



South Canterbury Finance

EST. 1926

Investment Statement for Secured Debentures and Unsecured Deposits 20 OCTOBER 2009



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 DEPOSIT GUARANTEE SCHEME

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

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

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

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

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

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

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

- a. they must be a "Creditor" within the meaning of the Deposit Guarantee Scheme;
- b. they must provide the Crown with a notice of claim in respect of the amount payable to it by South Canterbury Finance; and

- c. the Crown will need to satisfy itself as to the amount payable to the Stockholder or Depositor by South Canterbury Finance and as to such other matters as the Crown reasonably considers appropriate to determine the extent of its liability to that Stockholder or Depositor under the Deposit Guarantee Scheme.

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

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

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

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

- a. 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); or
 - 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;
- 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 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 South Canterbury Finance's assets with any person who controls, or who is under common control with, South Canterbury Finance (other than a wholly-owned subsidiary of South Canterbury Finance) unless:
 - i. that transaction is on arm's length terms; and
 - ii. an independent expert approved by the Crown in writing has certified to the Crown in writing that the transaction is, in the opinion of the expert, on arm's length terms.

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).

The Crown has recently announced an extension to the term of the Deposit Guarantee Scheme to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. In particular:

- eligible non-bank deposit takers will be guaranteed to a maximum of \$250,000 per depositor per institution and eligible bank deposit takers will be guaranteed to a maximum of \$500,000 per depositor per institution;
- fees paid by participating institutions will be changed to reflect the risk profile of the relevant institution. Thresholds in the current scheme will be discontinued and the fees will apply to all funds in the new scheme;
- deposit taking institutions with a credit rating of 'BB' or higher can apply to participate in the extended scheme. Institutions with a lower credit rating or no credit rating will not be eligible despite being the beneficiary of a Crown guarantee under the current terms of the Deposit Guarantee Scheme; and
- eligible deposit taking institutions may apply to participate in the extended deposit guarantee scheme in respect of some or all debt securities issued by that institution, provided that any such debt securities that are to be guaranteed under the Deposit Guarantee Scheme fall within all other terms and conditions of the Deposit Guarantee Scheme.

In addition, institutions will need to meet certain criteria in order to be eligible to apply for participation in the new extended deposit guarantee scheme. South Canterbury Finance currently intends applying to participate in the extended scheme. As at the date of this Investment Statement, the Company has not made a final decision on whether or not to apply to participate in the extended scheme. That decision will depend on the Company's view on the benefits it and investors in its Stock and Deposits will receive compared to the cost involved in participating in that scheme. Based on publicly available information as at the date of this Investment Statement, the Company is of the view that it will meet the criteria for participation in the extended scheme. However, in order for an applicant to be accepted for participation in the extended scheme, the Secretary to the Treasury must be satisfied that it is necessary or expedient in the public interest for the applicant to be accepted into the scheme. Accordingly, there is no assurance that the Company will have a Crown guarantee after the current Deposit Guarantee Scheme expires at 12.01am on 12 October 2010 should the Company apply to participate in the extended scheme. As at the date of this Investment Statement, the Company does not have a Crown guarantee beyond the expiry of the current Deposit Guarantee Scheme at 12.01am on 12 October 2010.

STANDARD & POOR'S RATING (BB+/WatchNegative)

On 13 August 2009, Standard & Poor's Rating Services announced that South Canterbury Finance's credit rating had been downgraded to BB+/Negative. The Negative Outlook implies a one-in-three likelihood of a further rating downgrade within the period of 12 months following the downgrade.

On 21 September 2009, Standard & Poor's Ratings Services placed its 'BB+' long-term rating on South Canterbury Finance on CreditWatch Negative. A CreditWatch Negative listing by Standard & Poor's implies a one-in-two likelihood of a rating downgrade within the next three months.

Standard & Poor's (Australia) Pty Limited has given its consent to the inclusion of its credit rating for South Canterbury Finance and to being named in the Investment Statement.

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

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

Accordingly, any user of credit ratings issued by Standard & Poor's Ratings Services should not rely on any such ratings or other opinions issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. In Australia, credit ratings are assigned by Standard & Poor's (Australia) Pty Limited, which does not hold an Australian financial services license under the Corporations Act 2001.

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



South Canterbury Finance

Chairman's Statement



A.J. Hubbard
Chairman

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

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

In November 2008, South Canterbury Finance entered into a Deed of Guarantee with the Crown under the Deposit Guarantee Scheme*. In broad terms, this means that (subject to the terms of the guarantee) debentures and deposits of South Canterbury Finance will have the benefit of the guarantee from the Crown up until the expiry of the Deposit Guarantee Scheme at 12.01am on 12 October 2010. The Crown has recently announced an extension to the term of the Deposit Guarantee Scheme to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. We currently intend applying to take advantage of this extension. However, at this stage, the Company does not have a Crown guarantee beyond the expiry of the Deposit Guarantee Scheme at 12.01 am on 12 October 2010 and there is no assurance that it will have a Crown guarantee after that time.

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

In August 2009, Standard & Poor's lowered South Canterbury Finance's investment grade rating of BBB-/WatchNegative to BB+/Negative. On 21 September 2009 Standard & Poor's Ratings Services placed its 'BB+' long term rating on South Canterbury Finance on CreditWatch Negative. The implications of the downgraded rating are explained in more detail in the Chief Executive's report and on pages 5 to 7 of this Investment Statement. 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.

Notwithstanding the best efforts of the Company and its management team, the South Canterbury Finance Charging Group announced an audited group after tax loss of \$57.8 million for the 12 months to 30 June 2009.

In other recent events, the Company announced the retirements of Mr R.A. White and Mr S.J. Natrass as South Canterbury Finance directors on 27 August 2009. The Company is currently in advanced discussions regarding the appointment of additional independent directors to the Board and intends to move to a board comprised of a majority of independent directors. It is also my intention to step down as Chairman of the Board within the next 12 months, in favour of appointing a new independent chairman.

These changes to the Board of the Company will introduce a wide range of new commercial skills and expertise to the Company, and strengthen the independence of the Board and the Company's governance.

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

The Company is in the process of pursuing a number of initiatives to strengthen its capital base and improve the quality of its overall asset base. In this respect, I look forward to shortly announcing a restructuring and recapitalisation plan for the Company once we are in a position to do so.

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

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



Chief Executive's Report



L. J. McLEOD
Chief Executive

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

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

In addition, in October 2008, Mr A.J. and Mrs M.J. Hubbard entered into a security sharing arrangement effectively purchasing a number of loan receivables either in full or partially for approximately \$90 million from South Canterbury Finance. The majority of these impaired loans were property loans.

As a further step to reduce the impact of non-performing loans, Mr A.J. and Mrs M.J. Hubbard have entered into a Deed of Underwrite and Guarantee with the Company under which they have agreed to underwrite losses which the Company may incur 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 also 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 by \$25 million.

In July 2009, Standard & Poor's placed South Canterbury Finance's 'BBB-' long term rating on CreditWatch Negative. On 13 August 2009 Standard & Poor's announced that the Company's credit rating had been downgraded to BB+/Negative. Shortly after the downgrade, the Company ceased allotting securities under its then registered prospectus. On 21 September 2009, Standard & Poor's Ratings Services placed its 'BB+' long term rating on South Canterbury Finance 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. In the Company's view the CreditWatch Negative assignment relates mainly to the fact that the Company did not have a current registered prospectus and, as a result, could not take debenture

investments and deposits. While the Company is once again able to take debenture investments and deposits following registration of its Registered Prospectus, a number of other issues need to be addressed for the Company to be removed from CreditWatch Negative. Further information on the Standard & Poor's rating is set out on page 3 of this Investment Statement and under the heading "What are my risks" on pages 11 to 18.

As a result of the above rating downgrade in August, investors in notes issued by the Company (under the debenture trust deed) pursuant to a United States private placement in 2008 had the right, exercisable by notice to the Company 90 days after the downgrade, to require the Company to repay their notes, in full, together with interest and other amounts calculated in accordance with the terms of the notes. In addition, the Company gave notice to those noteholders that it was now in breach of certain financial covenants set out in the private placement documentation. As a result, noteholders could, by a majority vote, have required the Company to repay their notes, in full, together with interest and other amounts calculated in accordance with the terms of the notes.

The Company has entered into a binding commitment letter with the noteholders under the United States private placement under which the Company will make accelerated repayment of the principal sum of \$US100 million to noteholders (together with interest on that sum) by way of instalments, with the last instalment being due on 31 March 2010. The first instalment of US\$45 million will be payable in the week ending 25 October 2009. In addition, the agreement provides for the Company to pay US\$5 million on 31 October 2009, US\$12.5 million on November 30 2009 and 31 December 2009, US\$7.5 million on 31 January 2010 and 28 February 2010 with the remaining US\$10 million to be paid on maturity being 31 March 2010. In addition, Southbury Group Limited has agreed to pay to the noteholders a refinancing fee of \$US15 million by way of three instalments, with the last such instalment also being due on 31 March 2010. South Canterbury Finance has no obligations to the noteholders, or any other person, in respect of the payment of the refinancing fee by Southbury Group Limited.

A binding commitment letter and term sheet have been executed on behalf of the Company, Southbury Group Limited and noteholders, along with an agreement under which the noteholders, subject to the Company's compliance with the new repayment schedule and other contractual terms, waive their rights relating to the credit rating downgrade referred to above and in respect of any existing breaches of the private placement documentation. The position agreed in these documents is intended to be reflected in formal amendments to the original private placement documentation, to be entered into as quickly as possible with the intention that it be entered into by

31 October 2009. A process has been put in place for finalising this formal documentation but if it is not entered into following this process, the noteholders will be able to demand repayment in full of all amounts payable to them in respect of their notes under the terms of the current private placement documentation.

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

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

The uncertain status of the United States private placement as at the date the auditor's report was finalised, combined with the fact that the Company was unable at that time to raise funds through the issue of debenture stock and deposits, resulted in the Company's auditors stating in their audit report that there was "fundamental uncertainty" regarding the validity of the going concern assumption on which the Company's financial statements have been prepared and that, if the matters highlighted in their report were unable to be satisfactorily resolved, this could have a significant impact on liquidity and the recoverable amount of certain assets.

The Company is now able to recommence raising funds from the public through the offer of Stock and Deposits under its Registered Prospectus and, as indicated above, has reached agreement with noteholders under the United States private placement regarding the repayment of their notes. The Directors believe that these steps should, to some extent, alleviate, but not necessarily resolve, the "fundamental uncertainty" concern raised by the Company's auditors. The auditors have not been asked by the Company to consider whether the above steps would cause them to amend or re-consider in any way the opinions expressed in their audit report and, in expressing their view, the Directors are not intending to indicate or state that these steps have had that effect.

The Company has recently announced that its \$100 million standby banking facilities have 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 is in the final stages of arranging a new \$75million credit facility with a third party provider. It is intended that this funding, or a substantial part of it, will be used to prepay US noteholders as described above.

As at 30 September 2009, South Canterbury Finance had cash on deposit of \$41.3 million and realisable investments of \$47.6 million. In addition, as at 14 October 2009, approximately an additional \$45.1 million was being held on trust on behalf of investors because the Company was unable to allot securities to them before registration of the Registered Prospectus occurred. Each of those affected investors has been given the opportunity to ask the Company to repay their funds and has not done so to date. Accordingly, the Company is confident that the majority of the funds held in trust will be invested in Stock and Deposits under its Registered Prospectus.

The Company has the ability to borrow up to 7.5% of its total tangible assets under prior ranking charges under the terms of its Trust Deed, which charges rank ahead of all other obligations of the Company (including the Stock and Deposits offered under its Registered Prospectus). As at 30 September 2009, there were existing prior ranking charges of \$34.1 million. Accordingly, the Company is able to borrow up to a further \$127 million by way of prior ranking charges. This provides a potential source of liquidity to the Company. The Company currently intends borrowing up to \$75 million by way of a prior ranking charge under the new facility referred to above. The Company confirms that the borrowing restrictions under the agreements with the noteholders under the United States private placement will not prevent the Company from borrowing the sum of \$75 million by way of prior ranking charge under the new facility. In addition, the Company may over time borrow by way of prior charges the full amount permitted under the Trust Deed.

Management accounts for the Company for the period since 30 June 2009 indicate that the Charging Group has traded profitably over that period. This provides a strong endorsement as to the underlying profitability of the Company. In the period since the Company ceased allotting securities under its previous registered prospectus, it has met its obligations to its creditors out of the proceeds of loan repayments and from the sale of investments. The funds raised under this Investment Statement will be used by the Company to fund its business activities including, where necessary, meeting its repayment obligations. No further provisions have been made in respect of the Company's loan portfolio for the period since 30 June 2009, but there is a risk that further provisioning may become necessary if there is either deterioration in existing impaired loans or there is deterioration in other loans that have not yet been identified as being impaired.

The Company has advanced plans to recapitalise its balance sheet and fully restructure its business operations, to meet both the changed market conditions and the expected new capital requirements proposed by the Reserve Bank under the new regulatory regime for non-bank deposit takers. Under the recapitalisation plan, the Company's parent proposes raising additional capital to enable it to inject further equity into the Company. The Company understands that its parent initially proposes seeking between \$40 million and \$75 million of additional equity or convertible capital by way of a private placement to selected investors. Based on advice received as at the date of this Investment Statement,

the Company is confident that it will receive additional equity of that amount as a result of the proposed private placement. The Company understands that its parent also intends proceeding with a wider capital raising once the proposed private placement has been completed and that further additional equity is proposed to be injected into the Company following that wider capital raising. The successful implementation of the recapitalisation plan is integral to the Company's ability to operate profitably in the future. The parent does not guarantee any of the securities offered in this Investment Statement.

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

- divesting a range of non-core assets over the next 6 to 12 months (including, if appropriate, reducing its shareholdings in Dairy Holdings Limited and South Island Farm Holdings Limited. The Dairy Holdings Limited shareholding is, in the Company's view, a high quality asset and is expected to attract wide-spread interest should the Company decide to reduce, or sell all of, its shareholding in that company. South Island Farm Holdings Limited owns shareholdings in some twenty dairy and other farms across the South Island. In the medium term, the Company is likely to seek to divest its holding in South Island Farm Holdings Limited to ensure the Company is able to meet proposed Reserve Bank capital requirements for non-bank deposit takers);
- refocusing its lending operations on the Company's traditional business, plant and equipment, consumer and rural lending areas;
- seeking to reduce related party lending by up to \$50 million before 30 June 2010;
- appointing additional independent directors (including an independent chairman within the next 12 months) and new appointments to the senior management team of the Company, and improving its governance. (The Company expects to announce the appointment of two new independent directors in the immediate future);
- not making any new capitalised lending in the property development sector other than in very exceptional circumstances and then only where the loan is extremely well secured; and
- reviewing and implementing further changes to its lending and credit approval processes in light of the adverse market conditions.

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

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

The Company acknowledges that its lending activities have grown significantly with the Charging Group's net advances increasing from \$1,380.3 million as at 30 June 2008 to \$1,629.9 million as at 30 June 2009. The global financial crisis and, in particular, the deterioration in the property development market has adversely impacted on the quality of the Charging Group's property sector loan portfolio, as reflected in the \$48.4 million of specific impairment provisions made by the Charging

Group in respect of its property sector loan portfolio. As indicated above, the Company intends re-focusing its lending operations on its traditional business, plant and equipment, consumer and rural lending areas, and winding down and, where possible, divesting its exposure to property development lending.

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

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

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



Notes to the Investment Statement



INTRODUCTION

This is an Investment Statement for the purposes of the Securities Act 1978 and is prepared as at 20 October 2009. The purpose of this Investment Statement is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to invest in the Stock issued or Deposits taken by South Canterbury Finance, and to bring to the attention of such a person the fact that other important information about these investments is available to that person in other documents.

South Canterbury Finance will be liable to persons who subscribe for Stock or Deposits in reliance on this Investment Statement in relation to any untrue statements in it to the same extent having regard to the purpose of the Investment Statement as it would be if the statements were untrue statements contained in the registered prospectus for the Stock and Deposits dated 20 October 2009 (the "Registered Prospectus"). Should you require any further information or explanation please feel free to call us on 0800 808 117.

1. WHAT SORT OF INVESTMENT IS THIS?

South Canterbury Finance Limited is offering two forms of investment:

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

Both are fixed interest securities. Options for the payment of interest are set out under the heading "What returns will I get?" on pages 10 to 11.

The Stock issued under this Investment Statement will rank equally with all other Stock now existing or at any future time issued by the Company. The Stock does, however, rank behind permitted Prior Charges under the Trust Deed and statutorily preferred claims. As at 30 June 2009, there was Stock of \$2,073.38 million, in total, and there were permitted Prior Charges of \$34.123 million, in total. The Company currently intends borrowing up to \$75 million by way of a prior ranking charge under the new facility referred to above. The Company confirms that the borrowing restrictions under the agreements with the noteholders under the United States private placement will not prevent the Company from borrowing the sum of \$75 million by way of prior ranking charge under the new facility. In addition, the Company may over time borrow by way of Prior Charges the full amount permitted under the Trust Deed. Stock is

available for investment for terms of between three months and five years.

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

2. WHO IS INVOLVED IN PROVIDING IT FOR ME?

The Issuer is:

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

South Canterbury Finance has been operating continuously since 1926. The principal activities of the Company are to accept funds from the public by way of secured debentures or unsecured deposits. These funds are used to provide a balanced range of consumer

finance and finance to the industrial, farming and commercial sectors. The Company offers a range of finance products by way of hire purchase, floor plan, leasing, block discounting, mortgages against property and personal loans.

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

The Company's Charging Subsidiaries are:

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

Other Charging Subsidiaries may be added from time to time.

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

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

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

Currently, the Deposit Guarantee Scheme expires at 12.01am on 12 October 2010, which may be before the maturity date of Stock and Deposits issued under this Investment Statement. The Deposit Guarantee Scheme does not apply to payments required to be made in respect of Stock and Deposits after 12.01am on 12 October 2010 unless there is an insolvency event in respect of the Company before that time. The Crown has recently announced an extension to the term of the Deposit Guarantee Scheme to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. South Canterbury Finance is currently considering whether to currently intend applying to participate in the extended scheme, which requires the Company to weigh up the cost of participation in the extended scheme, compared to the benefits it would receive under that scheme. As at the date of this Investment Statement, the Company has not made a final decision on whether or not to apply to participate in the extended scheme. Based on publicly available information as at the date of this Investment Statement, the Company is of the view that it will meet the criteria for participation in the extended scheme.

However, in order for an applicant to be accepted for participation in the extended scheme, the Secretary to the Treasury must be satisfied that it is necessary or expedient in the public interest for the applicant to be accepted into the scheme. Accordingly, there is no assurance that the Company will have a Crown guarantee after the current Deposit Guarantee Scheme expires at 12.01am on 12 October 2010 should the Company decide to apply to participate in the extended scheme. As at the date of this Investment Statement, the Company does not have a Crown guarantee beyond the expiry of the current Deposit Guarantee Scheme at 12.01am on 12 October 2010.

3. HOW MUCH DO I PAY?

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

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

Except in the limited circumstances described below under the heading "What returns will I get?" interest is payable on your investment from the date of receipt of your payment by the Company, subject to clearance through your bank for any payment made by cheque.

4. WHAT ARE THE CHARGES?

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

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

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

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

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

If you request early repayment of your investment, a lower rate of interest may be paid on the amount withdrawn before maturity (see the information under the heading "Can the investment be altered?" on page 18 of this Investment Statement).

5. WHAT RETURNS WILL I GET?

The information set out in this section should be read in conjunction with the information on pages 11 to 18 under the heading "What are my risks?" Certain events could reduce or eliminate the returns intended to be derived from holding the Stock and Deposits.

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

In the case of investors who applied for Stock or Deposits under the Company's previous investment statement (whether under a new application or a reinvestment) but to whom securities were not able to be allotted because the Company had suspended allotting securities, the Company will pay interest to them at the rate of their selected investment under this Investment Statement from the date on which their subscriptions were placed in trust if and to the extent that they apply those subscriptions in subscribing for Stock or Deposits under this Investment Statement. In effect, those investors will have their investment under this Investment Statement backdated to the date on which their initial applications were received by the Company or, in the case of roll-overs, to the date on which their prior investment would otherwise have rolled-over.

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

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

The Company is required to deduct resident withholding tax from interest paid or credited to New Zealand resident investors and non-resident investors who have a fixed establishment (i.e. a branch) in New Zealand each quarter or on maturity, unless the investor holds a valid RWT Certificate of Exemption issued by the Inland Revenue Department ("IRD"). If applicable, resident withholding tax will be deducted at a rate of 19.5%, 33%, or 39% at the

option of the investor (although a company cannot elect the 19.5% rate). The tax withheld can be claimed as a credit by investors against the investor's New Zealand income tax liability on income included in their tax returns.

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

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

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

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

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

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

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

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

All of the obligations of South Canterbury Finance in respect of the Stock and Deposits are unconditionally guaranteed by the following companies which are the Charging Subsidiaries: Belfast Park Ltd, Braebrook Properties Ltd, Fairfield Finance Ltd, Flexi Lease Ltd, Galway Park Ltd, Helicopter Nominees Ltd, Hornchurch

Ltd, Rental Cars Ltd, SCFG Systems Ltd, Sophia Investments Ltd, Southbury Insurance Ltd and Tyrone Estates Ltd (all of which are wholly-owned by South Canterbury Finance), and Face Finance Ltd (which is 75% owned by South Canterbury Finance).

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

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

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

6. WHAT ARE MY RISKS?

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

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

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

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

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

The principal factors which may, either individually or in combination, affect the future operating performance of South Canterbury Finance, and its ability to pay interest on and repay the Stock and Deposits, are set out below in this section of the Investment Statement. An applicant for Stock and Deposits should carefully consider these risks, both general and specific (together

with the other information in this Investment Statement and the Registered Prospectus) before applying for any Stock or Deposits. The summary of risks presented below is not exhaustive and this Investment Statement does not take account of the personal circumstances, financial position or investment requirements of any one investor in particular. **It is imperative, therefore, that, before making any investment decision, investors give consideration to the suitability of an investment in the Stock and Deposits in light of their investment needs, objectives and financial circumstances. You should read this Investment Statement and the Registered Prospectus in their entirety and consult your sharebroker, accountant, or other professional adviser before deciding whether to apply for Stock and/or Deposits.**

South Canterbury Finance has a guarantee under the Deposit Guarantee Scheme. However, the Deposit Guarantee Scheme currently expires at 12.01am on 12 October 2010, and in the ordinary course only applies to payments which South Canterbury Finance is required to make to eligible Stockholders and Depositors in respect of their Stock and/or Deposits, in accordance with the terms of the same, before the scheme expires, unless there is an insolvency event in respect of the Company before that time. The maturity date of Stock and Deposits may be after the Deposit Guarantee Scheme expires. Accordingly, the scheme will not apply to South Canterbury Finance's obligation to pay any amounts in respect of its Stock or Deposits (including its obligation to pay interest on the Stock or Deposits) which in the ordinary course become payable in accordance with the terms of the Stock or Deposits after 12.01am on 12 October 2010. In addition, the Crown guarantee under the Deposit Guarantee Scheme does not apply to all investors and is capped at \$1 million for each individual eligible investor. Investors should, therefore, satisfy themselves that the scheme applies to them. Full details of the scheme are available, free of charge and at all reasonable times, on the Internet site maintained by or on behalf of the Treasury (www.treasury.govt.nz).

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

The Crown has recently announced an extension to the term of the guarantee to 31 December 2011 but on materially different terms to those of the current Deposit Guarantee Scheme. The Company

currently intends applying to take advantage of this extension. As at the date of this Investment Statement, the Company has not made a final decision on whether or not to apply to participate in the extended scheme. That decision requires the Company to weigh up the cost of participation in the extended scheme, compared to the benefits it and investors in its Stock and Deposits would receive under that scheme. Based on publicly available information as at the date of this Investment Statement, the Company is of the view that it will meet the criteria for participation in the extended scheme. However, in order for an applicant to be accepted for participation in the extended scheme, the Secretary to the Treasury must be satisfied that it is necessary or expedient in the public interest for the applicant to be accepted into the scheme. Accordingly, there is no assurance that the Company will have a Crown guarantee after the current Deposit Guarantee Scheme expires at 12.01am on 12 October 2010 should the Company apply to participate in the extended scheme. As at the date of this Investment Statement, the Company does not have a Crown guarantee beyond the expiry of the current Deposit Guarantee Scheme at 12.01am on 12 October 2010.

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

Credit Risk

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

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

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

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

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

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

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

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

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

size of the loan determining the number of Board members who would be involved in the approval process.

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

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

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

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

Liquidity risk

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

The Company has borrowings of approximately \$919.25 million which are due to be repaid by 30 June 2010 and a further \$255.4 million of borrowings which are due to be repaid prior to the expiry of the current Deposit Guarantee Scheme. In addition, the Company has reached agreement principle to make accelerated repayment of the principal sum of \$US100 million to repay noteholders under its United States private placement (together with interest on that sum) by way of instalments, with the last instalment being due on 31 March 2010.

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

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

As at 30 September 2009, South Canterbury Finance had cash on deposit of \$41.3 million and realisable investments of

\$47.6 million to assist it in meeting its repayment obligations in respect of its borrowings.

The Company's liquidity position is likely to be improved through this offer of Stock and Deposits and the proceeds of the proposed recapitalisation of the Company. The Company and its parent are undergoing corporate restructuring in order to raise new capital which is intended to be injected in South Canterbury Finance as new equity to improve liquidity and investor confidence in the Company. The Company currently anticipates receiving additional capital of between \$40 million and \$75 million, initially, under the proposed recapitalisation. The successful implementation of the recapitalisation plan is integral to the Company's ability to operate profitably in the future. The Company will make a further announcement regarding the restructuring and capital raising process as soon as it is in a position to do so.

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

As a result of the Company's rating downgrade in August 2009, investors in notes issued by the Company (under the debenture trust deed) pursuant to a United States private placement in 2008 had the right, exercisable by notice to the Company 90 days after the downgrade, to require the Company to repay their notes, in full, together with interest and other amounts calculated in accordance with the terms of the notes. In addition, the Company gave notice to those noteholders that it is now in breach of certain financial covenants set out in the private placement documentation. As a result, noteholders could, by a majority vote, require the Company to repay their notes, in full, together with interest and other amounts calculated in accordance with the terms of the notes.

The Company has reached agreement with the noteholders under the United States private placement under which the Company will make accelerated repayment of the principal sum of \$US100 million to noteholders (together with interest on that sum) by way of instalments, with the last instalment being due on 31 March 2010.

The uncertain status of the United States private placement as at the date the auditors' report on the Borrowing Group's financial statements was finalised, combined with the fact that the Company was unable at that time to raise funds through the issue of Stock and Deposits, resulted in the Borrowing Group's auditors stating in their audit report that there was "fundamental uncertainty" regarding the validity of the going concern assumption on which the Borrowing Group's financial statements were prepared and that, if the matters highlighted in their report were unable to be satisfactorily resolved, this could have a significant impact on liquidity and the recoverable amount of certain assets.

The Company is now able to recommence raising funds from the public through the offer of Stock and Deposits under this Investment Statement and, as indicated above, has reached agreement with noteholders under the United States private placement regarding the repayment of their notes. The Directors believe that these steps should, to some extent, alleviate, but not necessarily resolve, the "fundamental uncertainty" concern raised by the Company's auditors. The auditors have not been asked by

the Company to consider whether the above steps would cause them to amend or re-consider in any way the opinions expressed in their audit report and, in expressing their view, the Directors are not intending to indicate or state that these steps have had that effect.

The Company has recently announced that its \$100 million standby banking facilities have 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 is in the final stages of arranging a new \$75million credit facility with a third party provider.

The Company does, however, have the ability to borrow up to 7.5% of its total tangible assets under prior ranking charges under the terms of its Trust Deed, which charges rank ahead of all other obligations of the Company (including the Stock and Deposits offered under this Investment Statement). As at 30 September 2009, there were existing prior ranking charges of \$34.1 million. Accordingly, the Company is able to borrow up to a further \$127 million by way of prior ranking charges. This provides a potential source of liquidity to the Company. The Company currently intends borrowing up to \$75 million by way of a prior ranking charge and may over time borrow by way of prior charges the full amount permitted under the Trust Deed.

The Company holds a portfolio of listed and unlisted securities and investments. In the past, the Company has relied on these types of investments as a diversification from bank deposits and as part of its overall liquidity management. Recently, the market for such securities and investments has become less liquid. There is a risk, therefore, that investments may not be readily realisable in future, that they may not be able to be realised for their full value if they have to be realised urgently, and that investments that are being held to maturity date may not be repaid on the relevant maturity date. A failure to realise assets (including loans), or to realise them for full value, may have an adverse impact on the ability of the Company to meet its payment obligations to its creditors (including holders of Stock and Deposits) as and when those obligations fall due. Subsequent to 30 June 2009, the Company has sought to mitigate this risk by reducing the portfolio of securities and investments that it holds by realising in excess of \$101 million of its investments.

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

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

Interest Rate Risk

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

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

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

Exchange Rate Risk

Exchange rate risk is the risk that the Company may face a loss on the repatriation of funds that have been transferred, borrowed or lent from offshore due to changes in the exchange rate. This risk is considered by the directors to be minimal, as only a limited amount of foreign currency is held at any time. The Company has entered into exchange rate swaps with a registered bank in respect of its foreign denominated loans. All remaining loans advanced overseas prior to 31 December 2005 are denominated in New Zealand currency dollars and any risk arising from exchange rates is borne by the investor. Using exchange rate swaps or passing the exchange rate risk on to borrowers offers certainty as to NZ dollar monies payable to the Company in respect of such loans.

All principal monies payable by South Canterbury Finance in relation to the \$US100 million United States Private Placement have been swapped into New Zealand dollars. The Company is currently arranging new hedging to limit currency risk relating to the repayment of the United States private placement.

Property Market Risk

South Canterbury Finance's property-based loans are mainly in respect of commercial, residential and rural property developments and investments. Negative movements in the New Zealand property market may lead to a decline in the value of the properties in respect of which loans have been made by South Canterbury Finance and, as a result, may also affect the

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

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

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

As at 30 June 2009, South Canterbury Finance had property loans totalling approximately \$485.7 million after taking provisions into account. The Charging Group carries an impairment provision of \$48.4 million in respect of the property sector loans and related property assets for the year ended 30 June 2009 and Mr and Mrs A.J. and 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 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 account for 40% of the total property sector loan exposure in the Charging Group as at 30 June 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.

Continuity of Supply of Funding

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

The ability of the Company to lend depends on the continued support of these financial intermediaries and the investing public. If those financial intermediaries or the investing public cease to support the Company's products or their level of support significantly reduces, whether due to any Company specific reasons, general economic conditions, the collapse of another company in the finance sector or for any other reason, then the Company may not have the funds available to on-lend to prospective borrowers. This may adversely impact upon the Company's liquidity, and the growth and continuing financial performance of the Company.

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

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

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

The Deposit Guarantee Scheme and the recently announced extended deposit guarantee scheme, should the Company apply to join and be accepted into this scheme, should also mitigate against this risk for the period of the Crown guarantee. The Company's ability to raise sufficient funds from the public to fund its business activities, and meet its payment obligations in respect of the securities issued by it, following the expiry of the Deposit Guarantee Scheme will depend, amongst other matters, on the economic environment, and the Company's financial performance

and financial position, at that time. Further information about the Deposit Guarantee Scheme and the extended deposit guarantee scheme is set out on pages 2 to 3 of this Investment Statement.

As indicated above, South Canterbury Finance has recently announced that its \$100 million standby banking facilities have been cancelled by mutual agreement. The facilities had been undrawn and the Company had been unable to draw under them. 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 in this Investment Statement is completed. The cancellation of these facilities means that the Company is now even more dependent on raising funds from the public through the issue of Stock and Deposits to provide it with the funds required to enable it to fund its business activities and, in particular, to meet its payment obligations in respect of the Stock and Deposits offered under this Investment Statement.

In addition, as a result of the Company's credit rating being downgraded by Standard & Poor's from BBB-/Stable to BB+/Negative, investors under the Company's United States private placement had the right, exercisable by notice to the Company 90 days after the downgrade, to require the Company to repay, in full, the US\$100 million borrowed by the Company from them under the private placement, together with interest on that amount and other amounts calculated in accordance with the terms of the notes. The Company had also given investors under the private placement notice that is now in breach of certain financial covenants set out in the private placement documentation. As a result, those investors could, by a majority vote, have required the Company to repay, immediately, the amount borrowed from them under the private placement together with interest on that amount and other amounts calculated in accordance with the terms of the notes. If, as a result of the downgrade or covenant breaches, the Company was required to repay, in full, the amount borrowed by it under the private placement that would have a material impact on the Company's liquidity and its financial position. The Company has reached agreement with the noteholders under the United States private placement under which the Company will make accelerated repayment of the principal sum of \$US100 million to noteholders (together with interest on that sum) by way of instalments, with the last instalment being due on 31 March 2010. A process has been put in place for finalising formal documentation for the agreement but if it is not entered into following this process, the noteholders will be able to demand repayment in full of all amounts payable to them in respect of their notes under the terms of the current private placement documentation. As indicated above, Southbury Group Limited has agreed to pay to the noteholders a refinancing fee of \$US15 million by way of three instalments, with the last such instalment also being due on 31 March 2010. The payments to the noteholders will be in full and final satisfaction of all rights which the noteholders have in respect of the notes issued to them pursuant to the private placement. If the Company or Southbury Group Limited fail to pay any of the instalments, in full, on the due dates or fail to comply with any of their other obligations in respect of the agreement, then the noteholders will be entitled to demand payment in full of all amounts payable to them in respect of their notes under the terms of the current private placement documentation. The directors are satisfied that the Company and Southbury Group Limited will have the necessary funds to enable

them to meet their respective payment obligations to noteholders under this agreement. Any default of the terms of the Trust Deed by the Company will also entitle the noteholders to demand payment under the terms of their notes.

The credit rating downgrade, or a further credit rating downgrade (if there was to be one), may adversely impact on the Company's ability to raise, through the issue of Stock and Deposits, the funds required to enable it to fund its business activities and, in particular, meet its payment obligations in respect of the Stock and Deposits offered under this Investment Statement. In the meantime, the Company is in the process of arranging a new \$75million credit facility with a third party provider.

Credit Rating Downgrade

As indicated elsewhere in this Investment Statement, in July 2009, Standard & Poor's placed a CreditWatch Negative in respect of the Company's then BBB- long term rating and on 13 August 2009, it announced that South Canterbury Finance's credit rating had been downgraded to a BB-/Negative. A CreditWatch Negative listing by Standard & Poor's implies a one-in-two likelihood of a rating downgrade within the next three months.

As a result of the rating downgrade in August 2009, investors under the Company's United States private placement had the right, exercisable by notice to the Company 90 days after the downgrade, to require the Company to repay, in full, the amount borrowed by the Company from them under the private placement, together with interest on that amount and other amounts calculated in accordance with the terms of the notes. In addition, investors under the private placement could, by majority vote, have required immediate repayment of the amount borrowed by the Company as a result of breaches of certain financial covenants set out in the private placement documentation together with interest. If investors under the private placement do require repayment in full, whether as a result of the downgrade or covenant breaches, that would have a material impact on the Company's liquidity and its financial position. The Company has reached agreement with the noteholders under the United States private placement under which the Company will make accelerated repayment of the principal sum of \$US100 million to noteholders (together with interest on that sum) by way of instalments, with the last instalment being due on 31 March 2010. A process has been put in place for finalising formal documentation for the agreement but if it is not entered into following this process, the noteholders will be able to demand repayment in full of all amounts payable to them in respect of their notes under the terms of the current private placement documentation.

On 21 September 2009, Standard & Poor's Ratings Services placed its 'BB+' long-term rating on South Canterbury Finance on CreditWatch Negative. A CreditWatch Negative listing by Standard & Poor's implies a one-in-two likelihood of a rating downgrade within the next three months.

In the Company's view the CreditWatch Negative assignment reflects a number of factors outlined by Standard & Poor's including:

- increasing pressure on liquidity;
- still weak asset quality;
- governance matters (including, but not limited to, related party exposures);

- the fact that the Company had ceased taking funds under its previous prospectus;
- market guidance of an increase to its unaudited net after-tax loss for the year ended 30 June 2009 to \$69 million; and
- the fact that two of the Company's directors had resigned and had not been replaced.

In the Company's view Standard & Poor's CreditWatch action was based on not having a debenture prospectus in the public domain, South Canterbury Finance's funding flexibility and liquidity were undermined at the 'BB+' rating level, at least in the short term. In the Company's view, this particular issue has been resolved through the registration of the prospectus for the Stock and Deposits, which enables the Company to resume raising funds from the public through the issue of Stock and Deposits. Standard & Poor's has not, however, been asked by the Company to confirm that through registration of the Registered Prospectus this matter has now been resolved.

In the Company's view Standard & Poor's considered the United States private placement investors were continuing to review their funding support for the Company, and that if they decided to require repayment of the facility, that would, potentially, significantly exacerbate liquidity concerns and cause a downward revision of the Company's rating by multiple notches, potentially into the 'B' rating category.

Conversely, Standard & Poor's noted that, should United States private placement investors continue their funding support for South Canterbury Finance, downward rating pressure is likely to be less severe. As indicated above, the Company has reached agreement with the noteholders under the United States private placement under which the Company will make accelerated repayment of the principal sum of \$US100 million to noteholders (together with interest on that sum) by way of instalments, with the last instalment being due on 31 March 2010.

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

Loss of Key Personnel

The current Board (including the Chairman who is no longer active in the Company in an executive role) and a number of the Company's executive team have been involved collectively with South Canterbury Finance and its business activities for a significant number of years and have played 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. In order to mitigate against this risk, 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. Notwithstanding, as part of South Canterbury Finance's restructuring and recapitalisation initiatives, the Company is in the process of strengthening its Board and senior management team.

On 27 August 2009, South Canterbury Finance announced the retirements of Mr R.A. White and Mr S.J. Natrass as directors of the Company. The Company is currently in advanced discussions regarding the appointment of independent directors to the Board and intends to move to a position of a board comprised of a majority of independent directors. Allan Hubbard, current Chairman of the Board, has indicated that he plans to step down as Chairman within the next 12 months and appoint a new independent chairman as part of the current restructuring that is being undertaken by the Company.

Economic Downturn

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

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

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

Operational Risk

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

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

Competition in the Finance Industry

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

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

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

Technology Risks

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

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

Finance Company Regulation

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

In December 2008, the Reserve Bank published a consultation paper on proposed capital ratio requirements for NBDTs, in which it indicated that a minimum capital ratio requirement of 8% of tier one capital may be introduced for NBDTs. These proposals, including the detail of how the capital requirements and asset risk weighting

will work, have not yet been confirmed by the Reserve Bank. There is a risk, however, that the rules, when enacted, will adversely affect the Company. These regulations are expected to come into force in 2010, and are likely to impose further regulatory requirements on NBDTs such as South Canterbury Finance. However, it is expected that the new rules will only be introduced following consultation with the Securities Commission and affected parties.

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

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

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

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

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

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

Consequences of Insolvency

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

- a. Stockholders will receive payment in respect of their Stock in priority for repayment ahead of all other amounts owed by the Company with the exception of Prior Charges and certain statutorily preferential claims. The Stock will rank equally in all respects and without preference among Stockholders; and

- b. Depositors will receive payment in respect of their Deposits behind First and Second Ranking Stock and any other secured debts, and behind statutorily preferred claims. The Deposits will rank equally in all respects and without preference among Depositors and other unsecured creditors.

7. CAN THE INVESTMENT BE ALTERED?

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

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

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

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

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

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

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

8. HOW DO I CASH IN MY INVESTMENT?

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

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

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

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

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

Early Termination

There is no right to early termination, however South Canterbury Finance may in certain circumstances allow redemption prior to expiration of the term of your investment. There is no charge for early termination, however, the rate of interest payable may be amended to reflect the actual term of your investment. Please refer to information under the heading "Can the investment be altered?" on page 19 of this Investment Statement.

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

Enquiries should be directed to the Issuer:

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

OR

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

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

Complaints should be directed to South Canterbury Finance:

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

OR to the Trustee:

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

OR to the industry association to which we belong:

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

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

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

Registered Prospectus

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

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

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

Annual Report

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

Trust Deed

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

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

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

Further Notifications

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

Other Information

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

Further information about the Deposit Guarantee Scheme is set out on page 2 to 3 of this Investment Statement and is also available, free of charge and at all reasonable times, from the Internet site maintained by or on behalf of the Treasury (www.treasury.govt.nz). 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

