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17 February 2010

The New Zealand Treasury
PO Box 3724
Wellington 6140
New Zealand

Attention: John Park, Team Leader - Deposit Guarantee Scheme

BY E-MAIL

PROVISION OF AN INDEPENDENT EXPERT OPINION IN RELATION TO A PROPOSED RELATED PARTY TRANSACTION BY SOUTH CANTERBURY FINANCE

INTRODUCTION AND BACKGROUND

All of the ordinary shares on issue in South Canterbury Finance Limited ("**SCF**" or "**Company**") are owned by Southbury Corporation Limited ("**Southbury**"). Southbury also holds approximately 64% of the issued equity in Scales Corporation Limited ("**Scales**"), a public unlisted company with approximately 500 shareholders. As part of an overall group restructuring process, we understand that SCF is negotiating the acquisition of Southbury's shareholding in Scales ("**Proposed Transaction**"). Consideration for the Proposed Transaction would be made via the issue of ordinary shares in the Company, and would increase SCF's beneficial interest in Scales to approximately 80%.

SCF and Her Majesty the Queen in right of New Zealand ("**the Crown**") are parties to a Crown Deed of Guarantee ("**Deed**") which governs the terms on which the Crown guarantees the repayment of depositors' funds in the Company. We understand that clause 6.2 of the Deed records the following in relation to arms' length transactions:

"Arms' Length Transactions

During the Guarantee Period the Principal Debtor shall not (and shall ensure that its subsidiaries shall not), without the prior written consent of the Crown:

- (a) enter into any transaction (or series of linked or related transactions) having a value exceeding one percent (1%) of the value of the assets of the Principal Debtor otherwise than on arms' length terms;

- (b) enter into any transaction (or series of linked or related transactions) having a value exceeding one percent (1%) of the value of the assets of the Principal Debtor with any person who controls or is under common control with the Principal Debtor (other than a wholly-owned subsidiary of the Principal Debtor unless:
 - (i) that transaction is on arms length terms; and
 - (ii) an independent expert approved by the Crown in writing first certifies to the Crown in writing that the transaction is, in the opinion of that expert, on arms' length terms."

SCF wishes to engage Northington Partners Limited ("**Northington Partners**") to act as the Independent Expert in relation to the Proposed Transaction. This letter sets out the information requested by the Treasury as the basis for approving our engagement.

SCOPE OF ADVISORY SERVICES

The Independent Expert is required to certify whether or not in the expert's view the Proposed Transaction is on arms' length terms. In general terms, we expect to form our opinion based on due inquiry into the following factors:

- ▼ the fair market value of the shares in Scales;
- ▼ the independent interests of SCF and the related party;
- ▼ the conduct of SCF and the related party; and
- ▼ conditions associated with the transaction as a whole.

We will provide a summary report that sets out the background, reasoning and information sources relevant to determining our opinion. That report will be addressed to both SCF and the Crown.

Our opinion will rely on information provided by SCF and Scales. That information is likely to include the following:

- ▼ Scales Transaction documentation;
- ▼ representations by SCF and Scales directors, management, and related parties;
- ▼ such other such information as we reasonably require to undertake this assignment.

STATEMENT OF INDEPENDENCE

Northington Partners has not been previously engaged on any matter by SCF, Scales, or any of the significant shareholders in either company. To the best of our knowledge, none of the Directors or employees of Northington Partners have a relationship with any of the parties to the transaction that could reasonably be regarded as being capable of affecting Northington Partners' ability to provide an unbiased opinion in relation to the Proposed Transaction.

TIMEFRAME AND CAPABILITY

We anticipate that the Company will require the Independent Adviser's Report to be completed within a reasonably short timeframe. We certify that we have the necessary resources available to complete the requirements of the engagement within the requisite period.

The Northington Partners' team will be led by Greg Anderson, with assistance as required from Mark Cahill and Will Parkyn. Short-form professional biographies are provided below for your reference; more detailed CVs are available from our website.

[Withheld under s9(2)(a)]

s9(2)(a) has been a partner in Northington Partners (and its predecessor Crighton Anderson Corporate Finance) for almost 10 years. In that time, he has advised clients on many corporate finance issues including acquisition/divestment support, business valuations, project appraisals, investment analysis, cost of capital issues, capital raisings, and general financial modelling. s9(2)(a) has also been retained in lead advisory roles by publicly listed companies, large scale private companies, and State Owned Enterprises dealing with a wide range of commercial negotiations and broader corporate strategy issues.

[Withheld under s9(2)(a)]

9(2)(a) has over 13 years experience in the finance and investment banking industry, working in analysis and transaction execution roles. He has recently joined Northington Partners after working for Macquarie Group in Sydney for nine years where he was responsible for leading transaction teams in the merger and acquisition of proprietary businesses for the Banking and Securitisation Group. As a Director within this group, he negotiated, structured, transaction managed and executed financial transactions, often involving cross-border parties.

[Withheld under s9(2)(a)]

9(2)(a) has spent the past six years working in financial markets. He has worked in client-facing roles at the Royal Bank of Scotland and as an equity advisor for Wilson HTM Investment Group where he was responsible for portfolio management, private placement execution and equity and derivative trading. As an Associate at Northington Partners, 9(2)(a) focus is mid-market transaction support and corporate finance analysis.

BACKGROUND TO NORTHINGTON PARTNERS

Northington Partners merged with Crighton Anderson Corporate Finance in April 2007; the combined firm has continued to operate as Northington Partners since that date.

Northington Partners provides a range of corporate advisory services including merger and acquisition advice, investment strategy, project appraisal, financial analysis and modelling, financial instrument valuations and business and share valuations. From our offices in Auckland and Christchurch, our team works across all industry sectors for a nationwide client base.

A selection of our relevant recent experience for the appointment is summarised below.

- ▼ **Property Finance Securities Limited** Independent Expert's assessment of the merits of the proposed changes to the debenture stock moratorium implemented in June 2009. Opinion provided to the Trustee for the benefit of debenture holders;
- ▼ **DNZ Property Limited** Independent valuation of property management contracts used as the basis for negotiations for the internalisation of the management functions in preparation for a proposed IPO in December 2009;

- ▼ **Open Country Cheese Company Limited** Provision of an Independent Adviser's Report in relation to the full takeover offer by Dairy Trust Limited. This report was selected as the best independent report in the 2009 INFINZ awards.
- ▼ **ING (NZ) Limited and ING Insurance International** Lead adviser in relation to the Offer to acquire units issued by the Diversified Yield Fund and the Regular Income Fund.
- ▼ **Property Finance Securities Limited** Independent Expert's assessment of the merits of the proposed changes to the debenture stock moratorium put in place in December 2007.
- ▼ **The National Property Trust Limited** Independent assessment of the merits of various portfolio liquidation scenarios.
- ▼ **Synlait Limited** Provision of an Independent Adviser's report in relation to various share allotments by Synlait to existing substantial shareholders.
- ▼ **ING NZ Limited** Provision of an independent valuation assessment for a company with management rights over two NZX listed property trusts.
- ▼ **EBOS Group** Analysis and advice in relation to the \$86M acquisition of PRNZ Limited. Preparation of an explanatory memorandum for distribution to the market.
- ▼ **Mediaworks NZ Limited** Provision of an Independent Adviser's Report in relation to the takeover offer by HT Media.
- ▼ **Geneva Finance Limited** Provision of an independent expert's opinion on the merits of a proposed capital reconstruction proposal.
- ▼ **MFS Living and Leisure Group** Provision of the Rule 22 Report in relation to the full takeover offer made by MFS for Tourism Holdings Limited. The report was commissioned by the offeror and its purpose was to opine on whether the takeover offer was fair and reasonable as between the classes of voting securities.
- ▼ **Mooring Systems** Provision of the Independent Adviser's Report in relation to the merger between Mooring Systems and Cavotec Group Holdings. The report was prepared pursuant to rule 18 of the Code, and was commissioned to provide MSL shareholders with a full understanding of the merits of the proposed merger.
- ▼ **Lyttelton Port Company** Provision of the Independent Adviser's Report in relation to the full takeover offer by Christchurch City Holdings for Lyttelton Port Company made in February 2006.
- ▼ **Mike Pero Mortgages** Provision of the Independent Adviser's Report in relation to the full takeover offer by NZ Finance for Mike Pero Mortgages made in December 2005. Also reappointed to provide a new report for the subsequent takeover offer made in February 2006.
- ▼ **Calan Healthcare Properties Trust** Engaged by the managers of Calan Healthcare Properties Trust to provide advice in relation to the restricted offer made by ING Property. Responsible for producing a Director's valuation of the units and preparing a briefing paper for the appointed Independent Adviser.
- ▼ **Capital Properties New Zealand** Provision of valuation advice to Capital Properties New Zealand with regard to its response to the takeover offer made by AMP Property. Responsibilities were the same as those for the Calan engagement.
- ▼ **Abano Healthcare Group Limited** Independent assessment of the proposed divestiture of ElderCare New Zealand Limited, prepared for the Independent Directors of Abano.
- ▼ **Prime Infrastructure** Provision of the Rule 22 Report in relation to the full takeover offer made by Prime Infrastructure for Powerco. The report included an assessment of an indicative intrinsic value range for the SPARCS debt instruments used by Prime Infrastructure to partially finance the takeover offer.
- ▼ **Oyster Bay Marlborough Vineyards** Provision of an expert witness affidavit in relation to the High Court proceedings between Deleat's Wine Estate and the Takeover's Panel regarding the Oyster Bay

Marlborough Vineyards takeover. Valuation evidence presented on behalf of a significant shareholder in Oyster Bay.

- ▼ **New Zealand Commerce Commission** Preparation of an Independent Adviser's Report for the New Zealand Commerce Commission assessing the standalone viability of a product business identified for divestment under a proposed acquisition.

STANDARD TERMS AND CONDITIONS

SCF will engage Northington Partners and meet all costs associated with its appointment. SCF and Scales will indemnify the independent expert in respect of any liability suffered or incurred as a result of or in connection with this engagement. The liability of Northington Partners to SCF in respect of this engagement will be limited to the fees paid to Northington Partners pursuant to the engagement letter between SCF and Northington Partners.

Our full terms and conditions for this engagement are appended to this letter as Attachment 1

ATTACHMENT 1

NORTHINGTON PARTNERS LIMITED - STANDARD TERMS AND CONDITIONS

1.0 Introduction

Northington Partners has set out in this document our basic terms and conditions of business (the "Terms"), which, together with our Engagement Letter (together called "this Agreement"), will apply to all work Northington Partners undertakes for you with respect to this engagement. If there is any conflict between these Terms and our Engagement Letter, then the Engagement Letter shall prevail.

For the purposes of the Terms, "Northington Partners" includes its partners, employees, contractors and all its related entities.

2.0 Our Services

Northington Partners will provide the services set out in our Engagement Letter (the "Services") and will use all reasonable commercial efforts to provide the Services in an efficient and timely manner, using the necessary skill and expertise to an appropriate professional standard.

3.0 Your Obligations

You agree to pay for the Services in accordance with this Agreement.

You will provide Northington Partners promptly with such information as may reasonably be required for the proper performance of the Services, including access to appropriate members of your staff, records, information, technology, systems and premises.

Northington Partners shall be entitled to rely upon the accuracy of all information provided by you, or by others on your behalf, without independently verifying it.

You shall retain responsibility for the use of, or reliance on, advice or recommendations supplied by us in the delivery of the Services.

You undertake that, if anything occurs after information is provided by you to Northington Partners, to render such information untrue, unfair or misleading, you will promptly notify Northington Partners and, if required by Northington Partners, take all necessary steps to correct any

announcement, communication or document issued which contains, refers to or is based on, such information.

You acknowledge that information made available by you, or by others on your behalf, to, or which is otherwise known by, partners or staff of Northington Partners who are not engaged in the provision of the Services shall not be deemed to have been made available to the individuals within Northington Partners who are engaged in the provision of the Services.

4.0 Staff

You agree that during the provision of the Services, and for a period of three months thereafter, you will not make any offer of employment to any Northington Partners employee or contractor involved in the provision of the Services, without our prior consent.

5.0 Confidentiality

Both parties acknowledge that they may, in the course of the engagement, be exposed to or acquire information that is proprietary or confidential to the other party. Both parties agree to hold such information in strict confidence, and not to divulge such information except as may be required by law or judicial process, by any persons or bodies responsible for regulating that party's business, as required by a party's internal policies or as the party reasonably determines is necessary to protect its own legitimate interests.

6.0 Publicity

Subject to Section 5, Northington Partners may wish to obtain publicity for work undertaken on your behalf. This may include both internal and external publicity. Unless that permission is expressly denied in writing, you agree that we can publicise the fact that we have performed work on your behalf.

7.0 Benefit of Advice

Unless otherwise specified in the Engagement Letter, any advice or opinion relating to the Services is provided solely

for your benefit and may not be disclosed in any way, including any publication on any electronic media, to any

During the supply of the Services, we may supply oral, draft or interim advice, reports or presentations but in such circumstances our written advice or final written report shall take precedence. No reliance should be placed by you on any oral, draft or interim advice, report or presentations. Where you wish to rely on oral advice or an oral presentation, you shall inform us and we will provide documentary confirmation of the advice.

Northington Partners shall not be under any obligation in any circumstance to update any advice or report, oral or written, for events occurring after the advice or report has been issued in final form.

8.0 Electronic Mail

If you ask us to transmit any document to you electronically, you agree to release us from any claim you may have as a result of any unauthorised copying, recording, reading or interference with that document after transmission, for any delay or non-delivery of any document and for any damage caused to your system or any files by the transmission (including by any computer virus).

9.0 Fees, Expenses and Payment Terms

The time based fees, if any, quoted in the Engagement Letter will remain in force until 31 March 2010 and we may increase fees for work continuing past that date. We review our time based fees on an annual basis.

Out-of-pocket expenses incurred in connection with this engagement will be charged to you at cost.

Northington Partners reserves the right to charge an additional overhead allocation. This amount is equal to five percent of the aggregate professional fees for this engagement. The five percent amount is in lieu of customary charges for expenses such as secretarial services, postage, delivery, telephone, faxes, routine photocopying, etc. Depending on the nature of the engagement, this charge may be waived or reduced at Northington Partners discretion.

The consideration payable for any supply made or to be made under this Agreement is exclusive of any goods and services tax ("GST"). If GST is payable on any supply made or to be made under this Agreement, you agree that the consideration payable for any such supply shall be increased by an amount equal to the amount of GST payable in respect of that supply.

other party and is not to be relied upon by any other party.

Accounts are to be paid by the 20th of the month following the invoice date. If they are not paid by this date, we may charge you an additional amount for the Services equal to interest on the unpaid balances at a rate equal to 2% over the 90 day Bank Bill Rate.

If we are required (pursuant to any order, subpoena, directive or other legal or regulatory process) to produce documents and/or information, answer enquiries, attend court or meetings, or deal with any similar requests in relation to the Services for, or by, any judicial, regulatory, administrative or similar body or entity (including without limitation, any foreign regulator or similar), you shall reimburse us at standard billing rates for our professional time and expenses, including reasonable legal fees, incurred in dealing with those matters.

10.0 Dispute Resolution

If at any time you would like to discuss with us how the Services may be improved or if you have a complaint about our provision of the Services, you are invited to telephone the Director identified in the Engagement Letter. We will investigate any complaint promptly and do what we can to resolve the difficulties.

If the problem cannot be resolved, the parties agree to enter into mediation, or some other form of alternative dispute resolution, before commencing legal proceedings.

In the event of a dispute, or where fees remain unpaid beyond the due date, we reserve the right to suspend provision of the Services until such time as the dispute is resolved or the fees are paid. Suspension of the Services will not affect your obligation to pay us for Services rendered to the date of suspension.

11.0 Termination of Agreement

Each of us may terminate this Agreement if:

- ▼ The other commits any material or persistent breach of its obligations under this Agreement (which, in the case of a breach capable of remedy, shall not have been remedied within 14 days of receipt by the party in breach of a notice identifying the breach and requiring its remedy); or
- ▼ The other becomes insolvent; or
- ▼ The Services are suspended under section 10 for more than 10 continuous working days.

Termination must be effected by written notice served on the other.

Termination under this section shall be without prejudice to any rights that may have accrued for either of us before termination and all sums due to us shall become payable in full when termination takes effect.

12.0 Limitation of Liability

You agree that Northington Partners liability for any losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings in relation to the Services shall not exceed the amount of the fees paid by you to Northington Partners in connection with this engagement.

You agree to release Northington Partners from any liability in excess of the aggregate amount referred to in the previous clause, except for liability resulting from an act or omission finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

13.0 Indemnities

You agree to indemnify and hold harmless Northington Partners against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by Northington Partners in respect of any claim by a third party arising from or connected to any breach by you of your obligations under this Agreement.

Northington Partners shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by you or any of your representatives, which is false, misleading or incomplete. You agree to indemnify and hold harmless Northington Partners from any such liabilities we may have to you or any third party as a result of reliance by Northington Partners on any information provided by you or any of your representatives, which is false, misleading or incomplete.

14.0 Privacy

Northington Partners is committed to complying with the Privacy Act 1993, and any subsequent amendments and codes of practice issued pursuant to the Privacy Act 1993, when collecting, holding, using or disclosing personal and sensitive information concerning your shareholders, members, customers, employees, and other individuals with whom you have dealings ("stakeholders").

If your stakeholders have not been made aware of the possible collection, holding, use or disclosure of their personal and sensitive information by Northington Partners as part of this engagement, you agree to inform Northington Partners so that, should this be necessary, Northington Partners may take action to raise the awareness of your stakeholders about the same.

15.0 Force Majeure

If the performance of this Agreement by a party is prevented or restricted by reason of fire, storm, flood, earthquake, war, labour dispute, transportation embargo, law, order, or directive of any government in matters relating to this Agreement, or any other act or condition beyond the reasonable control of that party, then the party is excused from such performance to the extent of the same, but will use their best efforts to avoid or remove the causes of non-performance and to cure and complete performance with the utmost dispatch.

16.0 Governing Law and Jurisdiction

This Agreement and all aspects of our engagement and our performance of the Services are governed by, and construed in accordance with, the laws applicable in New Zealand. Both you and we agree to irrevocably submit any disputes arising under this Agreement to the exclusive jurisdiction of the New Zealand Courts.

17.0 Variation

No variation of this Agreement will be valid unless confirmed in writing by authorised signatories of both parties on or after the date of signature of the Engagement Letter.

18.0 Survival of Terms

Both you and we agree that sections 5, 12 and 13 will survive termination of this Agreement.