\_\_\_\_

I/We acknowledge that we have received a copy of South Canterbury Finance's current Investment Statement, that my/our investment in the Unsecured Deposits does not have the benefit of a guarantee from the Crown and that I/we have read the information contained on the reverse of this application.

Signature(s): \_\_\_\_\_ Date: / /

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Date:        /        /

Company/Firm: \_\_\_\_\_

Identification Used: \_\_\_\_\_

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