



CYNOTECH SECURITIES GROUP LIMITED

ANNUAL REPORT

31 March 2010



Corporate Information

Cynotech Securities Group Limited

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 Newmarket
 Auckland 1023
 PO Box 42085
 Auckland 1745

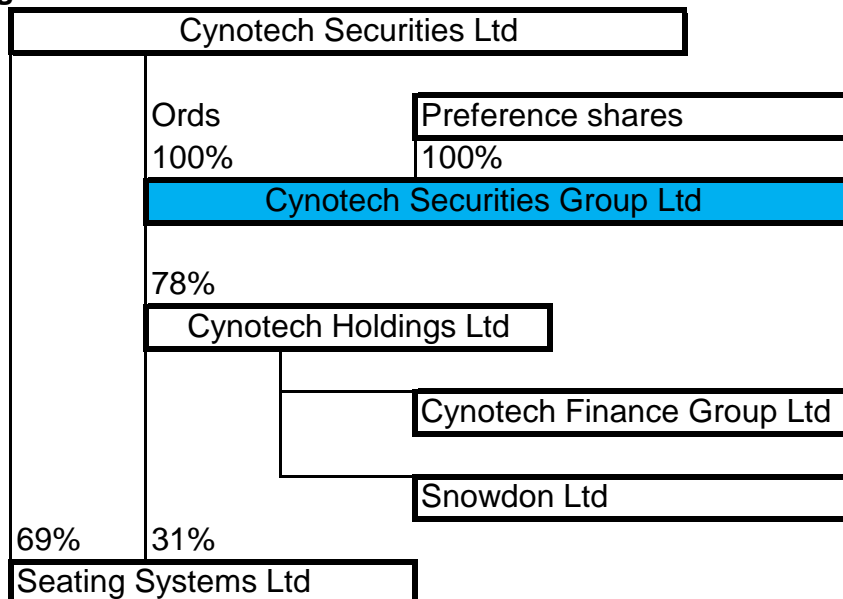
Auditors BDO Auckland
 Level 8
 120 Albert Street
 Auckland

Solicitors Lowndes Associates
 18 Shortland Street
 Auckland

Kevin McDonald and Associates
 19-21 Como Street
 Takapuna

Directors Allan Hawkins Chairman and Chief Executive
 Kevin McDonald Deputy Chairman and Independent Director
 Paul Hutchinson Independent Director
 Wayne Hawkins Executive Director

Group Organisation



Directors Review

This annual report for Cynotech Securities Group Limited is for the four month period ended 31 March 2010.

In presenting this annual report, with the agreement of the ordinary shareholder, the Company has taken advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993.

Cynotech Securities Group Limited made a takeover offer for all of the ordinary shares, convertible preference shares and warrants in Cynotech Holdings Limited.

The Company declared its takeover offer for Cynotech Holdings Ltd unconditional on 26 March 2010.

Cynotech Holdings Limited became a 78% owned subsidiary of Cynotech Securities Group Limited.

The Company consolidated the Cynotech Holdings Limited group in respect of the 5 days up to 31 March 2010.

For background to the Subsidiary Group's operations, pre acquisition, refer to the Annual report of Cynotech Holdings Ltd.

Additional Directors were appointed by the shareholder.

Kevin McDonald is an Independent Director and Deputy Chairman

Paul Hutchinson is an Independent Director.

Wayne Hawkins is an Executive Director

No dividends are recommended.

The board of directors of the Company authorise the financial statements for issue.



Allan Hawkins
Chairman

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CYNOTECH SECURITIES GROUP LIMITED

Report on the Financial Statements

We have audited the financial statements of Cynotech Securities Group Limited ("the Company") and its subsidiaries (together referred to as "the Group") on pages 6 to 36, which comprise the Statements of Financial Position as at 31 March 2010, and the Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the Company and Group for the period then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements, for the Company and Group, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing (New Zealand). Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and tax advisors.

Basis for Disclaimer of Opinion

An audit would ordinarily involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected would ordinarily depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit would ordinarily also include evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

The Directors disclose in note 1(vii) their consideration of the uncertainties associated with the Company and Group continuing as a going concern. This is dependent upon the realisation, in a timely manner, of assets at or above their carrying values, in particular the loan to the associate, Seating Systems Limited, and the continued support of the depositors and secured lenders, who have provided unsecured deposits and secured loans, the majority of which are payable on demand. The Directors' opinion that it is appropriate to adopt the going concern assumption in the preparation of the Company and Group financial statements has been reached based on their expectation of the timely realisation of the assets at or above their carrying values and their relationship with the Group's depositors and secured lenders. They have not been able to provide us with suitable audit evidence to support these expectations. As a result of these matters, the scope of our audit was limited and we were unable to undertake adequate audit procedures in respect of that aspect of this audit. We were unable to determine whether any adjustments were necessary in preparing the financial statements, should the going concern basis not be appropriate.

In note 17, the Directors disclose their assessment of the impairment of the Group's investment in and loans to its associate, Seating Systems Limited. This assessment is based on the expected disposal of that company's underlying business. The directors have not obtained an independent valuation of this business to support their expectations due to the specialised nature of the underlying assets. As a result of the lack of an independent valuation or any alternative evidence supporting the carrying value of the Seating Systems business, the scope of our audit was limited and we were unable to undertake adequate audit procedures in respect of that aspect of this audit.

We were unable to determine whether any adjustments were necessary in respect of the net carrying value of the investment in and loans to the associate.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements on pages 5 to 36.

Emphasis of Matter

We draw attention to the following matters described in the financial statements. Our opinion is not qualified in respect of these matters;

- **Valuation of Preference Shares and Related Investment in Subsidiaries**
The assessment made by the directors, as detailed in note 7, of the fair value of the assets and liabilities of Cynotech Holdings Limited acquired by the Company and the impact of this assessment on the fair value assigned to the preference shares on initial recognition and their classification as a liability. There is inherent uncertainty associated with the fair values adopted. These uncertainties include the matters highlighted in the basis for disclaimer of opinion paragraphs above and the emphasis of matter paragraphs below.
- **Valuation of finance receivables designated at fair value through profit and loss**
The assessment made by the Directors of the fair value of the finance receivables designated at fair value through the profit and loss. Accounting standard, NZ IAS 39 "Financial Instruments: Recognition and Measurement" requires an entity to use a valuation technique to establish fair value in circumstances where there is no active market. As a valuation technique, the Directors have used a discounted cash flow analysis based on methodologies and estimates that reflect Management's and the Directors' past experience and expectations of the future cash flow performance of the various finance receivable categories. The resultant discounted cash flow forecasts determined the fair value of the finance receivables designated at fair value through the profit and loss to be \$8,794,000.

The underlying assumptions and forecasts supporting the fair value of the finance receivables are as disclosed in note 13. Future cash flows from finance receivables are inherently uncertain and given the current economic climate these uncertainties are fundamental to the ultimate recoverability of the finance receivables. In the event that future cash flows do not meet with the forecasts, adjustments to the carrying value of finance receivables would be required. Accordingly we are unable to estimate the impact of this uncertainty on the calculation of the fair value of these finance receivables as at 31 March, 2010. The Directors have prepared a sensitivity analysis of the key assumptions in note 13.

- **Finance Receivables Impairment Allowance**
The assessment made by the Directors of the finance receivable impairment allowance. The assessment for impairment of finance receivables is based on the forecast of future discounted cash flows from finance receivable categories and from the residual value of those categories, and the realisation of underlying securities. An impairment allowance of \$2,861,000 has been provided against the gross finance receivables as at 31 March 2010, as is disclosed in note 12.

This assessment of impairment is based on methodologies and estimates that reflect Management's and the Directors' past experience and expectations of the future cash flow performance of the various finance receivable categories. Future cash flows and realisation of securities from finance receivables are inherently uncertain and, given the current economic climate, these uncertainties are fundamental to their recoverability. In the event the actual cash flows do not meet the forecasts, further impairment allowances would be required. Accordingly we are unable to estimate the impact of this uncertainty on the calculation of the impairment allowance.

Report on Other Legal and Regulatory Requirements

As noted above we have not received all the information and explanations we have required.

Because of the items noted above we are unable to determine whether proper accounting records have been kept by Cynotech Securities Group Limited.

BDO Auckland

BDO Auckland
30 September 2010
120 Albert St
Auckland
New Zealand

Statement of Financial Position *as at 31 March 2010*

In thousands of NZD

	NOTES	GROUP 2010	COMPANY 2010
Assets			
Cash and cash equivalents	8	487	21
Trade and other receivables	9	790	-
Finance receivables	10,11,12	4,288	-
Loan receivables - designated at fair value	13	8,794	-
Income tax refund	24	247	-
Inventories	14	440	-
Investment held for sale		68	-
Property and plant held for sale	15	1,132	-
Property, plant and equipment	16	1,973	-
Subsidiary company deposit	33	-	386
Investment in associates	17	2,543	-
Investment in subsidiaries	18	-	4,420
Total assets		20,762	4,827
Liabilities			
Bank Overdraft	8	250	-
Trade and other payables	19	1,226	5
Deposits	20	4,407	386
Interest bearing loans and borrowings	21	8,536	-
Convertible preference shares	22	20	-
Capital Securities	22	552	-
Preference shares	7	4,256	4,256
Deferred tax liability	24	146	-
Total liabilities		19,393	4,647
Equity			
Ordinary Shares	25	200	200
Non-controlling interests		1,251	-
Accumulated losses		(82)	(20)
Total equity attributable to equity holders		1,369	180
Total equity and liabilities		20,762	4,827

On behalf of the Directors 30 September 2010



Allan Hawkins - Chairman



Kevin Mc Donald - Deputy Chairman

Statement of Comprehensive Income *for the 4 month period ended 31 March 2010*

In thousands of NZD

	NOTES	GROUP 2010	COMPANY 2010
Revenue			
Interest income - finance receivables		31	-
Fees received		4	-
Gain on loan receivables - designated at fair value		32	-
Bank interest		1	1
Management fee and Group levy		1	-
Sales of goods		68	-
Total operating revenue		137	1
Operating expenses			
Audit fees	29	69	3
Distribution costs		7	-
Employee remuneration		37	-
Interest expense		7	-
	Deposits		
	Interest bearing loans and borrowings	16	-
Manufacturing costs		1	-
Office and administration		16	13
Credit and collection expenses		13	-
Other expenses		11	4
Raw materials and consumables used		52	-
Rental and operating lease costs		7	-
Total operating expenses		236	20
(Loss)/profit before income tax		(99)	(19)
Income tax credit / (expense)	24	-	-
(Loss)/profit for the period		(99)	(19)
Other comprehensive Income		-	-
Total comprehensive income for the period		(99)	(19)
Profit attributable to:			
Owners of the company		82	19
Non-controlling interests		17	-
Total Comprehensive income for the period		99	19

The notes on pages 9 to 36 are an integral part of these financial statements.

Statement of Changes in Equity *for the 4 month period ended 31 March 2010*

In thousands of NZD

GROUP	NOTES	Attributable as shareholders		Non-controlling interests	Total equity
		Ordinary shares	Accumulated losses		
Total comprehensive income for the period					
Profit/(loss)		-	(82)	-	(82)
Non-controlling interest in post acquisition profit/loss		-	-	(17)	(17)
Total comprehensive income for the period		-	(82)	(17)	(99)
Contributions by and distributions to owners					
Issue of ordinary shares on 11 November 2009	25	200	-	-	200
Non-controlling interests in Cynotech Holdings Ltd on acquisition		-	-	1,268	1,268
Total contributions by and distributions to owners		200	-	1,268	1,468
Balance at 31st March 2010		200	(82)	1,251	1,369

COMPANY	NOTES	Attributable as shareholders		Non-controlling interests	Total equity
		Ordinary shares	Accumulated losses		
Total comprehensive income for the period					
Profit/(loss)		-	(20)	-	(20)
Total comprehensive income for the period		-	(20)	-	(20)
Contributions by and distributions to owners					
Issue of ordinary shares on 11 November 2009	25	200	-	-	200
Total contributions by and distributions to owners		200	-	-	200
Balance at 31st March 2010		200	(20)	-	180

The notes on pages 9 to 36 are an integral part of these financial statements.

Statement of Cash Flows *for the 4 month period ended 31 March 2010*

In thousands NZD

	NOTES	GROUP	COMPANY
		2010	2010
Net cash from/(used in) operating activities			
<i>Cash was provided from:</i>			
Receipts from sale of goods and services		68	-
Interest income received		31	-
Other income		6	-
<i>Cash was applied to:</i>			
Payments to suppliers and employees		(97)	(15)
Interest expense paid		(23)	0
Net cash flows used in operating activities	23	(15)	(15)
Cash flows from/(used in) investing activities			
<i>Cash was provided from:</i>			
Acquisition of subsidiary	7	216	-
Net cash flows used in investing activities		216	-
Cash flows from/(used in) financing activities			
<i>Cash was provided from:</i>			
Proceeds from issue of ordinary shares	25	200	200
<i>Cash was applied to:</i>			
Preference share raising costs	7	(164)	(164)
Net cash flows from financing activities		36	36
Net increase in cash and cash equivalents		237	21
Cash and cash equivalents at end of period	8	237	21
Presented as;			
Cash and cash equivalents	8	487	21
Bank Overdraft	8	(250)	-
Net Cash and cash equivalents at end of period		237	21

The notes on pages 9 to 36 are an integral part of these financial statements.

Notes to the Financial Statements *for the period ended 31 March 2010*

Reporting entity

Cynotech Securities Group Limited (the Company) is a company incorporated and domiciled in New Zealand. The Company is registered under the Companies Act 1993. Cynotech Securities Group Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The Company is a profit-oriented entity.

Financial statements for the Company are presented for the period since its incorporation (2 November 2009). The consolidated financial statements of the Company and Group represent the company's performance from incorporation date, and the share of financial results of Cynotech Holdings Ltd Group since its acquisition on 26th March 2010. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associate companies.

This is the company and group's first period of operation and thus, no comparatives are provided.

The financial statements were approved by the Board of Directors on 30th of September 2010.

The major companies in the Cynotech Securities Group Limited Group are:

- Cynotech Securities Group Limited - Group holding company
- Cynotech Holdings Limited - 78% owned by Cynotech Securities Group Limited

Other companies controlled indirectly through Cynotech Holdings Limited are;

- Budget Loans Limited - Consumer and commercial loans
- Cynotech Corporation Limited - Specialist lending and fee income
- Cynotech Finance Group Limited - Finance group funding
- Evolution Finance Limited - Consumer loans
- Seating Systems Limited - Temporary event seating
- Snowdon Limited - Manufacturing

The ultimate holding company is Cynotech Securities Limited.

Statement of compliance

The company's and consolidated financial statements (hereafter, "the financial statements") have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB). Where no financial reporting standard exists in New Zealand in relation to a particular issue, the accounting policies and disclosures adopted have been determined with regard to other forms of authoritative support.

Basis of preparation

The presentation currency used in the preparation of these financial statements is New Zealand dollars rounded to the nearest thousand. The functional currency in which the company operates is New Zealand dollars. The accounts are prepared on the historical cost basis except where assets and liabilities are stated at their fair value as detailed below. The preparation of financial statements in conformity with NZ IFRS requires Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgments made by Directors in the application of NZ IFRS that have significant effect on the financial statements and estimates with significant risk of material adjustment in the next year are discussed in notes 1, 2, 5, 6 and 31. Refer to note 1(vii) for further detail in relation to Going Concern.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision effects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies have been applied consistently by Group entities.

New accounting standards and interpretations not yet adopted

NZ IFRS 9 ("Financial Instruments. Recognition and Measurement") was issued in November 2009 and is effective for annual periods beginning on or after 1 January 2013. The standard introduces changes to measurement of financial assets. The Company and Group is currently assessing the impact of the standard on its results, financial position and cash flows.

Other standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company or Group for the annual reporting period ending 31 March 2010. These are outlined below. The directors anticipate that the adoption of these pronouncements are not expected to have a material impact on the results, financial position or cash flows of the Company or Group.

Notes to the Financial Statements *for the period ended 31 March 2010*

New accounting standards and interpretations not yet adopted (continued)

- Amendment to NZ IFRIC 14, "Prepayments on a Minimum Funding Requirement." Effective for annual periods commencing on or after 1 January 2011;
- NZ IFRIC 18, "Transfers of Assets from Customers" effective for annual periods beginning on or after 1 July 2010 with early adoption permitted;
- NZ IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments", effective for annual periods beginning on or after 1 July 2010 with early adoption permitted;
- Amendment to NZ IAS 24, "Related Party Disclosures" – the amendment simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies, effective for annual periods beginning on or after 1 January 2011;
- Amendment to NZ IAS 32, "Classification of Rights Issues". is effective for annual periods beginning on or after 1 February 2010.

Basis of preparing consolidated financial statements

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

In the Company's separate financial statements investments in subsidiaries are carried at cost, less impairment losses (if any).

Associates (equity accounted)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are accounted for using the equity method (equity accounted) and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit and loss and other comprehensive income of equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted associates, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains or losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment and the extent of the Group's interest in the Associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Goodwill / intangible assets

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 2 November 2009, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill (if any) is allocated to cash generating units and is tested annually for impairment.

Notes to the Financial Statements *for the period ended 31 March 2010*

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss. Monetary assets and liabilities at reporting date are translated at the exchange rates ruling at reporting date. Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that fair value was determined. Non monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Goods and services tax

The financial statements have been prepared on a GST exclusive basis except for Trade Receivables and Trade Payables which are GST inclusive.

Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: on the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination, that effect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Segment Information

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. All operating segments' operating results are reviewed regularly by the Group's directors and management team to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the directors and management, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire loan receivable, property, plant and equipment, and intangible assets.

Finance income and expenses

Finance income

Finance income comprises income on funds invested including changes in the fair value of financial assets at fair value through profit or loss, which are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Fees received

Fees received comprises initial fees received in respect of new loans and fees received from add ons to delinquent customers loans. Fees are brought to income through profit or loss at the time they are charged because they represent a fee recovery of actual costs incurred.

Finance expenses

Finance expenses comprise interest expense on borrowings, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets that are recognised in profit or loss. All borrowing costs are recognised in profit and loss using the effective interest method.

Borrowing costs are included in the profit and loss only to the extent that they do not relate to borrowing costs on qualifying assets.

Notes to the Financial Statements *for the period ended 31 March 2010*

Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, volume rebates and taxes. Revenue is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or if there is a continuing management involvement with the goods or if the amount of revenue cannot be measured reliably.

Other Income

Management fee

Management fees are recognised in the profit and loss when the advisory and management services are performed.

Rental Income

Rental income from property held for sale is recognised in the profit and loss on a straight line basis, over the terms of the respective

Provisions

A provision is recognised when the Company or Group has a present or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the profit and loss on a straight line basis over the term of the lease. Lease incentives received are recognised in the profit and loss as an integral part of the total lease expense.

Finance lease payments

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the lease asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability. When property, plant and equipment is acquired by way of finance lease it is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses and are accounted for in the same manner as owned items. Finance lease assets are depreciated over the shorter of useful life and the period of the lease.

Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and sick leave accruing to employees and expected to be settled within twelve months of the reporting date are recognised and measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis.

Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, finance receivables, loan receivables designated at fair value cash and cash equivalents, loans and borrowings, deposits and trade and other payables, convertible preference shares, preference shares and capital securities.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group or Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's or Company's contractual rights to the cash flows from the financial assets expire or if the Group or Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Group's or Company's obligations specified in the contract expire or are discharged or

Financial assets and financial liabilities are offset only when the Company or Group has a current legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the Financial Statements *for the period ended 31 March 2010*

Financial Instruments (continued)

(i) **Non-derivative financial instruments**

Financial assets at fair value through the Profit or Loss Statement

An instrument is classified at fair value through profit and loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through the profit and loss if the Group or Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's or Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in the profit and loss when incurred. Financial instruments at fair value through the profit and loss are measured at fair value, and changes therein are recognised in profit and loss.

Loan receivables – designated at fair value

Loan receivables - designated at fair value, comprise loan contracts which have been purchased from third parties and which are under credit and collection action.

Trade and other receivables (including Finance receivables)

Trade and other receivables are stated at amortised cost, using the effective interest method less impairment losses. Interest is recognised in profit and loss over the period of the receivable on an effective interest basis.

Trade and other payables

Trade and other payables are stated at amortised cost, using the effective interest method.

Deposits & Interest bearing borrowings

Subsequent to initial recognition, deposits and interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit and loss over the period of the borrowings on an effective interest basis.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) **Derivative financial instruments**

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit and loss as part of foreign currency gains and losses.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit and loss.

(iii) **Compound financial instruments**

Compound financial instruments issued by the Group or Company include convertible preference shares that can be converted to share capital at the option of the holder or by the Company compulsorily at December 2010 and the number of shares to be issued does not vary with changes in their fair value. These carry a dividend being 150% of the Official Cash Rate which is considered to be the liability component.

Compound financial instruments issued by the Group or Company also include capital securities that are non redeemable. These carry a compulsory dividend at the rate of 9.25% per annum.

The value of convertible preference shares and capital securities is determined at the time that the shares are issued. Because of the terms of issue, these items have been as liabilities in the Statement of Financial Position.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit and loss.

Distributions to the equity holders are recognised in equity, net of any tax benefit.

Issued by the Company

Compound financial instruments issued by the Company include convertible preference shares. They carry a dividend at the rate of 8% per annum and are not redeemable at the discretion of the company. The value of the preference shares is determined at the time that the shares are issued.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised in equity, net of any tax benefit.

Notes to the Financial Statements *for the period ended 31 March 2010*

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventory is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories, bringing them to their existing location and condition and, for manufactured inventories and work in progress an appropriate share of overheads based on normal operating capacity.

Non-current assets held for sale

Non current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are re measured in accordance with the Group's/Company's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and property, which continue to be measured in accordance with the Group's/Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property held for sale

Property held for sale is valued at a fair value supported by a registered valuation. Any gains or losses on fair value measurement are recognised in profit and loss when incurred.

Plant held for sale

Plant held for sale is carried at fair value. Any gains or losses on fair value measurement are recognised in profit or loss when incurred.

Property, plant and equipment

Owned assets

All owned items of property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Initial cost includes the purchase consideration, or fair value in the case of a donated asset, and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property plant and equipment.

Disposal of property, plant and equipment

Where an item of property, plant or equipment is disposed of, the gain or loss recognised in profit or loss is calculated as the difference between the proceeds on disposal and the carrying amount of the item of property, plant or equipment.

Depreciation

Depreciation of property, plant and equipment is calculated on a diminishing value basis so as to expense the cost of the assets to their residual values over their current useful lives as follows:

- Factory plant and equipment - 3% to 10%
- Leasehold improvements - 3% to 15%
- Furniture and fittings - 12.5% to 40%
- Computer equipment - 15% to 48%
- Motor vehicles - 26%

Depreciation methods, residual value and useful lives are reviewed on an annual basis.

Subsequent Costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred, if it is probable that the future economic benefit embodied with the item will flow to the Group or Company and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

Convertible Preference shares

Convertible preference shares issued by the Group or Company which remain unconverted, will be converted to ordinary shares compulsorily on 23 December 2010. Convertible preference shares have been classed as a compound financial instrument, all classed as a liability as a result of the maturity date being no later than 23 December 2010.

Impairment of non financial assets

The carrying amounts of the Group's or Company assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Notes to the Financial Statements *for the period ended 31 March 2010*

Impairment of non-financial assets (continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment of financial assets

An assessment is made at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Directors about the following loss events:

Indicators of impairment:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default of delinquency in interest or principal payments;
- a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group; including adverse changes in the payment status of borrowers in the group.

Firstly an assessment is made whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence exists for an individually assessed financial asset, whether significant or not, the assets are included in a group of financial assets with similar credit characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cashflows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient impairment may be measured on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cashflows that may result from foreclosure less costs for obtaining and selling collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's or Company's grading process that considers collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group/Company and historical loss experience for assets with credit characteristics similar to those in the Group/Company.

Estimates of changes in future cashflows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in payment status, or other factors indicative of changes in probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cashflows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off to profit or loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in profit or loss.

Notes to the Financial Statements *for the period ended 31 March 2010*

Issued capital

The value of ordinary shares is determined at the time that the share is issued and is included in equity net of issue costs.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of between 15 and 20 percent; in 2010 the return was negative because of a number of one off valuation changes in the carrying value of certain assets. In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 12.0 percent.

There were no changes in the Group's approach to capital management during the period.

Application of accounting policies

The Company was incorporated on 2 November 2009. Accordingly the financial statements are presented for the four month period ended 31 March 2010.

There are no comparative results.

The Company acquired the consolidated operations of Cynotech Holdings Limited on 26th March 2010 and the financial performance as stated in the consolidated profit and loss reflects the five day period to 31 March 2010 of this entity.

Notes to the Financial Statements *for the period ended 31 March 2010*

1. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group/Company makes estimates and assumptions concerning the future. The resulting budgeting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements applied in the consolidated financial statements include:

(i) Fair value of finance receivables designated at fair value through profit and loss on initial recognition.

The Group has designated distressed loans acquired by the Group as "fair value through profit and loss" as these loans are managed and evaluated on a fair value basis in accordance with the Group's investment strategy. Information on changes in fair value are reported regularly to the Board.

These receivables are not traded on an active market. Accordingly their fair value must be determined using valuation techniques. The Group adopts a discounted cashflow analysis to derive their fair value.

This analysis requires the Group to apply judgement to the underlying assumptions that are based on market conditions and other conditions existing at balance date. The principal assumptions together with a sensitivity analysis are detailed in note 14.

(ii) Impairment of finance receivables.

The Group reviews its finance receivables portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded the Group makes judgements as to the expected future cashflows from the loans, given the security and the situation of the borrower. These assessments are regularly reviewed to reflect the underlying value of the securities and on the status of borrowers. Details of impairment allowances and collateral for loans is provided in note 13. Delays in realising security or the movement in the underlying value of security will impact the level of the impairment allowance.

(iii) Impairment of property held for sale

The Group has assessed the extent to which the carrying value of its property held for resale is impaired as at reporting date. The impairment assessment is based upon estimates of the realisable value of the properties as provided by independent valuers. Details of the impairment are provided in Note 16. Any changes in market conditions will impact both the amount and timing of amounts realised.

(iv) Recognition of deferred tax assets and liabilities and calculation of taxation liability

The Group has recognised the assets or liabilities on temporary differences as it is expected that sufficient assessable income will occur at the time these reverse and that the Group/Company will be able to comply with the relevant tax legislation.

(v) Fair value of the CHL Groups net assets acquired

The directors have assessed the fair value of the CHL Group's assets and liabilities as being represented by their carrying value as presented in the audited financial statements as at 31 March 2010 adjusted for trading between 25 and 31 March 2010.

(vi) Impairment of the advance to and the investment in associate Seating Systems Limited.

The shareholders have resolved to sell the business of the associate, Seating Systems Limited. The Directors have made an assessment of the fair value of the underlying assets at balance date, having allowed for costs to sell and an impairment allowance. Impairment is the difference between the Group's share of the net proceeds and the Group's net investment in that

(vii) Going Concern relating to the subsidiary CHL Group.

The financial accounts and the notes to the accounts disclose a mismatch between the contractual maturities of deposits and other term loans of the Cynotech Holdings Group when compared to the projected cash inflows from the assets of the CHL Group, see note 5. The Directors addressed this mismatch and concluded that it is a manageable mismatch given historical factors and relationships. In the last year the CHL Group has reduced bank debt by \$1.8 million and expect to have fully repaid bank borrowings by February 2012. Since reporting date the Directors have reached an agreement with its largest secured funder to settle 50% of the funders outstanding secured loans by the assignment of \$3 million dollars of fair value finance receivables. The CHL Group has guaranteed the performance of these loans. In respect of the balance of the loans the funder has agreed not to call for repayment in the foreseeable future. This transaction was finalised on 1st August 2010. In addition the remaining depositors the majority of which are preference shareholders in Cynotech Securities Group Ltd are aware that the CHL Group is in a rundown mode with specific emphasis on the realisation of assets and the repayment of debt.

Notes to the Financial Statements *for the period ended 31 March 2010*

2. Financial Risk Management

All companies are exposed to a variety of financial risks depending on the industry in which they operate. The Group puts significant management resources into identifying and assessing all the risks it faces and has risk management procedures in place to govern this process and to minimise any potential adverse effects on financial performance. Risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice.

The principal financial risks faced by the Group are :

- interest rate risk refer note 3
- liquidity risk refer note 4
- credit risk refer note 5
- other risks refer note 6

Risk management is managed in line with policies approved by the Board of Directors. These policies identify and evaluate financial risks in close co-operation with the Company and Group's operating units.

The Board has considered overall risk management, as well as providing guidance on specific areas and has confirmed that management have standards and procedures in place to manage the various risks faced by the Group/Company:

- (i) Procedures are in place for managing interest rate risk, liquidity risk and statement of financial position and capital structure. The directors have implemented treasury risk management policies and these are followed;
- (ii) Pricing the establishment and review of interest rates on money advanced to customers;
- (iii) Criteria are established for aspects of credit risk assessment and management, and formal credit policies and guidelines are in place which ensure that any credit risk incurred falls within acceptable parameters;
- (iv) Procedures are in place for the day-to-day management of the liability side of the Statement of Financial Position, especially focussing on maintaining the appropriate level and mix of funding sources and ensuring that the Finance Group has sufficient liquidity for its business requirements. In addition, Treasury procedures are responsible for:
 - (a) the execution of interest rate risk management strategies including the use of derivative financial instruments in accordance with formal treasury risk management policies; and
 - (b) ensuring compliance with all internal and external measures, covenants and ratios.

In addition, the Board of Directors of the parent company, Cynotech Securities Group Ltd:

- oversees all matters relating to the financial accounting and reporting for the Group; and
- monitors risk management and the processes which are undertaken by management.

3. Financial Risk Management - Interest rate risk

Cash flow interest rate risk is the risk that the future cashflows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group/Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks relating to its financial instruments. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The Group manages interest rate risk in a number of ways:

- by fixing interest rates on its borrowings and assets
- by monitoring the maturity profile of assets and liabilities, and seeking where possible to match the date at which these mature and reprice;
- by monitoring market interest rates and reviewing the impact of these on interest rate exposure;
- by operating in accordance with treasury risk management policies approved by the Board of the Company;
- by reviewing lending rates from time to time.

(i) Concentrations of interest rate exposure

The Group's/Company's borrowings are generally short term in nature to match the profile of maturing assets. Borrowings issued at fixed rates expose the Group/Company to fair value interest rate risk.

(ii) Sensitivity analysis

Sensitivity analysis measures the impact of changes in interest rates. Because the Group's/Company's interest bearing assets and liabilities are at fixed rates there would be no impact from changes in interest rates.

(iii) Repricing schedule

The Group has a policy which establishes risk control limits for the net repricing gap. Interest rate exposure is monitored on a regular basis and reported to and reviewed by the Board of Directors.

The following table summarises the Group's/Company's exposure to interest rate risks. It includes the Group's/ Company's financial instruments at carrying amounts, categorised by the earlier of their contractual repricing or maturity dates.

Notes to the Financial Statements *for the period ended 31 March 2010*

3. Financial Risk Management - Interest rate risk (continued)

The following table identifies the effective interest rates of the financial assets and financial liabilities of the Company and Group and their next repricing or maturity periods, whichever is the earlier. Trade and other receivables and trade and other payables have not been included as they are not interest rate sensitive. The Group's interest bearing assets and liabilities are at fixed rates.

Monetary assets & liability maturity profile & interest rate risk - repricing analysis

GROUP 2010	Effective		Less than	6-12	1-2	2-5	Over 5
	Rate	Total	6 months	months	years	years	years
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash balances	3.75%	487	487	-	-	-	-
Finance receivables	20.00%	4,288	689	1,001	1,383	1,175	40
Advance to associate	13.50%	2,543	-	-	2,543	-	-
Loan receivables - designated at fair value	7.50%	8,794	1,476	1,347	2,160	3,551	260
Total assets		16,112	2,652	2,348	6,086	4,726	300
Financial liabilities							
Bank Overdraft	7.39%	250	250	-	-	-	-
Deposits	12.00%	4,407	3,967	100	90	250	-
Convertible preference shares	5.75%	20	-	20	-	-	-
Capital securities	9.25%	552	552	-	-	-	-
Preference shares	23.70%	4,420	-	-	-	-	4,420
Interest bearing loans	12.19%	8,536	6,587	311	1,660	5	-
Total liabilities		18,185	11,356	431	1,750	255	4,420
Re-pricing gap		(2,073)	(8,704)	1,917	4,336	4,471	(4,120)

Monetary assets & liability maturity profile & interest rate risk - repricing analysis

COMPANY 2010	Effective		Less than	6-12	1-2	2-5	Over 5
	Rate	Total	6 months	months	years	years	years
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash balances	3.75%	21	21	-	-	-	-
Subsidiary company deposit	8.00%	386	386	-	-	-	-
Total assets		407	407	-	-	-	-
Financial liabilities							
Deposits	8.00%	386	386	-	-	-	-
Preference shares	23.70%	4,420	-	-	-	-	4,420
Total liabilities		4,806	386	-	-	-	4,420
Re-pricing gap		(4,399)	21	-	-	-	(4,420)

4. Financial Risk Management - Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding.

The Group's/Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The focus of the Group/Company, its Board and management is on realising the Group's/Company's assets for the benefit of investors and for the specific purpose of repaying borrowings.

(i) Liquidity risk management process

The Group/Company manages liquidity in a number of ways:

- Day to day funding requirements and future cash flows are monitored to ensure requirements can be met. This includes replenishment of funds as they mature or are borrowed by clients.
- Regularly forecasting future cashflows to assess maturity mismatches between financial assets and financial liabilities in advance.
- Not relying on one funding source but maintaining a diverse and stable funding base.
- Maintaining strong professional relationships with its non bank funders
- Monitoring statement of financial position liquidity ratios against internal requirements.
- Paying down its bank debt

(ii) Concentration of funding

The Group/Company is funded by a variety of financial instruments which includes share capital, preference shares (note 25) and secured bank loans (note 24) and deposits (see note 23 to the financial statements for further details of these deposits).

Bank borrowings are from one bank and are disclosed in note 24. The significant concentration of secured loans from other parties is also disclosed in note 24. The secured deposits disclosed in note 23 are from two entities. The unsecured deposits disclosed in note 23 are from 23 separate investors.

(iii) Maturity analysis

The following tables show the undiscounted cash flows on the Group/Company and Company's financial assets and liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. A separate table has been produced showing the expected maturity as these are expected to differ from the contractual terms.

Notes to the Financial Statements for the period ended 31 March 2010

4. Financial Risk Management - Liquidity risk (continued)

The amounts disclosed in the following table is the undiscounted gross contractual cashflow.

Contractual gross undiscounted cashflow maturities of financial assets and liabilities.

GROUP 2010	Carrying amount	Gross nominal inflow / (outflow)	On demand	1-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial assets								
Cash balances	487	487	487	-	-	-	-	-
Finance receivables	4,288	7,149	1,567	982	1,287	1,669	1,604	40
Trade receivables	790	790	-	790	-	-	-	-
Advance to associate	2,543	3,926	-	209	209	3,508	-	-
Loan receivables - fair value	8,794	8,794	8,794	-	-	-	-	-
Total assets	16,902	21,146	10,848	1,981	1,496	5,177	1,604	40
Financial liabilities								
Overdraft	250	250	250	-	-	-	-	-
Deposits	4,407	4,529	3,967	26	125	131	280	-
Trade payables	1,226	1,226	-	1,226	-	-	-	-
Convertible Preference shares	20	20	-	-	20	-	-	-
Preference shares (1)	4,420	13,315	-	-	-	-	-	13,315
Capital securities	552	862	-	28	28	50	204	552
Interest bearing loans	8,536	8,859	6,000	698	429	1,704	28	-
Total liabilities	19,411	29,061	10,217	1,978	602	1,885	512	13,867
Liquidity gap	(2,509)	(7,915)	631	3	894	3,292	1,092	(13,827)

Expected gross undiscounted maturities of financial assets and liabilities.

GROUP 2010	Carrying amount	Gross nominal inflow / (outflow)	On demand	1-6 months	6 months to 1 year	1 year to 2 years	2-5 years	Over 5 years
Financial assets								
Cash balances	487	487	487	-	-	-	-	-
Finance receivables	4,228	6,713	566	571	1,433	2,006	2,049	88
Trade receivables	790	790	-	790	-	-	-	-
Advance to associate	2,543	3,926	-	209	209	3,508	-	-
Loan receivables - fair value	8,794	9,774	-	1,805	1,621	2,384	3,694	270
Total assets	16,842	21,690	1,053	3,375	3,263	7,898	5,743	358
Financial liabilities								
Overdraft	250	250	250	-	-	-	-	-
Deposits	4,407	4,529	3,967	26	125	131	280	-
Trade payables	1,225	1,225	-	1,225	-	-	-	-
Preference shares (1), (2)	4,420	7,348	-	266	532	1,065	1,065	4,420
Convertible preference shares	20	20	-	-	20	-	-	-
Capital securities	552	552	-	28	28	50	204	552
Interest bearing loans	8,536	9,704	-	1,088	819	7,769	28	-
Total liabilities	19,410	23,628	4,217	2,633	1,524	9,015	1,577	4,972
Liquidity gap	(2,568)	(1,938)	(3,164)	742	1,739	(1,117)	4,166	(4,614)

Notes to the Financial Statements for the period ended 31 March 2010

4. Financial Risk Management - Liquidity risk (continued)

The amounts disclosed in the following table is the undiscounted gross contractual cashflow.

Contractual gross undiscounted cashflow maturities of financial assets and liabilities.

COMPANY 2010	Carrying amount \$'000	Gross nominal inflow / (outflow) \$'000	On demand \$'000	1-6 months \$'000	6 months to 1 year \$'000	1 year to 2 years \$'000	2-5 years \$'000	Over 5 years \$'000
Financial assets								
Cash balances	21	21	21	-	-	-	-	-
Subsidiary company deposit	386	386	386	-	-	-	-	-
Total assets	407	407	407	-	-	-	-	-
Financial liabilities								
Deposit	386	386	386	-	-	-	-	-
Preference shares	4,420	13,315	-	-	-	-	-	13,315
Trade payables	5	5	-	5	-	-	-	-
Total liabilities	4,811	13,706	386	5	-	-	-	13,315
Liquidity gap	(4,404)	(13,299)	21	(5)	-	-	-	(13,315)

Expected gross undiscounted maturities of financial assets and liabilities.

COMPANY 2010	Carrying amount \$'000	Gross nominal inflow / (outflow) \$'000	On demand \$'000	1-6 months \$'000	6 months to 1 year \$'000	1 year to 2 years \$'000	2-5 years \$'000	Over 5 years \$'000
Financial assets								
Cash balances	21	21	21	-	-	-	-	-
Subsidiary company deposit	386	386	386	-	-	-	-	-
Total assets	407	407	407	-	-	-	-	-
Financial liabilities								
Deposits	386	386	386	-	-	-	-	-
Preference shares (1), (2)	4,420	7,348	-	266	532	1,065	1,065	4,420
Trade payables	5	5	-	5	-	-	-	-
Total liabilities	4,811	7,739	386	271	532	1,065	1,065	4,420
Liquidity gap	(4,404)	(7,332)	21	(271)	(532)	(1,065)	(1,065)	(4,420)

Notes

- (1) Preference share dividend is only payable if the company receives a dividend from the CHL Group. The contractual amount therefore only reflects the principal repayable in the future at the discretion of the company.
- (2) The cashflows reflect the directors estimate for the period shown.

5. Financial Risk Management - Credit risk

Financial instruments which potentially subject the Group to credit risk principally consist of cash, trade and other receivables and finance receivables and loans designated at fair value through profit and loss.

The Group has a credit policy, which is used to manage this exposure to credit risk.

The Group performs credit evaluations on all customers requiring loan advances and requires security.

The Group operates a lending policy with various levels of authority depending on the size of the loan.

Maximum exposures to credit risk at balance date are:	GROUP	COMPANY
	2010 \$'000	2010 \$'000
Cash and cash equivalents	487	21
Advances to associates	2,543	-
Advance to subsidiary	-	386
Trade receivables	790	-
Finance receivables	4,288	-
Loan receivables - designated at fair value	8,794	-
	16,902	407

Notes to the Financial Statements *for the period ended 31 March 2010*

5. Financial Risk Management - Credit risk (continued)

(i) Credit risk management process

Management oversee all aspects of credit risk assessment and management, and operates within formal credit policies and guidelines approved by the Board of the Company. These policies ensure that any credit risk incurred falls within acceptable parameters.

In the consumer lending business, robust credit processes are employed to originate new loans to customers. These processes incorporate stringent credit processes, external and internal credit checks and review of customer credit history to assess a customers credit worthiness. Wherever appropriate, a charge will be taken by way of reservation of title over the asset financed.

In the commercial lending business, the integrity and financial standing of approved borrowers is relied upon. All contracts are assessed in accordance with a range of credit criteria and the amount of each advance. Criteria include credit checks, trade references and financial account analysis. These contracts are secured and guarantees are requested in most circumstances.

The Company's advance to the subsidiary is unsecured and at call.

(ii) Concentrations of credit risk

As at 31 March 2010 the Group's finance receivables were split between:

- retail customers \$6,780,446 (average size of loan \$9,900)
- commercial customers \$552,078 (average size of loan \$70,000)

As at 31 March 2010 the Group had no credit exposure that exceeded 10% of equity to any individual borrower.

The advances to associates of \$3,090,997 is secured by a general security agreement (jointly held by Cynotech Holdings Ltd and Cynotech Securities Ltd) over all of the assets of Seating Systems Ltd.

Geographic concentration of finance receivables is principally in the North Island.

Trade receivables of \$657,882 are geographically spread throughout New Zealand with a significant concentration of exposure to supermarket chains. Trade receivables principally relate to Snowdon Ltd.

(iii) Receivables renegotiated

The carrying amount of receivables that would otherwise be past due or impaired whose terms have been renegotiated at 31 March 2010 was \$879,830. These loans have a proven payment track record and security has been renegotiated.

(iv) Impaired receivables

For details of impaired receivables refer note 13.

(v) Loan receivables designated at fair value through profit or loss.

The maximum exposure of the Finance Group to credit risk for loan receivables - designated at fair value is \$8,793,932.

Credit derivatives or similar instruments that mitigate the maximum exposure to credit risk is nil (2008 nil).

The amount of change in fair value during the period that is attributable to changes in the market risk is nil.

6. Financial Risk Management - Other risks

Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally in a limited way and is exposed from time-to-time to foreign exchange risk arising from currency exposures to the US and Australian dollar.

(ii) Price risk

The Group is exposed to commodity price risk through its manufacturing operations and this is managed by supplier competitive quoting .

(iii) Other financial instruments by category

All financial assets and liabilities are categorised as loans and receivables is \$16,881,000 (2008: \$24,612,000) and liabilities measured at amortised cost \$15,101,000 (2008: \$10,805,000) with the exception of loans receivable designated at fair value through profit and loss of \$8,793,932 (2008 \$9,850,633).

(iv) Fair value estimation

The fair value of the Group's financial instruments is considered to be approximately their carrying value. This reflects the market interest rates charged and the impairment allowance booked against non-performing loans.

Notes to the Financial Statements for the period ended 31 March 2010

7. Acquisition of Cynotech Holdings Limited and Preference Shares

Cynotech Securities Group Limited (CSGL) acquired a 77.7% ownership of Cynotech Holdings Limited (CHL) and its subsidiaries and associate companies on 26th March 2010.

The CHL Group operates across a range of industries, primarily being consumer finance, temporary event seating and manufacturing. The primary reason for the acquisition was to provide for a mechanism to allow the progressive realisation of the assets of the CHL group so as to allow payments to be made to provide for redemption of the preference shares in CSGL which were issued in the acquisition of the CHL group.

The accounts of CHL group for the 15 month period ended 31 March 2010 and are available publicly on the NZ Companies Office website. The acquisition was declared unconditional on 26th March 2010.

Transactions costs incurred to issue preference shares are netted against proceeds of issue where they specifically relate to the issuing of preference shares. Transactions costs incurred as presented as follows:

	GROUP \$'000	COMPANY \$'000
Fair value of preference shares	4,420	4,420
Less: Transaction costs incurred in issue of prospectus	(164)	(164)
Net Preference shares	4,256	4,256

Preference shares

Preference shares were issued under the terms of the takeover offer for Cynotech Holdings Limited in the following ratios

		% of securities acquired	Number of securities acquired	Ratio	Number of Preference shares issued
Cynotech Holdings Ltd	Ordinary shares	78.40	96,343,749	1 for 1	96,343,749
	Convertible pref. shares	51.54	1,679,428	1 for 1	1,679,428
	Warrants	71.92	20,211,664	1 for 33.75	598,710
			118,234,841		98,621,887

Preference shares are non voting and attract dividends at 8% per annum if a dividend is declared by Directors. They are non redeemable by the holders. The Company can redeem the preference shares in whole or in part following adequate notification of redemption.

The preference shares were issued at an issue price of 13.5c per share (a total issue price of \$13,314,955). For accounting purposes, their fair value has been determined with reference to the underlying assets and liabilities of Cynotech Holdings Limited acquired as at 26 March 2010 as the shares in that company were thinly traded and accordingly, the share price did not reflect the fair value. On the basis of the expected cashflows associated with the preference shares, they have been classified as a liability for accounting purposes with an effective original interest rate of 24% based on the fair value of \$4.42m (below). This compares to the original dividend rate of 8%.

Net equity acquired in Cynotech Holdings Limited

CHL Group net equity at 31st March 2010	5,608,896
Plus post acquisition loss	79,526
Net equity at takeover date.	5,688,422

Value acquired by CSGL	77.70%	4,419,784
This is the NTA value of the CSGL prefs issued		

Non-controlling interests at acquisition	1,268,638
	5,688,422

Summarised Statement of Financial position at acquisition date

	\$'000
Assets	
Finance receivables	4,253
Loan receivables - designated at fair value	8,761
Property and plant held for sale	1,132
Property, plant and equipment	1,973
Investment in associates	2,543
Net cash acquired	216
Other assets	1,480
Total assets	20,358
Liabilities	
Trade and other payables	1,005
Deposits	4,407
Term loans	8,536
Other liabilities	722
Total liabilities	14,670
Net Fair value of assets acquired	5,688
Non-controlling interest acquired	(1,268)
Net value acquired by CSGL	4,420

8. Cash and Cash Equivalents

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Cash at bank	487	21
Bank overdraft	(250)	-
	237	21

The Group's/Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in Note 4

The bank overdraft rate incurs interest at 7.39% per annum.

Notes to the Financial Statements for the period ending 31 March 2010

9. Trade and Other Receivables

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Trade receivables	658	-
Prepayments	132	-
Total trade and other receivables	790	-

As at 31 March 2010, the amount owed in aggregate by the six largest trade debtors was \$427,214.

	2010	Total \$'000	Current \$'000	GROUP 31-60 days \$'000	61-90 days \$'000	Over 90 days \$'000
Trade receivables	2010	658	612	31	10	5

These are interest free and payable in accordance with normal trade receivable commercial terms.

10. Finance Receivables

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Finance receivables	4,288	-
Repayment terms		
- Current less than 12 months	1,035	-
- Non current over 12 months	3,253	-
Total net receivables	4,288	-

The range of terms to final maturity date of finance receivables are from 1 month to 60 months.

The range of standard interest rates of finance receivables are from 16.5% pa to 29.5% pa.

As at 31 March 2010, the amount owed (net of impairment) in aggregate by the six largest loans was \$830,631.

As at 31 March 2010, the aggregate amount (net of impairment) of the Budget Loans receivables, where the credit risk and funding amount was shared with Cynotech Securities Limited (a company associated with A.R. Hawkins) was \$155,500. This arrangement is formalised by an assignment of part of the debt by one or other of the parties. The assignor has registered the relevant securities in their own name.

11. Ageing Analysis of Finance Receivables

2010	GROUP					Total \$'000
	Current \$'000	1-30 days \$'000	30-60 days \$'000	60-90 days \$'000	Over 90 days \$'000	
Finance receivables not impaired	2,547	640	257	157	-	3,601
Finance receivables individually impaired	-	-	-	-	3,653	3,653
Impairment	-	-	-	-	(2,966)	(2,966)
	2,547	640	257	157	687	4,288
	59.4%	14.9%	6.0%	3.7%	16.0%	100.0%

All amounts which are not current and that are past due up to 90 days as at 31 March 2010 are included in the balances of finance receivables. No impairment has been raised against the carrying amount as there are reasonable grounds to believe that the amounts are still recoverable as there has not been a significant change in credit quality.

Where finance receivables instalments are past due in excess of 90 days an impairment allowance is created to provide for any expected loss on recovery. The amount of the impairment allowance in respect of each overdue loan receivable is the outstanding balances reduced by the Directors' estimate of the realisable value of the remaining security held. Maturity analysis of current loans reflect repayment arrangements.

12. Impairment Allowance - finance receivables

	2010 GROUP \$'000	2010 COMPANY \$'000
Reconciliation of Impairment allowances		
Balance at period end	2,966	2,966

Analysis of finance receivables and impairment.

2010	Carrying value \$'000	Not Past Due & Not Impaired \$'000	Past Due & Not Impaired \$'000	Impaired \$'000
Current finance receivables	3,601	2,547	1,054	-
Finance receivables individually impaired	3,653	-	-	3,653
Impairment	(2,966)	-	-	(2,966)
	4,288	2,547	1,054	687

Collateral is held for some of the individually impaired finance receivables. This has been considered in arriving at the impairment allowance.

It is impracticable to estimate the fair value of collateral held because of the average size of each advance outstanding, the number of advances outstanding, the term to maturity of each advance and the wide variety and condition of each asset financed. The Group will, in the first instance, attempt to collect the outstanding debt without recourse to the secured asset. In some instances third party legal advice is utilised to assist the in-house collection procedure. Repossession of secured assets occurs only in limited circumstances and where it is economic to do so.

Notes to the Financial Statements for the period ended 31 March 2010

13. Loan Receivables - designated at fair value through profit or loss

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Opening loans - designated at fair value through profit or loss	8,794	-
Purchases	-	-
Transferred to finance receivables following rewrite of terms and conditions	-	-
Net receipts and charges	-	-
Fair value uplift	-	-
Closing loans - designated at fair value through profit or loss	8,794	-

Loan receivables - designated at fair value through the profit and loss, represents the value attributed to the loan receivables acquired from the Receivers of National Finance 2000 Limited (In Receivership), and the operations of Western Bay Finance.

The carrying value of fair value loans is calculated using a standard discounted cash flow model. A pre-tax discount rate of 20% has been applied to a forecast of cashflows reflecting the underlying risks associated with these cashflows. Probabilities have been factored into the calculation with respect to the categorisation of loans and how far they have progressed in the collection process from distressed non-performing to performing loans.

Management have then estimated what period these cashflows are expected to continue for. This averaged five to seven years for the National Finance and Western Bay loan books, six years has been adopted in the forecast.

Fair value sensitivity analysis

For the Group, loan receivables acquired - at fair value are measured at fair value through profit and loss. At 31 March 2010 changes to the key assumptions would have had the following effects as a result of the change to the fair value amounts.

If the discount rate had changed by +/-5% from balance date, profit before tax for the period ended 31 March 2010 would have been \$934,158 higher or \$778,224 lower (respectively).

	2010 \$'000	Fair value measurement		
		Level 1	Level 2	Level 3
Financial Assets at fair value through profit of loss	8,794	-	-	8,794

The hierarchy valuation levels are as follows:

Level 1	Valuation based on quoted price in an active market.
Level 2	Valuation based on quoted price in an active market for similar asset and valuation techniques for which all significant inputs are based on observable market data.
Level 3	Valuation techniques for which any significant input is not based on observable market data.

14. Inventories

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Raw materials - manufacturing	97	-
Finished goods - manufacturing	343	-
Work in progress - manufacturing	-	-
	440	-
Less provision for obsolete stock		
Closing Stock	440	-

15. Property Held for Sale

2010	GROUP \$'000	COMPANY \$'000
Carrying amount at 31 March 2010	1,132	-

The CHL Group owns three residential apartments properties which are held for sale. The apartments are being marketed by a real estate agent in the area. The properties are carried at their fair value less cost to sell.

The Directors have based the current realisable value of the properties held for sale on an independent valuation dated 15th January 2010 for one of the properties, prepared by Mr Shayne Donovan-Grammar of QV Valuations (a division of Quotable Value Ltd), a firm registered with the Institute of Valuers of New Zealand, and a confirmation from the valuer, dated 21 June 2010, that the impairment identified on the valued property would apply to the other two properties. The properties secured funding is provided by the National Bank, see note 24.

Notes to the Financial Statements for the period ended 31 March 2010

16. Property, Plant and Equipment

Cost	GROUP					
	Factory plant and equipment	Leasehold improve- ments	Furniture and fittings	Computer equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Acquired on 26th March 2010	2,382	272	373	285	16	3,328
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance at 31 March 2010	<u>2,382</u>	<u>272</u>	<u>373</u>	<u>285</u>	<u>16</u>	<u>3,328</u>
Accumulated depreciation and impairment losses						
Acquired on 26th March 2010	722	43	339	241	10	1,355
Reversal of impairment losses	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation charge for the period	-	-	-	-	-	-
Balance at 31 March 2010	<u>722</u>	<u>43</u>	<u>339</u>	<u>241</u>	<u>10</u>	<u>1,355</u>
Carrying amounts						
Balance at 26th March 2010	1,660	229	34	44	6	1,973
At 31 March 2010	<u>1,660</u>	<u>229</u>	<u>34</u>	<u>44</u>	<u>6</u>	<u>1,973</u>

Assets under finance leases held in Group factory plant and equipment are \$50,809 (note 28).

17. Investment and Advances in Associates

	Seating		
	FinData Ltd	Systems Ltd	Total
	\$'000	\$'000	\$'000
Fair value of investment in associate acquired at 26 March 2010	-	<u>2,543</u>	<u>2,543</u>
Advances to associate	-	-	-
Share of losses in associate	-	-	-
Impairment in value of investments	-	-	-
Closing balance 31 Mar 2010	-	2,543	2,543
Advances to associates impairment loss	-	-	-
Closing balance of investments in associates at 31 March 2010	<u>-</u>	<u>2,543</u>	<u>2,543</u>

Both associate companies have a reporting date of 31 March

The investment in FinData Limited has been fully impaired prior to the acquisition of the CHL Group by the company.

The shareholders of Seating Systems Limited have resolved to sell the business. Accordingly, the assessment by the company as to whether its assets are impaired is based on the fair value less costs to sell the business and associated assets. The Directors have engaged a third party to prepare an information memorandum for potential purchasers and to market the business. The Directors have assessed that the sale process will realise the carrying value of the underlying assets.

As the Group's advances to Seating Systems Limited when compared to the other shareholder (Cynotech Securities Limited - refer note 33), exceed the ratio of their underlying investment, Cynotech Securities Limited has agreed to subordinate its advances to those of the Group to the extent of \$1.8m. Refer to note 35 subsequent events.

Notes to the Financial Statements *for the period ended 31 March 2010*

18. Investment in Subsidiaries

The Group has the following investments in subsidiaries:

	Value Invested 2010 \$'000	Place of Incorp.	% Owned 2010	Balance Date *
Subsidiaries Directly Held				
Cynotech Holdings Limited Principal activity - finance group funding	4,371	NZ	77.7%	31 Mar
	4,371			
Subsidiaries Indirectly Held				
Cynotech Corporation Limited Principal activity - specialist lending and fee income Cynotech Corporation Limited is owned by Cynotech Holdings Limited.		NZ	100%	31 Mar
Cynotech Systems Limited Not trading (see note 18)		NZ	100%	31 Mar
Cynotech Finance Group Limited Principal activity - finance group funding Cynotech Finance Group Limited is owned by Cynotech Holdings Limited.		NZ	100%	31 Mar
Broadway Mortgage Custodians Limited Not trading		NZ	100%	31 Mar
Snowdon Limited Principal activity - manufactures and distributes cone, waffle and bakery products. Snowdon Limited is owned by Cynotech Holdings Limited.		NZ	100%	31 Mar
Budget Loans Limited Principal activity - consumer and commercial loans Budget Loans is owned by Cynotech Finance Group Limited.		NZ	100%	31 Mar
Evolution Finance Limited Principal activity - consumer and commercial loans Evolution Finance Limited is owned by Cynotech Corporation Limited.		NZ	100%	31 Mar

Notes to the Financial Statements *for the period ended 31 March 2010*

19. Trade and Other Payables

	GROUP	COMPANY
	2010 \$'000	2010 \$'000
Current:		
Trade payables (payable in 30 days)	460	-
Non trade payables	371	-
Accrued expenses	395	5
	1,226	5

20. Secured and Unsecured Deposits

	Interest rates	GROUP	COMPANY
		2010 \$'000	2010 \$'000
Deposits due within 12 months	Unsecured	4,067	386
Term deposits due greater than 1 year	Unsecured	340	-
Total deposits		4,407	386
Analysis of interest rates on deposits:			
	8.00%	287	386
	9.50%	176	-
	10.00%	98	-
	11.00%	203	-
	11.25%	210	-
	11.50%	100	-
	12.00%	3,098	-
	13.00%	50	-
	13.50%	185	-
Total deposits		4,407	386
Related party deposits included in the above:			
FinData Limited	10.00%	-	-
Cynotech Securities Limited	12.00%	175	-
Cynotech Securities Limited	8.00%	386	386
Newmarket Securities limited	12.00%	101	-
P.D.Tawse	12.00%	195	-
M.Tawse	12.00%	246	-
Hawkins, Wayne	12.00%	4	-
Hutchinson, Rodney Paul	12.00%	2	-
P.J. Hutchinson	13.50%	185	-
		1,294	386
Interest paid to related parties:			
FinData Limited	10.00%	4	-
Cynotech Securities Limited	11.00%	14	-
Cynotech Securities Limited	12.00%	48	-
Cynotech Securities Limited	13.00%	238	-
Newmarket Securities limited	12.00%	13	-
P.D.Tawse	12.00%	27	-
M.Tawse	12.00%	35	-
Hawkins, Wayne	12.00%	1	-
P.J. Hutchinson	13.50%	30	-
Farquharson and Fraser	12.00%	6	-
		416	-

Notes to the Financial Statements *for the period ended 31 March 2010*

21. Interest Bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk see notes 3 and 7.

Current liabilities	Note	Interest rates	GROUP 2010 \$'000	COMPANY 2010 \$'000
Secured loans-Wairahi Trust (GSA over National Finance Loan book)		13.00%	6,000	-
Finance lease liability -Goodman Fielder (PPSR security over Snowdon Limited plant and equipment)		9.50%	23	-
Secured loans - National Bank (Mortgage Security over Property held for resale)		5.75%	574	-
Secured loans-National Bank (General security agreement over Snowdon Limited)		7.26%	275	-
			6,872	-
Non-current liabilities				
Secured loans - National Bank (Mortgage Security over Property held for resale)		5.75%	136	-
Finance lease liability -Goodman Fielder (PPSR security over Snowdon Limited plant and equipment)		9.50%	28	-
Secured loans -Cynotech Securities Ltd (GSA over Evolution Finance Ltd)	23	13.00%	1,500	-
			1,664	-
			8,536	-
The secured loans are guaranteed as follows				
Guarantee	A.R. Hawkins		711	

Under the terms of the lease agreements no contingent rents are payable.

The bank loan of \$710,570 is secured over the property held for sale (valued at \$1,132,000). This loan will be repaid on sale of the properties.

22. Convertible preference shares

Convertible preference shares are considered to be a compound financial instrument. The liability portion was estimated using the forecast dividends payable during the period to conversion. Terms of the convertible preference shares are detailed in note 28.

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Convertible preference shares acquired on 26 March 2010	20	-
Closing balance	20	-

Convertible preference shares will automatically convert to ordinary shares on 23 December 2010 unless they have been converted at an earlier date by the holder.

Notes to the Financial Statements *for the period ended 31 March 2010*

23. Reconciliation of Operating Cashflows

The following is a reconciliation between the profit/(loss) surplus after income tax shown in the Income Statement and the net cash flow from/(used in) operating activities.

	GROUP	COMPANY
	2010	2010
	\$'000	\$'000
Profit/Loss) for the period	(82)	(20)
Non cash items and other add backs		
Loss/(Gain) on revaluation of loan book	32	-
	32	-
Movement in working capital		
Minority interest share of post acquisition loss	17	-
Increase/(decrease) in trade creditors other payables & provisions	18	1
	35	1
Net cash inflows/(outflows) from operating activities	(15)	(19)

24. Company and Group Taxation

	GROUP	COMPANY
	2010	2010
	\$'000	\$'000
Income tax expense		
Current tax expense		
Current period	-	-
Prior year over provision	-	-
	-	-
Deferred tax expense		
Originating and reversing temporary differences	-	-
Previously unrecognised temporary differences	-	-
	-	-
Total tax expense / (credit)	-	-
Reconciliation of the effective tax rate to prima facie tax payable		
Operating Profit before taxation	(99)	(20)
Prima facie income tax @ 30%	(30)	(6)
Effect of tax benefits not recognised (with no expiry date)	30	6
Income tax expense / (credit)	-	-
Deferred tax asset and liabilities		
Deferred tax liability acquired	146	-
Current year movement	-	-
Balance at the end of the period	146	-

Obtaining the benefits of deferred tax assets is dependent upon deriving sufficient assessable income and complying with relevant tax legislation.

The Government's budget announcements on 20 May 2010 will result in a reduction in corporate tax rate from 30% to 28% effective for financial periods commencing on or after 1 April 2012. As the legislative change occurred after balance date, the effect has not been reflected in the financial statements.

Notes to the Financial Statements *for the period ended 31 March 2010*

25. Equity

Ordinary Shares on issue	Number of Ordinary shares	Ordinary share value \$ '000
Initial shares issued on 11 November 2009	200,000	200
Balance at 31 March 2010	200,000	200

Dividend ranking in terms of priority of payment.

Preference shares (classified as liabilities); Note 7

Ordinary shares

26. Contingent Liabilities and Financial Guarantees

Contingent Liabilities

The Group has no contingent liabilities as at 31 March 2010

The Company has no contingent liabilities as at 31 March 2010.

Financial Guarantees

The Group has no financial guarantees in place as at 31 March 2010

27. Credit Facilities

There are no unused credit facilities as at 31 March 2010

28. Finance Lease Liabilities

Group 2010 Finance lease liabilities	Interest outstanding \$'000	Principal outstanding \$'000	Minimum lease payment outstanding \$'000
Finance lease liabilities are payable as follows:			
Less than one year	5	23	28
Between one and five years	3	28	31
Later than five years	-	-	-
	8	51	59

The item on lease is factory plant and equipment.

29. Remuneration of Auditors

During the period the following fees were paid or payable for services provided by the auditor of the Group and its related practices.

	GROUP 2010 \$'000	COMPANY 2010 \$'000
BDO Auckland		
Audit and review of financial reports and other audit work	69	3

Notes to the Financial Statements *for the period ended 31 March 2010*

30. Commitments

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Capital commitments		
Lease commitments under non cancellable operating leases		
Less than one year	534	-
Between one and five years	1,074	-
Greater than five years	152	-
Total operating lease commitments	1,760	-

The Group leases a number of buildings, factory and warehouse facilities under operating leases. The building leases range from 1 to 3 years. The factory lease runs for a period of 3 years with an option to renew the lease after that date.

Rental and operating lease income/expense:

Some of the building leases have been sublet by the Group. The rental expense in profit and loss was reduced by sublease revenue so that the lease rental expense showing in the profit and loss reflects the underlying rental expense for the space occupied by the Group.

Rental Commitments as lessor

	GROUP 2010 \$'000	COMPANY 2010 \$'000
Total rental expense	613	-
Sublease rental revenue	(60)	-
Rental and operating lease costs	553	-

31. Subsequent Events

Since reporting date the Group has assigned fair value finance receivables to a total value of \$3,000,000 to Wairahi Trust.

The consideration for the transfer of the receivables was a present value calculated at a discount value of 13% per annum this being the same rate as the interest rate on the deposit.

Cynotech Holdings Limited has guaranteed the performance of the receivables to the value stated above.

Findata Limited which was an associate company has been sold externally subsequent to reporting date. The value in the accounts was zero as at 31st March and the sale will result in a small recovery for the Group.

The Directors have stated that the business of Seating Systems Limited will be realised, or partnered if this can be achieved without jeopardizing current contracts or growth or the management structure. Deloitte have been commissioned to advise in respect of the alternatives available.

Subsequent to reporting date the company tax rate in New Zealand has reduced from 30% to 28% effective for financial period beginning 1 April 2012. As the legislative change occurred after balance date, no effect has been recognised in the financial statements.

32. Impairment of Intercompany Investments and Receivables

Impairment of intercompany investments - 2010 \$nil

Impairment of subsidiary intercompany receivables

There were no impairment losses or recovery of impairment losses on intercompany accounts recognised by the Company during the current period.

33. Related Parties

Identity of related parties:

All of the Directors listed in the Directory are related parties to the Group

Allan Hawkins is a common Director and shareholder of the company and is a Director of Cynotech Holdings Ltd. He is sole of director of Cynotech Securities Ltd, the parent company of Cynotech Securities Group Ltd.

Cynotech Securities Ltd is the sole shareholder of Cynotech Securities Group Ltd.

He is also a common Director of Newmarket Securities Ltd which company is a preference shareholder in Cynotech Securities Group Limited.

Cynotech Securities Group Ltd purchased the following equities in Cynotech Holdings on 26th March 2010 by issuing preference shares in Cynotech Securities Group Ltd: 96,323,749 Ordinary shares; 1,702,608 Convertible Preference shares: and 21,211,664 warrants

Maree Hawkins, Mark Hawkins, Wayne Hawkins and Glenn Hawkins are preference shareholders and related to Allan Hawkins.

Laurel Hawkins, wife of Allan Hawkins resigned as a Director of Cynotech Securities Limited on 2 Nov 2009.

Wayne Hawkins resigned as a Director of Cynotech Securities Limited on 2 Nov 2009, and was appointed as a Director of Cynotech Securities Group Limited on 24 March 2010.

Paul Hutchinson is the common Director of the Company from 24 March 2010 and Cynotech Holdings Ltd, as well as being a Director of Personal Finance Ltd and Bridging Finance Ltd

Paul Hutchinson and Cynotech Securities Ltd are major shareholders of Newmarket Securities Ltd which company has preference shares in Cynotech Securities Group Ltd.

Kevin McDonald is the common Director and shareholder of the Company from 24 March 2010 and Cynotech Holdings Ltd. He also provides legal advice for the Group.

Brett Tawse is a preference shareholder in the company through Farquharson and Fraser Ltd, and was Managing Director, and shareholder of Cynotech Holdings Ltd during the period ended 31 March 2010 and is a Director of Farquharson and Fraser Ltd.

Brett Tawse and Wayne Hawkins are preference share holders of Cynotech Securities Group Ltd, and are key management personnel of Cynotech Holdings Ltd.

Seating Systems Ltd is a subsidiary of Cynotech Securities Ltd holding 69% of the shares, and Cynotech Securities Ltd is the parent company and sole shareholder of Cynotech Securities Group Ltd.

Cynotech Securities Group Ltd pays Cynotech Securities Ltd a share registry fee of \$1,500 per month, and a \$4,500 management fee per month.

Other than the above, there are no additional related parties with whom material transactions have taken place.

Material related party transactions are as follows:

General related party transactions - all related parties:

Cynotech Securities Ltd acquired 200,000 ordinary shares to establish Cynotech Securities Group Ltd at \$1 per ordinary share.

Cynotech Securities Group Ltd issued 98,621,887 preference shares for 96,323,749 Ordinary shares; 1,702,608 Convertible Preference shares: and 21,211,664 warrants to previous holders of these equities in Cynotech Holdings Ltd - refer note 7.

Deposits from related parties - refer note 20.

Interest paid on deposits from related parties - refer note 20.

Cynotech Securities Ltd has unsecured deposits with the consolidated Group of \$561,000 refer note 20.

Cynotech Securities Ltd has registered a general security agreement over a consolidated Group subsidiary in respect of its loan to that company. Value \$1,500,000.

Cynotech Securities Group Ltd issued 92,323,749 preference shares for 92,323,749 Cynotech Holdings ordinary shares.

Cynotech Securities Group Ltd issued 1,702,608 preference shares for 1,702,608 Cynotech Holdings convertible preference shares.

Cynotech Securities Group Ltd issued 598,864 preference shares for 20,211,664 Cynotech Holdings warrants.

On 31 March 2010, Cynotech Securities Limited assigned loans totalling \$385,769 to the company. These loans were then assigned to Budget Loans Limited at their fair value. The financial statements include a related party deposit owing to Cynotech Securities Limited and a Subsidiary Company Deposit owing by Budget Loans Limited.

Seating Systems Limited pays interest to Cynotech Securities Ltd at the rate of 13.5% per annum on funds advanced by Cynotech Securities Ltd. Total advanced \$2,481,546.

Cynotech Securities Ltd received 12,800,964 Cynotech Securities Group Ltd preference shares in exchange for 12,800,964 Cynotech Holdings shares.

Cynotech Securities Ltd received 69,124 Cynotech Securities Group Ltd preference shares in exchange for 2,332,927 Cynotech Holdings warrants.

Notes to the Financial Statements *for the period ended 31 March 2010*

33. Related Parties (continued)

Newmarket Securities Ltd converted 2,242,915 convertible preference shares to ordinary shares at one \$1 ordinary share to five \$0.20c convertible preference shares.

Cynotech Securities Ltd converted 12,800,964 ordinary shares and 4,334,775 warrants to Cynotech Securities Group Ltd preference shares

Newmarket Securities Ltd converted 13,043,097 ordinary shares and 2,332,927 warrants to Cynotech Securities Group Ltd preference shares

P.J. Hutchinson related party transactions:

Deposits from related parties - refer note 22.

Interest paid on deposits from related parties - refer note 23.

Newmarket Securities Ltd converted 2,242,915 convertible preference shares to ordinary shares at one \$1 ordinary share to five \$0.20c convertible preference shares.

Newmarket Securities Ltd converted 13,043,097 ordinary shares and 2,332,927 warrants to Cynotech Securities Group Ltd preference shares

K.P. McDonald related party transactions:

KP McDonald converted 234,954 convertible preference shares to ordinary shares at one \$1 ordinary share to five \$0.20c convertible preference shares.

KP McDonald converted 1,617,748 ordinary shares and 267,270 warrants to Cynotech Securities Group Ltd preference shares

KP McDonald and Associates received fees for professional services

N.B. Tawse related party transactions:

Farquharson and Fraser Ltd converted 225,000 convertible preference shares to ordinary shares at one \$1 ordinary share to five \$0.20c convertible preference shares.

Farquharson and Fraser Ltd converted 812,613 ordinary shares and 72,500 warrants to Cynotech Securities Group Ltd preference shares

PD Tawse, the brother of Brett Tawse has a deposit of \$195,099 with Cynotech Finance Group Ltd

M Tawse, the sister of Brett Tawse has a deposit of \$246,302 with Cynotech Finance Group Ltd

Seating Systems Ltd related party transactions

Seating Systems pays interest on loans to Cynotech Securities Ltd (\$2,169) and to Cynotech Holdings Ltd (refer note 17).

Notes to the Financial Statements *for the period ended 31 March 2010*

34. Comparison to Prospective Financial Reporting

On 18 December 2009, Cynotech Securities Group Limited ("CSGL" issued a Combined Prospectus and Investment Statement. This was subsequently amended on 18 January 2010 by a Memorandum of Amendments to the Registered Prospectus.

The purpose of the prospectus on 18 December 2009 was to issue preference shares sufficient to allow CSGL to takeover Cynotech Holdings Limited.

Included in the Prospectus was prospective statements of cashflow for CSGL and CHL Group for a 12 month period commencing on 18 December 2009 and ending on 17 December 2010.

The following is a comparison of the actual cashflows against the prospective cashflows as included in the Prospectus.

	CSGL 5 Months Ended 31-Mar-10 Actual \$ '000	CSGL 12 Months Ended 17-Dec-10 Per Prospectus \$ '000
Net cash from/(used in) operating activities		
<i>Cash was provided from:</i>		
Other income	1	80
<i>Cash was applied to:</i>		
Payments to suppliers and employees	(20)	(90)
Net cash flows used in operating activities	(19)	(10)
Cash flows from/(used in) investing activities		
<i>Cash was provided from:</i>		
Cash acquired on acquisition of subsidiary	-	184
Net cash flows used in investing activities	0	184
Cash flows from/(used in) financing activities		
<i>Cash was provided from:</i>		
Proceeds from issue of ordinary shares	200	-
Dividends received	-	506
<i>Cash was applied to:</i>		
Preference share raising costs	(164)	(174)
Preference dividends paid	-	(343)
Net cash flows from financing activities	36	(11)
Net increase in cash and cash equivalents	17	163
Cash and cash equivalents at end of period	17	163
Presented as;		
Cash and cash equivalents	21	163
Bank overdrafts	-	-
Net Cash and cash equivalents at end of period	21	163

Significant variations from Prospective Financial Information to Actual Performance;

- (i) The actual period reported is for a five month period compared to a 12 month period in the Prospective Financial information. The actual result is for the five month period ended 31 March 2010.
- (ii) No dividends were received from Cynotech Holdings Limited in the five day period to 31 March 2010 after Cynotech Holdings Limited and Group was acquired. Consequently, no dividend was paid to preference share holders.
- (iii) Cash acquired on acquisition of CHL and Group remains within the subsidiary as opposed to being transferred to the parent entity.

CHL Group Forecast

The forecasts in the Prospectus covered the year ending 17 December 2010. As the acquisition occurred on the 26th of March 2010, limited cashflows have been included in the consolidated Statement of Cashflows and accordingly no commentary on the variances between the forecast and the actual is provided.

Shareholders

20 largest shareholders for each class of shares (as at 15th September 2010)

	Number	%
Ordinary shares		
Cynotech Securities Ltd	200,000	100%
Preference shares		
PR & PA BRIGGS	19,259,704	19.53
CYNOTECH SECURITIES LIMITED	13,679,434	13.87
MW DANIEL & OTHERS	12,513,372	12.69
NEWMARKET SECURITIES LIMITED	9,302,509	9.43
GM and S HAWKINS	3,488,873	3.54
BD MACKENZIE & Others	2,239,788	2.27
AM & L NOBILO	2,120,572	2.15
POLAR BLAST LIMITED	1,628,482	1.65
KEVIN PATRICK MCDONALD	1,625,667	1.65
PRIVATE NOMINEES LIMITED	1,622,692	1.65
NL & J GODDEN	1,436,035	1.46
RJ & EA CRADDOCK	1,394,263	1.41
MALAMUTE INVESTMENTS LIMITED	1,358,187	1.38
DH TALLOTT	1,042,017	1.06
ELSJE TRINETTE MACKENZIE	983,977	1.00
JK MCMILLAN & OTHERS	983,162	1.00
CE DERVAN	967,813	0.98
KEITH GOSLING	842,639	0.85
FARQUHARSON AND FRASER LIMITED	814,761	0.83
AUBREY WYNNE CRESSY	802,430	0.81
Total top 20 shareholders	78,106,377	79.20
Other preference shareholders	20,515,510	20.80
Total Preference shares	98,621,887	100%