



**BROADLANDS  
FINANCE LTD**

# **Investment Statement**

**Secured Debenture Stock**

1 March 2010

Broadlands Finance Limited has a guarantee under the New Zealand deposit guarantee scheme.  
See pages 13 to 15 for details.

# INVESTMENT STATEMENT

## 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; and
- what types of investments the adviser gives advice about; and
- whether the advice is limited to the investments offered by one or more particular financial organisations; and
- 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.

## BROADLANDS FINANCE LIMITED

Defined terms that are used in this Investment Statement have the meaning set out in the glossary on page 28 and 29 of this Investment Statement.

Since 1995 Broadlands Finance Limited (“Broadlands” or “the Company”) has specialised in providing hire purchase finance, personal loans and property finance to customers who fall outside the lending criteria of the banks and other major lending institutions.

The Directors of Broadlands appreciate that when making the decision to invest in securities offered by the Company, an investor should be aware of the business in which the investment is being made. To assist, they have prepared this summary of Broadlands’ position and activities.

As at 31 March 2009 Broadlands had net assets of \$16.9 million, Debenture Stock of \$15.1 million and an equity ratio of 41.0%. The maximum amount of Debenture Stock that can be raised under the current Prospectus is \$40 million. Funds raised will be used to pay existing liabilities of the Company, to provide loans to customers of Broadlands in the normal course of its business as a finance company and to further expand the business of Broadlands.

With the changes that have taken place in the finance and motor vehicle industries over the last 18 months, in particular, the reduction in the number of industry participants offering finance in the business and commercial sector and the recent slow-down in motor vehicle sales, Broadlands has made changes to its business operations in order to ensure that it can continue to operate profitably and in accordance with the changes that have taken place in the New Zealand market. Accordingly Broadlands has decreased the volume of lending for motor vehicles and secured personal loans and has slowly been increasing its commercial lending. This commercial lending includes loans for the acquisition of plant and equipment, commercial property projects and alternative to bank funding for business borrowers. These loans may be made on a secured or unsecured basis, depending on the particular transaction. As at 31 March 2009, Broadlands held a total of 5,259 motor vehicle/personal loans (March 08: 6,551), at an average loan of \$6,581 (Mar 08: \$6,023). Of the total advances, 96% in dollar value were for motor vehicle / personal loans (Mar 08: 99%) and 4% in dollar value related to property mortgage finance (Mar 08: 1%). As at 31 August 2009, these percentages had changed to 80% in dollar value for motor vehicle / personal loans, 9% in dollar value related to property mortgage finance and the remaining 11% related to finance provided to business and commercial customers. These percentages are likely to change in the future as the company moves progressively into financing more business lending than it has previously.

As part of its management of its overhead and related structures, Broadlands was able to reduce the number of retail branches over the last 18 months. This has resulted in changes being reflected in the geographical spread of its loans. As at 31 March 2009 and 2008 the geographic spread of loans held by Broadlands was:

	2009	2008
Auckland	53%	36%
Waikato/Bay of Plenty	28%	21%
Rest of New Zealand	19%	43%

All lending activities are now conducted from the head office in Auckland while a presence is still maintained in Papakura and Tauranga for the Company’s credit control activities. The closure of retail branches in March 2008 and March 2009 is reflected in the increase in concentration of lending in the Auckland region where our head office is located.

In addition to its lending activities, from time to time, Broadlands may acquire loans made by other lenders or fund loans made by other lenders. Any acquisition of loans or funding of other lenders would be subject to detailed review by Broadlands prior to acquisition.

Broadlands' policy is not to make loans to related parties that are not part of the Charging Group.

Broadlands at present has two subsidiaries, Beneficial Insurance Limited and Vehicle Funding Limited. Each of Beneficial Insurance Limited and Vehicle Funding Limited are Charging Subsidiaries under the terms of the Trust Deed. Beneficial Insurance Limited provides consumer credit indemnity cover to limit Broadlands' exposure to the redundancy, sickness, injury or death of its clients. Premiums are included by Broadlands in the loans to its clients. Beneficial Insurance Limited also provides insurance for veterinarian expenses in respect of family pets as part of its Pet-n-Sur product. Beneficial Insurance Limited has been carrying on its activities since its incorporation in March 2002. Beneficial Insurance Limited became a Subsidiary of Broadlands from 31 March 2005.

Vehicle Funding Limited was incorporated on 16 January 2008 and subsequently acquired by the Company from Anthony Radisich a director and the sole shareholder of the Company, for nominal consideration (\$1.00). (Anthony Radisich does not guarantee the Debenture Stock.) Vehicle Funding Limited became a Subsidiary on 2 February 2009. As at the date of this Investment Statement, Vehicle Funding Limited has not commenced business other than to enter into a Supplemental Trust Deed to become a Charging Subsidiary. The Company intends that Vehicle Funding Limited will provide wholesale funding to motor vehicle dealers. Broadlands believes that it is in a position to pursue this business opportunity as the number of finance company participants in this sector of the industry has reduced since the start of 2008. Vehicle Funding Limited will not commence trading until business opportunities have been investigated and an appropriate business plan put to the board of directors of Broadlands.

On 25 February 2010, the Company was assigned a BB- long term issuer credit rating (with negative outlook) and a 'B' short term issuer credit rating from approved rating agency Standard & Poor's.\*

Effective 12 October 2008, Broadlands has a guarantee under the New Zealand deposit guarantee scheme. Further information about this scheme is set out on pages 13 to 15 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)).

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\* *The creditworthiness of Broadlands has been rated by Standard & Poor's Ratings Service, an approved rating agency under section 157J of the Reserve Bank of New Zealand Act 1989. The local currency (New Zealand dollar) long term issuer credit rating assigned to Broadlands is BB-, with negative outlook. The Company has also been assigned a short term issuer credit rating of B.*

*Under a long term issuer credit rating, an obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments. The minus sign (-) shows relative standing within the rating category. Under a short term issuer credit rating, an obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics.*

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

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

*The ratings agency announcement (dated 25 February 2010) issued in connection with the ratings stated:*

*“The ratings on Broadlands reflect the company’s vulnerable liquidity, with more than half of its outstanding retail debentures maturing in the coming 12 months, and its cash position in part hinging on the collections from its higher-risk consumer loan portfolio. This said, Broadlands had a fairly diversified debenture investor base, and the company’s sole shareholder has a track record of providing liquidity support to it where necessary.*

*Although Broadlands’ credit-loss experience has been fairly well managed to date, the credit profile is moderated by the higher-risk nature of the company’s loan receivables portfolio, which exhibits a high level of loan arrears. Broadlands’ funding base relies heavily on its single shareholder, in the form of debts as well as equity, and its business profile also links to the experience and connections of the shareholder. Favourable features of Broadlands’ credit profile include the company’s good interest margins and capital-adequacy ratio, which provide good capacity for absorbing materially higher credit losses.*

*The negative rating outlook incorporates the uncertainty around Broadlands’ ability to manage its liquidity position through 2010 – stemming from changes to New Zealand’s deposit-guarantee scheme and the imposition of other regulatory requirements on New Zealand nonbank deposit-taking companies – and an expectation that profitability may come under pressure from some contraction in interest margins and potentially higher credit costs. Further explicit support for Broadlands from its shareholder, however, could contribute to the upwards rating momentum, or, at a minimum, greater ratings rigidity at the current rating level.”*

*Standard & Poor’s has provided Broadlands with an in-depth opinion of its strengths and weaknesses and the Company is now able to work on the latter to further enhance its business.*

*The ratings assigned to Broadlands are statements of opinion issued by Standard & Poor’s Ratings Service. They are not statements of fact, an endorsement of Broadlands, or a recommendation to buy, hold or sell securities.*

## **1. What sort of investment is this?**

### **Description of the Securities**

The investments described in this Investment Statement are debt securities ("Debenture Stock") issued by Broadlands Finance Limited under the Trust Deed between Broadlands and Trustees Executors Limited (the "Trustee") dated 26 April 2001, as amended by a Deed of Modification dated 3 October 2002 and by Supplemental Trust Deeds dated 11 April 2005 and 7 September 2009 (together, the "Trust Deed").

In the case of Debenture Stock that is a term investment, the rate of return on that Debenture Stock is fixed for the term. In the case of Debenture Stock that is an "at call" investment, the rate of return is subject to daily review by Broadlands. Interest is paid quarterly on the last days of March, June, September and December and on maturity or redemption.

The Trust Deed provides that the Debenture Stock is secured by a first ranking security interest and charge over all the present and future assets of Broadlands and any charging subsidiaries. The Trustee holds this security on behalf of, and for the benefit of, all holders of Debenture Stock from time to time. At the date of this Investment Statement, Beneficial Insurance Limited and Vehicle Funding Limited, wholly owned Subsidiaries of Broadlands, are the only Charging Subsidiaries.

Proceeds from the issue of Debenture Stock will be used to pay existing liabilities of the Company, to provide loans to customers of Broadlands in the normal course of its business as a finance company and to further expand the business of Broadlands.

The Debenture Stock will be issued under the terms of the Trust Deed. The Trust Deed is registered with the Companies Office of the Ministry of Economic Development. Copies of the Trust Deed and amending documents are available for viewing and copying on the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz) on payment of a nominal fee and copies are also available, free of charge, upon request from Broadlands.

The Trust Deed prohibits the Company and its Charging Subsidiaries from giving or permitting any security over their assets which ranks ahead of, or equally with, the Debenture Stock, except securities which are given for money borrowed or raised or otherwise owing to finance the purchase or acquisition of assets ("Prior Security Interests"), which the Trust Deed permits to be given provided the total of all money secured by existing Prior Security Interests plus the money to be borrowed or raised or otherwise owing and secured by Prior Security Interests will not exceed 2% of the Total Tangible Assets of Broadlands and its Charging Subsidiaries.

Certain creditors may also be given preference over the Debenture Stock by law, in the event of Broadlands becoming insolvent. Examples of these are liquidator's costs, unpaid taxes, certain payments to employees and the claims of owners of goods acquired by Broadlands under retention of title or lease arrangements.

In addition, Broadlands has a guarantee under the New Zealand deposit guarantee scheme. Further information about the scheme is set out on pages 13 to 15 and can also be found on the Treasury's website ([www.treasury.govt.nz](http://www.treasury.govt.nz)).

## **2. Who is involved in providing it for me?**

The Debenture Stock is to be issued by:

Broadlands Finance Limited  
Level 3, 445 Karangahape Road, Newton, Auckland.

Broadlands was incorporated on 25 January 1995 and has company incorporation number 662530. Its principal activities involve the provision of finance for the purchase of motor vehicles through motor vehicle dealers, primarily in the upper half of the North Island, and a small amount of consumer, commercial and property mortgage finance. Further information on Broadlands and its business activities is provided in the “Broadlands Finance Limited” section of this Investment Statement above.

The Trustee for the issue is:

Trustees Executors Limited  
Level 12, Tower Centre, 45 Queen Street, Auckland.

## **3. How much do I pay?**

Applications for Debenture Stock must be for a minimum amount of \$500 and a maximum amount of \$250,000, or such larger amount as the directors may agree to accept. Applications must be in accordance with the instructions set out on the Application Form.

The Company reserves the right to refuse any application, or to accept any application in part only, without assigning a reason.

The completed Application Form must be sent, together with payment for the amount of Debenture Stock applied for, to:

The Registrar:  
Broadlands Finance Limited, Freepost 155 106, Newton,  
Auckland.

Payment may be made by cash, cheque or direct credit.

If payment is made by cheque, the Company may delay issue of the Debenture Stock until the cheque is cleared.

If payment is not received in full, the application will not be accepted.

There are no other charges to an investor associated with making an investment.

## **How to invest**

To make an investment with Broadlands in Debenture Stock please take the following steps:

Select the most appropriate term and interest payment option. Complete and sign the Application Form which accompanies this Investment Statement and interest rate schedule, and attach identification as appropriate. This may be required in terms of the Financial Transactions Reporting Act 1996 if the drawer of the cheque differs from the person/party investing.

Write out a cheque for the amount you wish to invest, payable to “Broadlands Finance Limited” and crossed “Not Transferable”, or make a direct credit payment to Broadlands’ bank account, particulars of which are:

Bank: Westpac Bank, Otahuhu, Auckland  
Account Name: Broadlands Finance Limited  
Account No: 03-0219-0372116-03

Post the completed Application Form with your cheque and appropriate identification (as required) to:

Broadlands Finance Limited  
Freepost 155 106, Newton, Auckland

or deliver to:

Broadlands Finance Limited  
Level 3, 445 Karangahape Road, Newton, Auckland

Appropriate identification, where required, is a copy of a passport or driver licence.

Application Forms for investments made on a joint basis must be signed by all parties.

#### **4. What are the charges?**

##### **Types of charges**

An investor does not pay any entry or other fees or charges for investing money in Debenture Stock. No charges are payable for the transfer or sale of any Debenture Stock (although any applicable tax on such transfer or sale will be charged). At its discretion Broadlands may charge a fee for replacing a lost or damaged Debenture Stock Certificate.

In the case of an unexpected emergency, undue financial hardship or other circumstances at the discretion of the Directors, Broadlands is prepared to consider repayment of all or part of an investment before due date. No early repayment will be made if, in the opinion of the Company, the repayment may prejudice the Company's ability to pay call liabilities and scheduled maturing liabilities as they fall due. If early repayment is agreed, the rate of interest may be adjusted retrospectively to the rate applying to the period for which the funds were actually invested, instead of for the term originally agreed.

On the death of an investor, if requested, and subject to compliance with legal requirements and to Broadlands' liquidity constraints, Broadlands will pay to the personal representative of the deceased investor, all or part of the amount of the investment, with interest to the date of the payment without any adjustment to the rate of interest.

Broadlands is liable under the Trust Deed to pay fees to the Trustee and it pays brokerage to sharebrokers, financial planners and agents of Broadlands who procure applications for Debenture Stock. These fees and brokerage are not payable by investors and do not affect the amount of returns payable on your investment.

Broadlands pays the following fees and expenses to the Trustee:

- Broadlands pays the Trustee a fee of approximately \$40,000 per annum; and
- Broadlands reimburses the Trustee's expenses, including but not limited to, costs incurred by the Trustee in relation to: any modifications of, or supplements to, the Trust Deed; the exercise, or contemplated exercise, by the Trustee of any power conferred on the Trustee by the Trust Deed or by law, including the taking of expert advice; any breach or default in the observance or performance by Broadlands or any of the Charging Subsidiaries of the Trust Deed; the convening and holding and carrying out of any directions or resolutions of any meeting of Stockholders; and any application under Trust Deed for the Trustees consent to or approval of any act or matter.

Broadlands will pay brokerage to sharebrokers, financial planners and agents of Broadlands on the value of applications lodged by them and reinvestments elected at the rates set out below with a minimum brokerage of \$25.00 per investment.

<b>Term</b>	<b>Rate%</b>
3 months	0.125%
6 months	0.250%
9 months	0.375%
12 months	0.50%
18 months	0.75%
2 years	1.00%
3 years	1.50%

### **Amount of charges**

Other than where a specific amount is stated above, the amount of the charges listed above cannot be determined at this time as the amounts depend on events or circumstances that have not occurred or are not in existence at the date of this Investment Statement. However, to the extent that such amounts are then known to the Company, an investor may ascertain the amount of any charge by making a request to the Company at or after the time of making an application for Debenture Stock under this offer.

### **5. What returns will I get?**

The return that you will get on your investment is the interest payable on the Debenture Stock.

Broadlands promises to pay a fixed rate of interest for the term of the investment selected by you in the Application Form.

Interest rates are set by the Company and are recorded on a separate schedule attached to the Application Form accompanying this Investment Statement. Interest is calculated (but not compounded) daily on a per annum basis. Interest rates payable on "at call" investments are subject to daily review by Broadlands and therefore do not appear on the rate schedule attached to the Application Form.

The Company may vary interest rates offered for new investments or reinvestments in Debenture Stock at any time. However, once accepted, a term investment will continue to earn the rate agreed upon when the investment was made, until the agreed maturity date and neither you nor the Company can alter that rate.

If your application is received after a rate has been changed, you will be promptly advised of the change and unless you confirm within 10 days that you accept the new rate your investment will be refunded. Broadlands may retrospectively adjust the interest rate applicable to your Debenture Stock if it agrees to make early repayment to you in the case of unexpected emergency, undue financial hardship or other circumstances at the discretion of the Directors, as set out in Section 4 "What are the charges". The adjusted rate will be the rate applicable to the period for which the investment was actually held by Broadlands, instead of for the term originally agreed.

## Taxation

Under current New Zealand tax legislation, if you are resident in New Zealand under the Income Tax Act 2007 or engaged in business through a fixed establishment in New Zealand then resident withholding tax ("RWT") must be deducted from all interest paid or compounded unless you supply Broadlands with a current certificate of exemption.

RWT will be deducted at the following rates, as applicable:

- 39% where you do not supply your IRD number to Broadlands;
- 19.5% where you are a natural person or a trustee of a trust and you supply your IRD number to Broadlands; and do not elect for another rate to apply;
- 33% or 39%, at your election, where you are a natural person or a trustee of a trust and you supply your IRD number to Broadlands;
- 33% where you are a company (other than a corporate trustee) and you supply your IRD number to Broadlands and do not elect for a 39% rate to apply;
- 39%, at your election, where you are a company (other than a corporate trustee) and you supply your IRD number to Broadlands.

You must notify Broadlands if you are a company (other than a corporate trustee).

Broadlands will not compensate you or gross up for any RWT deducted from interest payable on the Debenture Stock.

The Taxation (Urgent Measures and Annual Rates) Act 2008 introduced an optional 38% RWT rate to replace the 39% RWT rate for the 2009-2010 income year only. The 39% rate may, at the election of Broadlands, reduce to 38% for interest paid from 1 April 2009 to 31 March 2010.

The Taxation (Consequential Rate Alignment and Remedial Matters) Bill introduced into Parliament on 21 July 2009 proposes to introduce new RWT rates on interest paid to individuals and companies. If enacted in its current form, The new rates for individuals (including corporate trustees) will be 12.5%, 21%, 33% and 38% with effect from 1 April 2010. The new rates for companies will be 30% and 38%. The 30% rate will apply from 1 April 2011, or at the option of the interest payer, from 1 April 2010. The 38% rate will apply from 1 April 2010. You should notify Broadlands of any changes to your elected RWT rate as a result of amendments to the available rates or changes in your particular circumstances.

Debenture Stock constitutes financial arrangements subject to the financial arrangements rules as noted below. You should contact your normal taxation advisor to discuss how these and other taxation rules may apply to Debenture Stock you hold.

### Cash-Basis Debenture Stock Holders

"Cash-basis" Debenture Stock holders will be taxable on interest received on the Debenture Stock in the income year in which the interest is paid or credited. RWT deducted from the interest by Broadlands will be allowed as a credit against tax payable by the Debenture Stock holder on the interest. Broadly, a "cash-basis holder" is a natural person who, in an income year:

- derives income or expenditure under financial arrangements of NZ\$100,000 or less; or
- has entered into financial arrangements the aggregate absolute value of which is NZ\$1m or less,

provided that, in each case, in the particular income year, the difference between income calculated by applying a prescribed spreading method and income calculated on a cash basis is not greater than NZ\$40,000.

## **Non Cash-Basis Debenture Stock Holders**

For Debenture Stock holders who are not “cash-basis holders”, income in respect of the Debenture Stock must be spread over the term of the Debenture Stock using a spreading method prescribed in the financial arrangements rules. RWT deducted by Broadlands from interest on the Debenture Stock will be allowed as a credit against tax payable on the income recognised under the financial arrangements rules.

### **Maturity or Transfer**

Both cash-basis and non cash-basis Debenture Stock holders will be required to perform a “base price adjustment” in the income year in which the:

- Debenture Stock matures or is otherwise redeemed; or
- Debenture Stock holder transfers the Debenture Stock.

The base price adjustment is a “wash-up” calculation which brings to account any income which has not been accounted for over the term of the Debenture Stock.

If you are not resident in New Zealand and are not engaged in business through a fixed establishment in New Zealand then Broadlands is required either to deduct non resident withholding tax (“NRWT”) from interest payments, or to pay an Approved Issuer Levy (“AIL”).

Where applicable, NRWT is required to be deducted from interest paid by Broadlands to you at the rate of 15% of the gross interest payment. This rate may be reduced under a double taxation agreement entered into between New Zealand and your country of residence. Broadlands will not compensate you or gross up for any NRWT deducted from interest payable on the Debenture Stock. If you are not associated with Broadlands and have no other New Zealand income tax obligations, the NRWT will be a final New Zealand tax. You may be able to credit NRWT paid against taxes imposed in your country of residence, depending on the taxation laws in your country of residence.

However, no NRWT would be required to be deducted if Broadlands pays a 2% AIL to the Inland Revenue Department in respect of the gross interest payment. AIL may only be paid in respect of interest paid to you if you are not “associated” with Broadlands for tax purposes. Interest paid to you in respect of which AIL is paid is not subject to any further New Zealand tax including NRWT. AIL is a duty and not a withholding tax and is payable by Broadlands itself, so it is unlikely that the levy could be credited against tax imposed on the interest payment in your country of residence.

The above statements are based on applicable tax legislation current at the date of this Investment Statement.

The Investment Statement is not intended to constitute tax advice to Debenture Stock holders. Investors should consult their own taxation or other financial advisers concerning the taxation implications, in their particular circumstances, of owning and/or disposing of Debenture Stock.

### **Payment of interest**

Interest accrues from the day the application money is received by Broadlands in cleared funds. Interest will be payable at the end of March, June, September and December, and on maturity or redemption.

You can choose to receive payment in any of the three following ways by selecting the relevant option on the Application Form accompanying this Investment Statement:

#### **1. Compound**

Rather than direct credit the interest, or send an interest cheque each quarter, Broadlands will reinvest your net interest automatically. You will then earn interest on that interest. If you select “compound” on the Application Form and then later decide you would like to receive quarterly payments, Broadlands will make the change for future interest payments once Broadlands has received your request in writing.

## **2. Quarterly direct credit**

Broadlands credits the interest direct to your account each quarter and mails you a notice, which shows details of the amount credited.

## **3. Quarterly cheque payment**

You receive the interest by cheque together with notice from Broadlands each quarter through the mail.

Debenture Stock which is not redeemed on maturity will accrue interest from the agreed maturity date at the Company's "at call" rate applicable to the period until redemption or reinvestment.

Interest payments will only be made to the person(s) in whose name(s) the Debenture Stock is registered. Where there is more than one investor, interest will be paid to the investor whose name first appears on the register of Debenture Stock.

Broadlands is the entity legally liable to pay you the interest on your Debenture Stock and to repay your investment on maturity (see "Guarantee of securities" on page 12. Repayment of the Debenture Stock and interest thereon, payment of any other money payable under the Trust Deed, and the performance by Broadlands of all its obligations under the Trust Deed is unconditionally guaranteed by Beneficial Insurance Limited and Vehicle Funding Limited, wholly owned Subsidiaries of Broadlands (and therefore associated persons of Broadlands). All payments will be made in New Zealand dollars.

In addition, Broadlands has a guarantee under the New Zealand deposit guarantee scheme. See pages 13 to 15 for further information about this scheme.

## **Circumstances in which distributions can be withheld**

Distributions can only be withheld until any debts and liabilities having priority over the Debenture Stock are met. Payments to holders of Debenture Stock may be withheld if Broadlands breaches the Trust Deed and a receiver is appointed by the Trustee to administer the assets of Broadlands. In this case, no payments will be made to holders of Debenture Stock until the costs and expenses of the Trustee and the receiver are paid and until debts or liabilities having priority to the Debenture Stock have been paid.

## **Factors affecting your returns**

The key factors that determine the amount of interest payable to you on the Debenture Stock are the interest rate, the term and the interest payment option that you select on the Application Form.

The applicable interest rate, terms and the interest payment options available are set out on the Application Form accompanying this Investment Statement (with the exception of the interest rates payable on "at call" investments as described above). Because these factors vary between prospective investors, Broadlands cannot promise a quantifiable amount of returns in this Investment Statement.

The exact date on which, or frequency with which, the returns on the Debenture Stock will be due and paid cannot be stated in this Investment Statement. This is because the date on which, or the frequency with which, the returns on the Debenture Stock will be due and paid will depend on the relevant term and the interest payment option that you select on the Application Form.

## **Guarantee of securities**

Repayment of the Debenture Stock and interest thereon, payment of any other money payable under the Trust Deed, and the performance by Broadlands of all its obligations under the Trust Deed is unconditionally guaranteed by Beneficial Insurance Limited and Vehicle Funding Limited, wholly owned Subsidiaries of Broadlands (and therefore associated persons of Broadlands).

The guarantee is contained in the Supplemental Trust Deeds dated 11 April 2005 and 7 September 2009 granted by Beneficial Insurance Limited and Vehicle Funding Limited in favour of Trustees

Executors Limited as Trustee. The guarantee is secured by a security interest and charge in favour of Trustees Executors Limited as trustee over all present and future assets of Beneficial Insurance Limited and Vehicle Funding Limited. None of the Trustee, the Directors or shareholders of Broadlands, nor any person other than Beneficial Insurance Limited and Vehicle Funding Limited, guarantees the repayment of the Debenture Stock or interest thereon.

In addition, Broadlands has a guarantee under the New Zealand deposit guarantee scheme. See pages 13 to 15 for further information about this scheme.

### **New Zealand Deposit Guarantee Scheme**

As indicated above, Broadlands has a guarantee (the "Guarantee") under the New Zealand deposit guarantee scheme. In broad terms, this means that the Crown guarantees the payment of principal and interest on the Debenture Stock (up to \$1 million for each eligible investor) if Broadlands does not, for any reason, pay those amounts.

In particular, the Guarantee provides that the Crown:

- (a) guarantees to Stockholders the payment by Broadlands of interest on, and repayment of the principal amount of, the Debenture Stock (up to a maximum amount of \$1 million per eligible Stockholder) owing during the period commencing at 12.01 am on 12 October 2008 and expiring at 12.01am on 12 October 2010; and
- (b) undertakes to each Stockholder that if Broadlands does not pay to it when due and payable any amount payable in respect of the Debenture Stock during the period of the Guarantee, then the Crown will pay that amount to the Stockholder when it is due and payable (unless any such payment has not been made by Broadlands solely as a result of an administrative error or technical error and is subsequently paid by Broadlands within seven days of its due date).

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

- (a) they must be a "Creditor" within the meaning of the Guarantee;
- (b) they must provide the Crown with a notice of claim in respect of the amount payable to it by Broadlands; and
- (c) the Crown will need to satisfy itself as to the amount payable to the Stockholder by Broadlands and to such other matters as the Crown reasonably considers appropriate to determine the extent of its liability to that Stockholder under the Guarantee.

The Guarantee does not apply to all investors, such as certain related parties of Broadlands, financial institutions, non-New Zealand persons and nominees of any such persons. Accordingly, potential investors should satisfy themselves that the Guarantee applies to them.

If the Guarantee is withdrawn by the Crown in the future, whether owing to a breach of the terms of the Guarantee by Broadlands or otherwise, the Guarantee will continue to apply to all Debenture Stock issued prior to the date of withdrawal.

During the term of the Guarantee, Broadlands will need to comply with the restrictions imposed under the Guarantee, in particular, Broadlands 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 Broadlands 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, Broadlands);

- (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 Broadlands (as shown in its annual financial statements for that year); or
  - (iv) the making of a distribution by a subsidiary of Broadlands to Broadlands or to any other member of the Broadlands group; or
- (b) enter into any transaction (or series of linked or related transactions) having a value exceeding 1% of the value of Broadlands's assets otherwise than on arm's length terms; or
- (c) enter into any transaction (or series of linked or related transactions) having a value exceeding 1% of the value of Broadlands's assets with any person who controls, or who is under common control with, Broadlands (other than a wholly owned subsidiary of Broadlands) unless:
- (i) that transaction is on arm's length terms; and
  - (ii) an independent expert approved by the Crown in writing has certified to the Crown in writing that the transaction is, in the opinion of the expert, on arm's length terms.

The Treasury has made 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 Scheme. Broadlands entered into a revised deed with the Crown on 15 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.

Further information about the New Zealand 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 (being [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.

### **Extension of the deposit guarantee scheme**

The deposit guarantee scheme ends on 12 October 2010. On 26 August 2009 the Government announced that a new deposit guarantee scheme will start on 13 October 2010 and end on 31 December 2011. The changes that will take effect after 12 October 2010 are:

- fees paid by participating institutions will be changed to reflect their credit rating;

- eligible bank deposits will be covered up to a maximum \$500,000 per depositor per institution and eligible non-bank deposits to a maximum \$250,000 per depositor per institution. The maximum in the current scheme is \$1 million per depositor per institution; and
- deposit-taking institutions with a credit rating of BB or higher can apply to participate in the extended scheme. Institutions with a lower credit rating or no rating won't be eligible despite being included in the current scheme.

As indicated above, Broadlands has a BB- long term issuer credit rating from Standard & Poor's with negative outlook. The Company's short term issuer credit rating is 'B'. Broadlands would not be eligible to participate in the new deposit guarantee scheme unless its long term credit rating improves to BB or above.

## **6. What are my risks?**

### **Charging Group risks**

Broadlands recommends that before applying for Debenture Stock you read in full all the information in the Prospectus, including the financial statements, to acquaint yourself with the business of the Charging Group, and to understand the risks involved in the business and the nature of the investment offered.

These risks may affect the Charging Group's ability to make repayment in full of the Debenture Stock or payment of interest thereon. It is important that you are aware of these risks before investing in Debenture Stock.

The principal risks of your investment not being recovered in full, or you not receiving the return referred to in section 5 "What returns will I get?", are set out below. Even if these risks arise, the Debenture Stock has the benefit of a Crown Guarantee under the New Zealand deposit guarantee scheme. As such, any failure by the Charging Group to make any payment due on the Debenture Stock should be met by the Crown under that Guarantee (subject to the limits contained in the Guarantee). In this regard, Broadlands and its directors are not aware of any reason as at the date of this Investment Statement why the Guarantee under the New Zealand deposit guarantee scheme will not apply to the Debenture Stock, although the Crown Guarantee is due to expire at 12:01am on 12 October 2010.

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

Investors who do not have the benefit of the Crown Guarantee will be exposed to all of the risks outlined below. In addition, these risks will also be relevant if, for any reason, the Crown does not perform its obligations under the Guarantee or the Guarantee is otherwise unenforceable.

### **Concentration of the Company's loan assets in automobile and personal loans expose the Company to increased credit risks**

The Company relies on the proceeds of repayment of the loans it makes to customers to make payments to Stockholders. If sufficient customers default on repaying loans in accordance with their terms, the Company may have insufficient funds to pay Stockholders.

Of the total advances, 96% in dollar value were for motor vehicle or personal loans and 4% in dollar value related to property mortgage finance. As at 31 March 2009, Broadlands held a total of 5,259 motor vehicle or personal loans, at an average loan of \$6,581.

In general, motor vehicle and personal loans generate higher returns but also pose greater credit risks than do, for example, owner-occupied residential mortgage loans. This is caused by the asset security being lower initially than the loan and the accelerated depreciation of motor vehicles (resulting in the erosion in value of the Company's security over time) and the relative credit strength of customers attracted to motor vehicle loans.

The market value of motor vehicles and other assets held as security by the Company may vary depending on economic conditions. There may not be sufficient assets held as security in the event of customer default on the loans, particularly if the value of the Company's security decreases.

The repayment of loans made by the Company depends on the business and financial condition of borrowers and other factors outside the control of the Company.

The Company's impairment allowance on finance receivables as at 31 March 2009 was \$8,232,091 (24% of outstanding loans) (and was \$7,075,572 (18.2% of outstanding loans) as at 31 March 2008). The Company's actual loss as a result of receivables written off to the year ending 31 March 2009 was \$313,823 (0.9% of outstanding loans) (and was \$1,037,810 (2.6% of outstanding loans) as at 31 March 2008).

**Default in repayment by loan customers may reduce assets of the company available to meet repayments to Debenture Stock customers.**

Default rates over the five months to 31 August 2009 on loans made to customers averaged 48.1% of the number of loans held in that period (31 August 2008 : 38.6%), compared to the average default rate for the twelve months to 31 March 2009 of 44.9%. For the five months from 31 March 2008 to 31 August 2008, and for the 12 months to 31 March 2008, default rate loans made to customers averaged 37% and 38.6% of the number loans held in that period respectively. Loans that are in default are loans where one or more payments have been missed or obligations not performed and any applicable grace period has expired. Taking into account only loans that are in default for 90 days or more, these rates drop to 38.2% for the five months to 31 August 2009 and 33.5% for the twelve months to 31 March 2009.

**A number of the Company's loan assets are impaired**

The Company's net finance contract receivables of \$25,978,470, as at 31 March 2009, comprise performing loans of \$17,645,534 and non-performing loans of \$8,332,936 (net of impairment allowances).

Performing loans include \$8,730,445 of loans which are past due and not impaired (outside their contractual terms). Note 13 to Broadlands' financial statements as at and for the year ended 31 March 2009 set out in the Prospectus provides an aging of these loans. Included in this balance is \$3,852,022 of loans made to customers of a retail outlet that are subject to additional security and recourse arrangements with the retailer. See Note 4 (c) (ii) to Broadlands' financial statements as at and for the year ended 31 March 2009. These loans to customers of the retailer comprise the bulk of the 120 days plus overdue balance in respect of "past due but not impaired" loans in Note 13 to those financial statements and are expected to be recovered in full as a result of the additional security held by the Company.

A loan is regarded as impaired where there is reason to believe that the estimated discounted future cash flows from the loan (using the original effective interest rate on the loan) are less than the carrying value of the loan. Non-performing loans (being loans which are impaired) are managed on a cash flow basis and are recorded at a net balance representing the expected cash flows from the loans discounted at the original effective interest rate. This approach is intended to ensure that the Company earns interest at the discount rate, on the net carrying value of the loans, if the expected cash flows are achieved. The Company's credit control division continually monitors and reports on these cash flows. Further details of these loans and the impairment allowance is provided in Note 13 to Broadlands'

financial statements as at and for the year ended 31 March 2009 set out in the Prospectus. Future cash flows from finance receivables are inherently uncertain and given current economic climate these uncertainties are fundamental to their recoverability. In the event the actual cash flows do not meet expected cash flows, further impairment allowances would be required.

**Loans repaid by customers during some periods may be insufficient to service the liabilities of the Company – if further funds from depositors or other sources are not raised, the Company will not be able to pay Stockholders during these periods**

Liquidity or funding risk is the ability to meet maturing liabilities from available resources.

Broadlands' ability to make payments to Stockholders and others during various periods depends upon:

- scheduled payments received on its loans to customers (which will be affected not only by the contractual repayment schedule in these loans but by the credit risk of each loan customer and the ability to enforce these loans against the underlying security);
- its ability to sell loans to third parties to raise sufficient cash to pay liabilities;
- its ability to raise further funds from depositors, including its ability to raise funds from Stockholders under this offer;
- any unused capacity to borrow; and
- its net loan growth through the relevant period (which will reduce the cash and other readily available assets available to meet liabilities).

Historically, Broadlands has not borrowed from banks (other than its normal overdraft facilities) or sold loans to third parties. The principal source of funds for Broadlands is deposits from Stockholders and advances from the shareholder (although the shareholder does not guarantee the Debenture Stock). If sufficient funds are not received then this will affect the Company's ability to pay Stockholders and make further loans.

There is no guarantee that Broadlands will not suffer from increased defaults on its loans. If loan defaults exceed levels anticipated the Company may have insufficient cash to repay Stockholders.

Tables setting out cash flows of the Company are shown in note 4 to the financial statements on pages 22 to 33 of the Prospectus. These tables were prepared as at 31 March 2009 and summarise the liquidity position of the Company expected at that time. These tables are prepared based on historical performance and estimates and there can be no assurance that the cash flows set out therein will be the actual cash flows for the items and the periods presented.

One reason why actual cash flows of the Company for the periods presented may vary from those set out in the tables is if default rates on loans made to our customers exceed historical averages. In that event, Broadlands may have insufficient funds to pay Stockholders and other liabilities.

If the Company had insufficient cash flow from financial assets maturing to meet financial liabilities payable, the Directors expect that the Company would raise funds to meet liabilities in this period by: issuing further Debenture Stock (whether by reinvestment or as a new issue) with maturity dates that fall outside the period of illiquidity; establishing a bank or other credit lines and/or selling portions of its assets

Debenture reinvestment rates over the five months to 31 August 2009 averaged 56% of investments maturing in that period, compared to the twelve month average to 31 March 2009 of 23%. (For the five months from 1 April 2008 to 31 August 2008, Debenture reinvestment rates averaged 26% of investments maturing in that period compared to the twelve month average to 31 March 2008 of 36%).

## **Changes in market interest rates could adversely affect the Company's ability to pay Stockholders**

The Company's ability to pay Stockholders depends to a large extent upon its net interest income, which is the difference, or spread, between its gross interest income on interest-earning assets, such as loans to customers, and its interest expense on interest-bearing liabilities, such as liabilities to Stockholders and other borrowed funds.

Accordingly, the Company's ability to pay Stockholders is influenced by movements in market interest rates and its ability to manage interest-rate-sensitive assets and liabilities in response to these movements. Changes in interest rates could have a material adverse effect on the Company's business and on its ability to pay Stockholders. Because, as a general matter, the Company's interest-bearing liabilities re-price or mature more quickly than its interest-earning assets, an increase in interest rates generally would result in a decrease in the Company's interest rate spread and net interest income resulting in a reduced ability to pay Stockholders.

Interest rates generally trended downwards in New Zealand over the 12 month period to 30 June 2009 resulting in an increase of the Company's net interest margins and a decreased ability to pay Stockholders.

The Company is also subject to reinvestment risk relating to interest rate movements. Decreases in interest rates can result in increased prepayments of loans, as borrowers refinance to reduce their borrowing costs. Under these circumstances, the Company is subject to reinvestment risk to the extent that it is not able to reinvest funds from such prepayments at rates that are comparable to the rates on the prepaid loans. On the other hand, increases in interest rates on adjustable-rate loans result in larger payments due from borrowers, which could potentially increase the Company's level of loan delinquencies and defaults.

## **The Company relies on net positive cash flow in order to meet its overhead costs**

In order to meet its financial and operating liabilities, the Company requires cash flow from its lending and insurance businesses. Following the implementation of recent cost savings initiatives, including a reduction of employee numbers, the expected cash flow from existing loans to customers is sufficient to fund the Company's expected operating costs without the need for new loan origination. However if there is any material decrease in the Company's cash flows from its assets, or an increase in cash flows to service its financial liabilities, or if the Company's costs materially increase, the Company may be forced to reduce overheads further which may damage its business or impact on the Company's ability to make payments in respect of Debenture Stock as they fall due.

## **The loans made by the Company are geographically concentrated resulting in greater exposure of the Company to regional conditions**

The Company's loans are made to customers concentrated in the Auckland and Waikato regions. As at 31 March 2009, 53% of the Company's loans by value were advanced to customers in the Auckland region and 28% of the Company's loans by value were advanced to customers in the Bay of Plenty or Waikato regions.

Economic events and changes in local market conditions which the Company and its borrowers cannot control could have an adverse impact on the cash flows generated by these loans and on the values of the collateral securing these loans. In addition, motor vehicles tend to decline in value more rapidly than land and buildings during economic recessions.

The Company's success depends primarily on the general economic conditions in the areas in which it conducts business. Unlike larger finance companies that are more geographically diversified, the Company provides loans to customers primarily in Auckland, the Bay of Plenty and Waikato. The local economic conditions in these market areas have a significant impact on the Company's loans, the ability

of the borrowers to repay these loans and the value of the collateral securing these loans. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond the Company's control will affect these local economic conditions and could adversely affect the Company's ability to pay Stockholders.

The Company's continuing concentration of loans in the Company's primary market areas may therefore increase the risk of non-payment to Stockholders owing to defaults by the Company's customers.

### **The Company is exposed to risks relating to the Crown Deposit Guarantee Scheme**

In November 2008, the Company was approved to participate in the Crown deposit guarantee scheme. In the period to 31 March 2009 following that approval, the Company's Debenture Stock funding increased from \$12.5 million to \$15.1 million. The current scheme expires at 12.01am on 12 October 2010. While the Government has announced a revised deposit guarantee scheme to 31 December 2011, the Company is currently not eligible to participate in that new scheme because it has a BB- long term issuer credit rating and the minimum credit rating to be eligible for participation in the new scheme is BB or above. After 12 October 2010, Broadlands may experience a reduction in new investments or reinvestments in Debenture Stock due to the Debenture Stock not having the benefit of the Crown guarantee after 12 October 2010. This could have a material adverse effect on the financial performance and financial condition of the Company, including its liquidity.

### **Value of intangibles**

Goodwill arising from the acquisition of Beneficial Insurance Limited is recorded in Broadlands' balance sheet as at 31 March 2009 as an intangible asset with a carrying value of \$7,416,751. The Company obtained an independent valuation of Beneficial Insurance Limited in order to support the carrying value of goodwill. The valuation was based on discounted cash flow forecasts. These forecasts, which are based on key assumptions disclosed in note 15 to the financial statements for Broadlands' year ended 31 March 2009, indicate that goodwill is not impaired. If these forecasts and underlying assumptions are not achieved, actual events are likely to vary from that forecast, the value of goodwill may be impaired.

### **Regulation of non-bank deposit takers may impair the Company's ability to operate effectively and pay Stockholders**

The New Zealand Government has recently passed legislation to regulate the non-bank deposit taking industry and is currently considering legislation to further regulate the industry.

On 21 September 2008 new regulations amending the Securities Regulations 1983 came into force in respect of issuers, such as Broadlands, that continuously offer debt securities to the public and either lend money or provide financial services (but are not a building society, credit union, or co-operative company). Under the amended regulations, the Company must:

- provide regular reports to the Trustee about the Company's financial position and regularly certify compliance with the Trust Deed;
- keep the Trustee informed of matters relevant to the Trustee's duties;
- have the Borrowing Group's half-yearly financial statements audited or, if that requirement is waived by the Trustee, have them reviewed;
- provide the Trustee with copies of the Borrowing Group's audited annual and half-yearly financial statements;
- consult with the Trustee on the appointment of auditors and inform the Trustee if an auditor resigns or declines appointment or reappointment; and

- include specific conditions in the terms of appointment of auditors, which will give auditors responsibilities in relation to the Trustee.

The amended regulations also give the Trustee the power, under certain circumstances, to:

- appoint an independent auditor to audit the financial statements of the Borrowing Group; and
- appoint an expert to assist the Trustee to determine the true financial position of the Company, and recover the fees and expenses from the Company.

On 4 September 2008, the Reserve Bank of New Zealand Bill (No 3) was passed. The amendments set out in this legislation include a requirement that all finance companies, building societies and credit unions (known as non-bank deposit takers (“NBDTs”)) be licensed by a prudential regulator - The Reserve Bank. The proposed changes include the requirement for at least two independent directors on the board, a chairperson who is neither an employee nor a related person, preparation of a formal risk management programme which is to be approved by the Trustee and subject to external audit, restrictions on related party credit exposures and minimum liquidity and capital requirements. In order to continue operating under the proposed reforms, the Company must have a credit rating with an approved credit rating agency by 1 March 2010. Broadlands has a BB- long term issuer credit rating from Standard & Poor’s. Accordingly, Broadlands will, as at 1 March 2010, have complied with this requirement under the Reserve Bank of New Zealand Act 1989. The other changes are being gradually introduced, with full compliance expected to be required during 2010. The Company has adopted a formal risk management programme as of 1 September 2009. This risk management programme has been approved by the Trustee.

In addition, the Financial Services Providers (Registration and Dispute Resolution) Act 2008 introduces a mandatory registration and disputes resolution regime for financial services which includes NBDTs, such as Broadlands. The registration and disputes resolution provisions are not yet in force and the date that these will apply from is not yet known, although it is expected by the end of 2010.

By increasing the Company’s compliance and operating costs, these changes to the regulations, and any changes in the laws applicable to the Company or banking regulators supervisory policies or examination procedures, could have a material adverse affect on the Company’s business, financial condition, results of operations and cash flows, or its ability to raise funds from depositors to pay liabilities, and may affect the Company’s ability to pay Stockholders. In addition, if the Company is unable to access sufficient levels of additional capital to meet its obligations then this will have a material adverse effect on the financial performance and financial condition of the Company.

### **Strong competition may limit profitability of the Company**

The Company faces significant competition both in attracting deposits and in the origination of loans. Finance companies, credit unions and commercial banks operating in the Company’s primary market area have historically provided most of its competition for deposits. In addition, the Company faces additional and significant competition for funds from mutual funds, exchange traded funds and issuers of corporate and government securities. Many of the Company’s competitors have substantially greater financial and other resources.

The recent collapses of several New Zealand finance companies have made it more difficult for the Company to attract deposits – owing to a general reluctance to extend money to non-bank institutions such as the Company.

### **The loss of key personnel would adversely affect the Company**

Broadlands relies on an experienced management team and any loss of key personnel may negatively impact, in the short term, the Company’s ability to execute its current business strategy and initiatives.

## **The failure to manage operational risks would adversely affect the Company**

Operational risk can arise from inadequate or failed internal processes, human error or systems failure and these could expose Broadlands to financial loss or damage. Significant losses might prevent the Company making payments to Stockholders.

The senior management team is responsible for identifying and measuring the size and scope of Broadlands risk exposures and implementing strategies to monitor and mitigate any aspect of operational risk. Control and reduction of these risks includes segregation of functions, delegated lending authorities and regular internal review and audit of systems, personnel and loans made.

The Broadlands management team comprises of the following:

Rudi Kats (Chief Executive Officer) who joined Broadlands in March 2007. Rudi has in excess of 30 years experience in the finance and motor vehicle sectors working with a number of financial institutions in New Zealand as well as a variety of roles in the motor vehicle industry.

Brian Capper (Finance Manager) joined Broadlands in December 2006. Brian comes from a manufacturing environment and has skills in management accounting and systems development.

Anita Bowe (Credit Manager) joined Broadlands in November 2005. Anita has extensive credit and collections management experience. Previous positions include Group Credit Manager for a multi-national rental car company and Regional Manager for a large Government organisation. She has significant collections experience in the banking sector.

Grant Hetherington (Investment Manager) joined Broadlands in October 2008. Grant has over 25 years experience in the finance industry and has gained a wealth of knowledge in Investment Management working with a number of high profile financial institutions. More recently, Grant has managed a commercial lending team with offices located throughout New Zealand.

## **Significant litigation would adversely affect the Charging Group**

As at the date of this Investment Statement there are no known litigation risks facing the Charging Group. The Company carries statutory liability and indemnity insurance in respect of those risks that are able to be insured on a commercially viable basis.

## **An economic recession would adversely affect the Charging Group**

With the economy having entered a recessionary phase of the business cycle, the Charging Group is exposed to the risk of the downturn affecting its customers' ability or willingness to borrow funds from Broadlands or to meet their payment obligations in respect of borrowed funds, and the willingness or ability of its investors to invest in the Company's Debenture Stock. The 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. If investors do not invest in Debenture Stock, the Company may need to find alternative sources of funding at a potentially greater cost than the cost of Debenture funding.

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:

- changes in inflation and interest rates, which will particularly affect the net interest margin achieved by the Company as described above;
- changes in disposable incomes and job security which could impact adversely on the ability of borrowers to meet their financial commitments to the Company and the quality of the Company's loan portfolio;

- changes in economic conditions that affect the stability of the finance sector caused by the failure of a major borrower or the further collapse of major financial institutions.

Where loan insurance is provided by Broadlands' subsidiary, Beneficial Insurance Limited, the Charging Group remains exposed to the risks of redundancy, sickness, injury or death of borrowers to the extent not reinsured or covered by premiums.

Consumer credit indemnity contracts are required in respect of most loans, which provide only limited protection to the Company in the case of redundancy, sickness, injury or death of borrowers.

### **There is no market for Debenture Stock**

There is no active market for Debenture Stock. Accordingly, there is limited practical ability for Stockholders to sell Debenture Stock.

### **Consequences of insolvency**

There is no risk of you being obliged to pay any more money in respect of your Debenture Stock than the principal amount of your Debenture Stock (if not already paid in full), if the Company becomes insolvent.

All Debenture Stock from time to time issued by Broadlands, including the Debenture Stock offered under this Investment Statement, ranks equally and is secured by a security interest and charge over all present and future property of the Company and its charging subsidiaries, as set out in the Trust Deed.

The only claims that would rank ahead of the claims of holders of the Debenture Stock if Broadlands were to be liquidated are:

- claims of the Trustee, and any receiver appointed by the Trustee, for costs, liabilities and remuneration under the Trust Deed;
- claims of holders of prior charges permitted under the Trust Deed (limited to 2% of total tangible assets of Broadlands and the charging subsidiaries); and
- claims of various preferential creditors who are given priority by law under the Seventh Schedule of the Companies Act 1993.

In a liquidation of the Company, all claims of Debenture Stock holders rank equally and rank ahead of all other creditors of the Company other than those listed above.

### **7. Can the investment be altered?**

Once Debenture Stock is issued, the terms cannot be altered unless the Company agrees to an early redemption, in which case an interest rate reduction appropriate to the shorter term may be applied, or the Trust Deed, which governs your investment, is altered. The Trust Deed permits Broadlands to alter the terms of the Trust Deed (which may include an alteration to the specific terms of the Debenture Stock), but only with the agreement of the Trustee. The Trustee can only give its approval:

- if the alteration is approved by an Extraordinary Resolution passed by 75% of the votes cast by the holders of Debenture Stock who are present in person or by representative at a meeting of holders of Debenture Stock. (Prior notice of any meeting of holders of Debenture Stock to consider such a resolution must be sent to you and you will have the opportunity to vote on the resolution). An Extraordinary Resolution binds all holders of Debenture Stock, whether or not they are present at the meeting, or vote for or against the Extraordinary Resolution; or
- if, in the opinion of the Trustee, the alteration is made to correct a manifest error, or is of a formal or technical nature or necessary to comply with any law, or is not, and is not likely to become, prejudicial to the general interests of the holders of the Debenture Stock.

It is not likely that the Trustee would agree to any adverse alteration by the Company to the terms of your investment without prior notice to you.

## **8. How do I cash in my investment?**

### **On maturity**

Before your Debenture Stock matures, Broadlands will write to you, enclosing a current Investment Statement and Application Form where available and seeking your instructions for either reinvestment or repayment. You will need to return your Debenture Stock Certificate for cancellation with your instructions. Any amount you decide to reinvest will be reinvested at the then current interest rates and on such conditions as to term, interest payable and payment options as are offered by Broadlands at the time.

If you decide not to reinvest, then Broadlands will send you a cheque for the full repayment of your investment and any accrued and unpaid interest by post. If Broadlands does not receive your instructions by the time your Debenture Stock matures, your investment will revert to the Company's "at call" rate of interest until receipt of instructions by the Company.

### **Early withdrawal**

When Broadlands pays a particular rate of interest for a particular term, it does so in the expectation that the funds will remain invested for the full term. This allows the Company to properly plan the management of its resources. You do not have a right to require repayment before maturity.

Broadlands will consider early withdrawal of your investment in cases of an unexpected emergency, undue financial hardship or other circumstances at the discretion of the Directors. No early repayment will be made if, in the opinion of the Company, the repayment may prejudice the Company's ability to pay call liabilities and scheduled maturing liabilities as they fall due.

If any early withdrawal is approved, it will be subject to an interest rate reduction to the rate which would have applied to the shorter investment term. The amount of that reduction will be determined by Broadlands at the applicable time.

In the event of the death of an investor, if requested by the personal representative of the deceased investor and subject to compliance with legal requirements, Broadlands will repay the investment to the personal representative of the deceased investor, together with any accrued and unpaid interest to the date of the payment, without any adjustment to the rate of interest.

Debenture Stock may be transferred by you at any time to another person but the Company is not obliged to register any transfer during the fourteen days preceding any interest payment date or the maturity date. No charges are payable for the transfer of any Debenture Stock (although any applicable tax on such transfer will be charged) (see "What are the charges" on pages 8 to 9).

Listing of the Debenture Stock is not being sought on any stock exchange and, in the opinion of Broadlands, there is no market for the Debenture Stock on offer under this Investment Statement. No charges are payable for the sale of any Debenture Stock (although any applicable tax on such sale will be charged) (see "What are the charges" on pages 8 to 9).

## **9. Who do I contact with enquiries about my investment?**

Enquiries about Debenture Stock should be directed to:

The Investment Manager  
Broadlands Finance Limited  
Level 3, 445 Karangahape Road,  
Newton, Auckland, Freepost 155-106.  
Telephone: 0800 276 235. Email: [investments@broadlands.co.nz](mailto:investments@broadlands.co.nz)

## **10. Is there anyone to whom I can complain if I have problems with my investment?**

Complaints about the Debenture Stock can be made to:

The Directors  
Broadlands Finance Limited, Level 3, 445 Karangahape Road,  
Newton, Auckland, Freepost 155-106.  
Telephone: 0800 276 235. Email: [investments@broadlands.co.nz](mailto:investments@broadlands.co.nz)

Or:

The Trustee by contacting:  
The Manager  
Trustee Executors Limited, Level 12 Tower Centre, 45 Queen Street, Auckland.

There is no ombudsman to whom complaints can be made about your investment in Debenture Stock.

## **11. What other information can I obtain about this investment?**

Other information about Broadlands and the Debenture Stock is contained in the Company's current registered Prospectus and financial statements. Further information about the New Zealand 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)).

Copies of the current Prospectus and latest financial statements are available free of charge on request by telephone, post or in person from Broadlands at:

Level 3, 445 Karangahape Road, Newton, Auckland.  
Freepost 155-106.  
Telephone: 0800 276 235.  
Email: [investments@broadlands.co.nz](mailto:investments@broadlands.co.nz)

Copies of the current Prospectus, the most recent financial statements of the Company, and the Trust Deed and amending documents are filed with the Companies Office of the Ministry of Economic Development and are available for public inspection and copying on the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz) on payment of a nominal fee.

Debenture Stock holders may request from the Company in writing copies of any of the above mentioned documents and, in addition, copies of the Investment Statement and most recent annual report of Broadlands, which will be supplied free of charge.

Copies of the Company's current Investment Statement and Application Form can also be downloaded from the Company's website [www.broadlands.co.nz](http://www.broadlands.co.nz).

## Financial Review: Summary of Audited Financial Statements for the Borrowing Group

Financial Performance	Audited Year Ended 31/3/2009 \$	NZIFRS Audited Year Ended 31/3/2008 \$	NZIFRS Audited Year Ended 31/3/2007 \$	NZ GAAP Audited Year Ended 31/3/2007\$	NZ GAAP Audited Year Ended 31/3/2006 \$	NZ GAAP Audited Year Ended 31/3/2005 \$
Total Operating Revenues	10,535,724	13,484,125	15,134,335	15,605,193	13,657,176	11,071,076
Total Interest Expense	2,351,793	3,231,241	2,257,730	1,998,786	2,407,984	1,744,507
Operating Surplus Before Taxation	1,215,622	2,437,453	313,544	188,282	(55,756)	206,250
Taxation Expense	367,868	774,798	162,578	250,084	116,393	(474,882)
Operating Surplus After Taxation	847,754	1,662,655	150,966	(61,802)	(172,149)	681,132
Dividends	-	-	-	-	-	-
Retained Surplus	2,931,128	2,083,374	420,719	3,677,993	3,739,795	3,911,944
Distribution to owners						
Dollars/cents per share	-	-	-	-	-	-

<b>Financial Position</b>	<b>Audited Year Ended 31/3/2009</b>	<b>NZIFRS Audited Year Ended 31/3/2008</b>	<b>NZIFRS Audited Year Ended 31/3/2007</b>	<b>NZ GAAP Audited Year Ended 31/3/2007</b>	<b>NZ GAAP Audited Year Ended 31/3/2006</b>	<b>NZ GAAP Audited Year Ended 31/3/2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total Assets	41,284,062	43,248,684	46,184,539	49,442,021	49,273,193	41,643,211
Total Tangible Assets	31,331,266	35,539,683	34,475,538	40,243,876	40,313,540	32,301,106
Total Intangible Assets	9,952,796	9,562,876	9,562,876	8,307,448	8,188,202	8,574,428
Total Liabilities	24,352,934	27,165,310	31,763,820	31,764,028	31,533,398	23,731,267
Total Equity	16,931,128	16,083,374	14,420,719	17,677,993	17,739,795	17,911,944
Equity Ratio (%)	41.01%	37.19%	31.22%	35.75%	36.00%	43.01%

#### **Notes to the summary of financial statements**

i) The summary includes extracts from the audited statements of financial performance and the statements of financial position for the past 5 years. The summary for 2007 has been amended in accordance with the requirements under NZIFRS.

ii) Beneficial Insurance Limited became a wholly owned Subsidiary of Broadlands Finance Limited as at 31 March 2005 and therefore the acquisition has no effect on the statement of financial performance for the year ended 31 March 2005. Prior to 31 March 2005 the borrowing group only comprised Broadlands Finance Limited. Vehicle Funding Limited became a wholly-owned subsidiary of Broadlands Finance Limited as at 2 February 2009 for \$1.00 in consideration. As at 31 March 2009 Vehicle Funding had not traded.

iii) Total Operating Revenues includes income earned from commission and fees and insurance income (as well as bad debts recovered). Income earned from insurance amounted to \$2,636,254 in the period from 1 April 2008 to 31 March 2009, a total of 25.02% of Total Operating Revenues. The insurance income relates to income earned on insurance policies sold by the Company on behalf of Beneficial Insurance Limited, a Subsidiary of the Company. Insurance income is recognised over the life of the policy in accordance with the incidence of risk expected under the policy. Income earned from commission amounted to \$977,226 in the period from 1 April 2008 to 31 March 2009, a total of 9.28% of Total Operating Revenues. The commission income relates to commissions earned by the Company on the sale of motor vehicle insurance to third parties. For third party policies sold by the Company the commission is recognised at the commencement of the policy.

iv) The Equity Ratio is calculated as a percentage on Net Assets over Total Assets.

v) Total tangible assets now includes deferred tax and the goodwill for the investment in Beneficial Insurance Limited.

## **DIRECTORY**

Registered Office & Registrar	Level 3, 445 Karangahape Road, Newton, Auckland of the Company
Directors of the Company	Anthony S Radisich, Auckland Nigel P Smith B.Com, M.Tax.S (Hons) C.A., TEP AMINSTD Auckland Timothy I M Storey, B.A., LL.B., Auckland Rudi Kats, Auckland
Solicitors to the Company	Bell Gully, HP Tower, 171 Featherston Street, Wellington
Auditors	BDO Spicers Auckland, Level 8, 120 Albert Street, Auckland 1010
Trustee	Trustees Executors Limited, Level 12, Tower House, 45 Queen Street, Auckland
Bankers	Westpac Banking Corporation, Business Banking 188 Quay Street, Auckland

## GLOSSARY

Following is a summary of the definitions as they appear in this Investment Statement.

Some of the following definitions have been taken (and in certain instances summarised) from the Trust Deed and any specific reference must be made to the Trust Deed itself. A copy of the Trust Deed may be inspected without fee at registered office of the Company, during business hours. Investors may also download a copy of the Trust Deed, from the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz).

**“Application Form”** means the application form attached to and forming part of this Investment Statement.

**“Approved Issuer Levy” or “AIL”** has the meaning given to that term in the Stamp and Cheque Duties Act 1971.

**“Broadlands”** and **“Company”** means Broadlands Finance Limited or, where the case requires, Broadlands Finance Limited and the Charging Subsidiaries.

**“Borrowing Group”** has the same meaning as **“Charging Group”**.

**“Charging Group”** means Broadlands and the Charging Subsidiaries (of which there are only Beneficial Insurance Limited and Vehicle Funding Limited as at the date of this Investment Statement) or any one or more of them as the context requires.

**“Charging Subsidiary”** means any Subsidiary which becomes a Charging Subsidiary pursuant to clause 7.1 of the Trust Deed and in each case remains a Charging Subsidiary. As at the date of this Investment Statement, Beneficial Insurance Limited and Vehicle Funding Limited are the only Charging Subsidiaries.

**“Debenture Stock”** means secured first ranking debenture stock of up to \$40,000,000 offered to the public pursuant to this Investment Statement and the Prospectus.

**“Debenture Stock Certificate”** means the certificate provided to an investor by Broadlands recording the terms of the investor’s investment.

**“Director”** means a director of Broadlands.

**“Extraordinary Resolution”** has the meaning given to that term in the Trust Deed.

**“Investment Statement”** means this investment statement dated 1 March 2010.

**“NZ GAAP”** means generally accepted accounting practice as defined in section 3 of the Financial Reporting Act 1993.

**“NZIFRS”** means the New Zealand equivalents to International Financial Reporting Standards.

**“Prospectus”** means the current registered prospectus in respect of the issue of the Debenture Stock.

**“Related Parties”** means any Company or person related to the Charging Group. It does not include any Charging Subsidiary.

**“Security Stock”** has the meaning given to that term in the Trust Deed.

**“Stockholder”** means a holder of Debenture Stock.

**“Subsidiary”** means a company which is for the time being a subsidiary of the Company within the meaning of section 5 of the Companies Act 1993 and any other person to be treated as a subsidiary according to NZ GAAP from time to time.

**“Supplemental Trust Deeds”** means the supplemental trust deed dated 11 April 2005 between Beneficial Insurance Limited and the Trustee whereby Beneficial Insurance Limited has guaranteed the obligations of the Company and each other Charging Subsidiary under the Trust Deed and the supplemental trust deed dated 7 September 2009 between Vehicle Funding Limited and the Trustee whereby Vehicle Funding Limited has guaranteed the obligation of the Company and each other Charging Subsidiary under the Trust Deed.

**“Trust Deed”** means the trust deed dated 26 April 2001 between the Company and the Trustee, as amended by a deed of modification dated 3 October 2002 and from time to time.

**“Trustee”** means Trustees Executors Limited.

