

# Cynotech Holdings Ltd

Cynotech Finance Group Ltd

 **Budget Loans**  
Straight talking finance

 **Snowdon**  
SNOWDON LTD

 **SEATING SYSTEMS LIMITED**  
Temporary Grandstands, Stages and Hospitality Platforms

**Annual Report**  
**March 2011**

## Corporate Information

### Cynotech Holdings Limited

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### Registered Office

Level 4, Cynotech Building  
20 Kent St  
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Auckland

<b>Auditors</b>	BDO Auckland Level 8 120 Albert Street Auckland
<b>Solicitors</b>	Lowndes Associates Level 5 18 Shortland Street Auckland  Kevin McDonald and Associates Level 11 19-21 Como Street Takapuna
<b>Bankers</b>	ASB Bank Ltd ANZ National Bank of New Zealand Ltd
<b>Share Registry</b>	Link Market Services P O Box 384 Ashburton Ph: (03) 308 8887 Fax: (03) 308 1311

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## Directors' Review

Cynotech Holdings Limited (the "Company") and Subsidiaries (together the "Group") reported a loss this year mainly caused by the further impairment of the assets of the Group.

Last year the Directors impaired certain assets and this process has continued this year as we take care to ensure that the carrying value of all assets in the Group reflects current economic conditions in New Zealand and also takes account of the current earning capacity of the Group's assets.

The main assets of the Group have been assessed as follows:

- \* Loan receivables carried in the books at fair value.  
The current value of these loans which largely arose from the acquisition some years ago of the loan books of the failed National Finance and Western Bay Finance companies are carried on a basis consistent with last year.  
This year we have continued our policy of writing down the carrying value of the loan if the debtor stops paying. We also take more value to the accounts if the debtor maintains a good and consistent payment record over a reasonable period of time.  
All fair value loans are discounted back to a net present value and an assessment is also made of risk probabilities dependent on the stage which the loan is at in the collection cycle.
- \* Investment in Snowdon Limited  
Last year we reduced the value of this investment in the books of the Group. The Directors have considered the current carrying value in light of this year's performance and realisable asset values and have considered that no further adjustment is required.
- \* Seating Systems Limited  
Management has been frustrated at our inability to produce profits out of this business. We have recently introduced some major structural changes which are already having a significant impact in reducing day to day operating costs. The balance of this calendar year is projecting good levels of temporary seating business with jobs lined up for a number of the stadiums for the Rugby World Cup.  
The results are still not projected to be much better than breakeven. Although individual contracts are profitable the impact of depreciation expense and money costs is acting as a continuing constraint in achieving profitability in this company.  
The Directors of both Seating Systems Limited and Cynotech Holdings Limited have considered the carrying values of the temporary seating assets with the result that write downs have been made.  
Seating Systems Limited  
The book value of the plant, equipment and seating and scaffolding assets have been written down by an amount of \$1,691,786.  
  
Cynotech Holdings Limited  
The carrying value of the Loan advances by the CHL Group in Seating Systems have been impaired by an amount of \$2,198,458.

While these impairments have a negative effect on the reported results of the Group, shareholders should note that the write-down of the assets does not represent a cash loss to the Group.

### Deposits

A major reduction was made in the amount of deposits repayable by the Group by the transfer to Wairahi Trust of \$3 million of receivables and fair value loans in settlement of the same amount of deposit which was owed to Wairahi Trust. Under the requirements of NZ IAS 39, even though the deposit liability has been extinguished, we have been required to bring back on to the Group balance sheet a DCF valued asset to represent the value of the residual potential Group liability for the value of its guarantee and this has been offset on the liabilities side by the introduction of a notional offsetting liability. Legally the arrangement had the effect of settling a substantial part of the deposit liabilities but the accounting standard requires that we still maintain the assets on the Group Statement of Financial Position together with the associated liability.

# Directors' Review

*continued*

## Fair value loans - DCF

The Directors are of the view that the Discounted cash flow method of valuation required by accounting standards is producing a quite conservative reported margin on those loans. The face value of the loans is \$26,875,725 while that asset value included in the financial accounts is \$6,433,594.

The significant policies and valuations which the Directors have addressed this year in arriving at the year end result are consistent with those applied last year.

The significant year end provisions and accounting considerations are:

- Fair value loans are valued using a Discounted Cash Flow model as required by NZ IFRS.
- Seating Systems Ltd has been treated as an associate company and we have created an impairment provision.
- Plant held for sale at Snowdon is held at zero.
- There is no goodwill arising on the consolidation of subsidiaries into the Group.
- Property held for sale has been written down to the latest market valuation.

## Operating results

The net result for the Group for the year to 31 March 2011 and after impairments and tax is a net reported loss of \$3,952,490.

The major negative charge against Group profit is the total of impairment provisions made against the intercompany loans and investment in Seating Systems Ltd. The total amount of Group investments and loans impaired in this financial year is \$2,198,458.

## Group total assets

Total Group Assets are \$15,692 million compared to last year's total assets of \$20,741 million.

### Seating Systems Limited - 31% owned associate

Business is the hire and sale of temporary and semi permanent seating solutions for events. SSL produced an improved performance to 31 March and so far this year results are improving particularly given the high levels of new business completed and booked.

### Snowdon Limited - 100% owned subsidiary

Manufactures ice cream cones supplying over 70% of the New Zealand market in terms of volumes.

This year the company did slightly better than breakeven.

We feel that we have gained most of the efficiencies and cost savings possible in our operation and we are now looking offshore for possible product sales opportunities and manufacturing efficiencies.

### Cynotech Finance Group Limited - 100% owned subsidiary

Main operating subsidiaries are Budget Loans Ltd and Evolution Finance Ltd.

The finance group has been largely in the debt collecting business for the last three years but has just recently commenced actively lending.

# Directors' Review

*continued*

## **NZX Listing**

In an endeavour to reduce Group costs Directors tried to delist from the NZX. This has not been successful to date.

## **Corporate Governance**

As per last year, the financial accounts and the notes to the accounts disclose a mismatch between the contractual maturities of deposits and other term loans when compared to the timing of the projected cash inflows from the assets of the Group. This mismatch is partly addressed by the Wairahi transaction detailed on page 1 of this report.

The Directors have addressed this mismatch and have concluded that it is a manageable mismatch given historical factors and relationships. As at 1 July 2011 the Group will have no bank debt.

In addition, shareholders are aware that the Group is in a phase where emphasis is being directed to the reduction of assets and the repayment of debt.

## **Directors**

Mr Kevin McDonald, Deputy Chairman of the Group, retires by rotation and being eligible offers himself for re-election.

## **Dividend**

No dividend is being recommended by Directors for the year.



Allan Hawkins  
Chairman  
1 August 2011



INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF  
CYNOTECH HOLDINGS LIMITED

#### Report on the Financial Statements

We have audited the financial statements of Cynotech Holdings Group Limited (the "Company") and its subsidiaries (together referred to as the "Group") on pages 6 to 41, which comprise the Statements of Financial Position as at 31 March 2011, and the Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the Company and Group for the year 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. Similar limitations existed in the prior year and we disclaimed an opinion in respect of the information recorded as comparatives in these financial statements.

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.

#### Going Concern

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 deposits and 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 that their relationship with the Group's depositors and secured lenders will ensure that these will not require repayment until such time as sufficient funds are available. Given the nature of their expectations the directors are not in a position 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, including the assessment of the value of the Company's guarantees of the obligations of its subsidiaries as detailed in note 28, should the going concern basis not be appropriate.

#### *Impairment of Loan to Associate*

In note 17, the Directors disclose their assessment of the impairment of the Group's investment in and loan to its associate, Seating Systems Limited, of \$952,000. This assessment is based on the expected orderly disposal of that Company's underlying business. The directors have not obtained an adequate independent valuation of this business to support their expectations due to the specialised nature of the underlying assets and a lack of market information on the realisable value of the 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 loan 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 6 to 41.

#### 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 finance receivables designated at fair value through profit or loss**  
The assessment made by the Directors of the fair value of the finance receivables designated at fair value through the profit or 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 or loss to be \$6,434,000. The value of securitised fair value receivables of \$1,180,000, as disclosed in note 34, was determined using the same methodologies.

The underlying assumptions and forecasts supporting the fair value of the finance receivables are as disclosed in note 14. 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 2011. The Directors have prepared a sensitivity analysis of the key assumptions in note 14.

- **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 \$1,420,000 has been provided against the gross finance receivables as at 31 March 2011, as is disclosed in note 13.

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 Holdings Limited.



BDO Auckland

1 August 2011

120 Albert St  
Auckland  
New Zealand

## Statement of Financial Position *as at 31 March 2011*

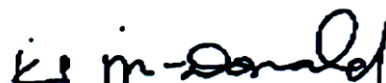
*In thousands of NZD*

	NOTES	GROUP		COMPANY	
		31-Mar 2011	31-Mar 2010	31-Mar 2011	31-Mar 2010
<b>Assets</b>					
Cash and cash equivalents	9	414	466	28	96
Trade and other receivables	10	423	790	30	55
Finance receivables	11,12,13	2,256	4,288	-	-
Loan receivables - designated at fair value	14	6,434	8,794	-	-
Securitised assets	34	1,960	-	-	-
Income tax refund	26	-	247	-	247
Inventories	15	247	440	-	-
Investment held for sale		-	68	-	68
Property and plant held for sale	16	966	1,132	-	-
Property, plant and equipment	17	2,040	1,973	316	154
Investment in and advances to associates	19	952	2,543	952	2,543
Investment in subsidiaries	20	-	-	9,692	11,288
Deferred tax asset	26	-	-	-	10
<b>Total assets</b>		<b>15,692</b>	<b>20,741</b>	<b>11,018</b>	<b>14,461</b>
<b>Liabilities</b>					
Bank overdraft	9	99	250	-	-
Trade and other payables	21	1,324	1,220	341	279
Deposits	22	4,499	4,407	-	-
Interest bearing loans and borrowings	23	5,484	8,536	159	-
Liability relating to securitised assets	34	1,960	-	-	-
Intercompany loan owed to subsidiaries	37	-	-	11,138	9,984
Convertible preference shares	24	-	20	-	20
Capital securities	24	668	552	668	552
Deferred tax liability	26	-	146	-	-
<b>Total liabilities</b>		<b>14,034</b>	<b>15,131</b>	<b>12,306</b>	<b>10,835</b>
<b>Equity</b>					
Ordinary shares	27	18,220	17,579	18,220	17,579
Convertible preference shares	27	-	641	-	641
Capital securities	27	1,137	1,137	1,137	1,137
Accumulated losses		(17,699)	(13,747)	(20,645)	(15,731)
<b>Total equity</b>		<b>1,658</b>	<b>5,610</b>	<b>(1,288)</b>	<b>3,626</b>
<b>Total equity and liabilities</b>		<b>15,692</b>	<b>20,741</b>	<b>11,018</b>	<b>14,461</b>

On behalf of the Directors 1 August 2011



Allan Hawkins - Chairman



Kevin McDonald - Deputy Chairman

*The notes on pages 11 to 41 are an integral part of these financial statements.*

## Statement of Comprehensive Income *for the year ended 31 March 2011*

*In thousands of NZD*

	NOTES	GROUP		COMPANY	
		12 Months 2011	15 Months 2010	12 Months 2011	15 Months 2010
<b>Revenue</b>					
Interest income - finance receivables - not impaired		266	1,826	-	-
Interest income - finance receivables - impaired		385	43	-	-
Interest income - Intercompany		-	-	571	1,751
Fees received		105	317	-	-
Gain on loan receivables - designated at fair value	14	2,145	1,660	-	-
Bank interest		2	10	2	9
Management fee and Group levy		-	91	851	1,370
Sales of goods		4,338	6,133	-	-
Rental income		65	56	20	-
Other income		17	21	16	-
<b>Total operating income</b>		<b>7,323</b>	<b>10,157</b>	<b>1,460</b>	<b>3,130</b>
<b>Operating expenses</b>					
Audit fees	31	130	246	130	246
Depreciation	17	182	205	77	75
Directors fees	36	44	58	44	59
Distribution costs		381	642	-	-
Employee remuneration		1,785	2,593	685	1,128
FX losses		-	9	-	9
Interest expense					
Deposits	22	513	633	-	4
Interest bearing loans and borrowings	23	740	1,411	10	10
Intercompany	37	-	-	558	452
Notional interest on compound instruments	24	284	29	284	29
Manufacturing costs		112	133	-	-
Office and administration		573	1,096	271	580
Credit and collection expenses		421	1,150	-	-
Other expenses		505	533	240	230
Properties held for sale impairment loss	16	166	327	-	-
Plant and equipment held for sale impairment loss	16	-	600	-	-
Plant and equipment impairment (reversal)	17	-	(174)	-	-
Receivables impairment loss	13	399	944	-	-
Raw materials and consumables used		2,494	3,762	-	-
Rental and operating lease costs	32	494	553	273	278
Impairment of goodwill		-	1,532	-	-
Share of losses of associates (net of income tax)	19	-	634	-	-
Impairment of investment in and advances to associates and subs	19	2,198	1,271	3,794	3,437
<b>Total operating expenses</b>		<b>11,421</b>	<b>18,187</b>	<b>6,366</b>	<b>6,537</b>
<b>Loss before income tax</b>		<b>(4,098)</b>	<b>(8,030)</b>	<b>(4,906)</b>	<b>(3,407)</b>
Income tax credit / (expense)	26	146	676	(8)	(20)
<b>Loss for the period from continuing operations</b>		<b>(3,952)</b>	<b>(7,354)</b>	<b>(4,914)</b>	<b>(3,427)</b>
<b>Discontinued operation</b>					
Profit from discontinued operation net of income tax	18	-	745	-	-
<b>Loss for the period attributable to the shareholders of the Company</b>		<b>(3,952)</b>	<b>(6,609)</b>	<b>(4,914)</b>	<b>(3,427)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive losses for the period attributable to shareholders of the Company</b>		<b>(3,952)</b>	<b>(6,609)</b>	<b>(4,914)</b>	<b>(3,427)</b>
Basic and diluted loss per share from continuing operations (cps)	33	(3.19)	(6.21)		
Dividends per share - ordinary (annualised cps)		-	0.60		
Dividends per share - convertible preference (annualised cps)		0.59	5.25		
Dividends per share - capital securities (annualised cps)		9.25	9.25		

*The notes on pages 11 to 41 are an integral part of these financial statements.*

## Statement of Changes in Equity *for the year ended 31 March 2011*

*In thousands of NZD*

GROUP	NOTES	Ordinary shares	Conv. Pref. shares	Capital Securities	Accumulated losses	Total equity
<b>Balance at 1 January 2009</b>		14,540	2,964	-	(4,447)	13,057
<b>Total comprehensive income for the period</b>						
Loss for the period		-	-	-	(6,609)	(6,609)
Total comprehensive income for the period		-	-	-	(6,609)	(6,609)
<b>Contributions by and distributions to owners</b>						
Warrants converted to ordinary shares	27	10	-	-	-	10
Conv. pref. shares converted to ordinary shares	24,27	3,101	(2,323)	-	-	778
Bonus issue - capital securities	24,27	-	-	1,164	(1,637)	(473)
Capital securities issued	24,27	-	-	106	-	106
Share issue cost	27	(72)	-	-	-	(72)
Dividends paid - ordinary shares	27	-	-	-	(920)	(920)
Dividends paid - convertible pref. shares	24	-	-	-	(134)	(134)
Dividends paid - capital securities	24	-	-	(133)	-	(133)
Total contributions by and distributions to owners		3,039	(2,323)	1,137	(2,691)	(838)
<b>Balance at 31 March 2010</b>		<b>17,579</b>	<b>641</b>	<b>1,137</b>	<b>(13,747)</b>	<b>5,610</b>
<b>Balance at 1 April 2010</b>		<b>17,579</b>	<b>641</b>	<b>1,137</b>	<b>(13,747)</b>	<b>5,610</b>
<b>Total comprehensive income for the period</b>						
Loss for the period		-	-	-	(3,952)	(3,952)
Total comprehensive income for the period		-	-	-	(3,952)	(3,952)
<b>Contributions by and distributions to owners</b>						
Conv. pref. shares converted to ordinary shares	24,27	641	(641)	-	-	-
Total contributions by and distributions to owners		641	(641)	-	-	-
<b>Balance at 31 March 2011</b>		<b>18,220</b>	<b>-</b>	<b>1,137</b>	<b>(17,699)</b>	<b>1,658</b>

*The notes on pages 11 to 41 are an integral part of these financial statements.*

## Statement of Changes in Equity *for the year ended 31 March 2011*

*In thousands of NZD*

COMPANY	NOTES	Ordinary shares	Conv. Pref. shares	Capital Securities	Accumulated losses	Total equity
<b>Balance at 1 January 2009</b>		14,540	2,964	-	(9,613)	7,891
<b>Total comprehensive income for the period</b>						
Loss for the period		-	-	-	(3,427)	(3,427)
Total comprehensive income for the period		-	-	-	(3,427)	(3,427)
<b>Contributions by and distributions to owners</b>						
Warrants converted to ordinary shares	27	10	-	-	-	10
Conv. pref. shares converted to ordinary shares	24,27	3,101	(2,323)	-	-	778
Bonus issue - capital securities	24,27	-	-	1,164	(1,637)	(473)
Capital securities issued	24,27	-	-	106	-	106
Share issue cost	27	(72)	-	-	-	(72)
Dividends paid - ordinary shares	27	-	-	-	(920)	(920)
Dividends paid - convertible pref. shares	24	-	-	-	(134)	(134)
Dividends paid - capital securities	24	-	-	(133)	-	(133)
Total contributions by and distributions to owners		3,039	(2,323)	1,137	(2,691)	(838)
<b>Balance at 31 March 2010</b>		<b>17,579</b>	<b>641</b>	<b>1,137</b>	<b>(15,731)</b>	<b>3,626</b>
<b>Balance at 1 April 2010</b>		<b>17,579</b>	<b>641</b>	<b>1,137</b>	<b>(15,731)</b>	<b>3,626</b>
<b>Total comprehensive income for the period</b>						
Loss for the period		-	-	-	(4,914)	(4,914)
Total comprehensive income for the period		-	-	-	(4,914)	(4,914)
<b>Contributions by and distributions to owners</b>						
Conv. pref. shares converted to ordinary shares	24,27	641	(641)	-	-	-
Total contributions by and distributions to owners		641	(641)	-	-	-
<b>Balance at 31 March 2011</b>		<b>18,220</b>	<b>-</b>	<b>1,137</b>	<b>(20,645)</b>	<b>(1,288)</b>

*The notes on pages 11 to 41 are an integral part of these financial statements.*

## Statement of Cash Flows *for the year ended 31 March 2011*

*In thousands of NZD*

	NOTES	GROUP		COMPANY	
		12 Months 2011	15 Months 2010	12 Months 2011	15 Months 2010
<b>Net cash from/(used in) operating activities</b>					
Cash was provided from:					
Receipts from sale of goods and services		4,958	7,895	-	-
Fees received		105	408	761	1,362
Repayments from finance and loan receivables		3,102	7,322	-	-
Interest income received		688	2,848	15	1,757
Tax refund		247	-	247	-
Cash was applied to:					
Payments to suppliers and employees		(6,760)	(11,814)	(1,376)	(2,455)
Tax paid		-	(586)	-	(586)
Interest expense paid		(1,252)	(2,073)	(10)	(482)
<b>Net cash flows from / (used in) operating activities</b>	25	<b>1,088</b>	<b>4,000</b>	<b>(363)</b>	<b>(404)</b>
<b>Cash flows from/(used in) investing activities</b>					
Cash was provided from:					
Proceeds from disposal of subsidiary	18	-	674	-	-
Cash was applied to:					
Advance to associates		(607)	(2,315)	(607)	(2,315)
Investment in subsidiaries		-	-	-	(4,500)
Investment in related party		-	(80)	-	(68)
Purchase of property, plant and equipment		(235)	(392)	(225)	(70)
<b>Net cash flows used in investing activities</b>		<b>(842)</b>	<b>(2,113)</b>	<b>(832)</b>	<b>(6,953)</b>
<b>Cash flows from/(used in) financing activities</b>					
Cash was provided from:					
Proceeds from deposits		1,884	-	-	-
Proceeds from interests bearing loans		945	-	159	-
Group loans and advances		-	-	1,156	8,585
Increase in interest bearing loans		-	347	-	-
Proceeds from issue of capital securities		-	168	-	168
Cash was applied to:					
Repayment of deposits		(1,791)	-	-	-
Repayment (increase of interest bearing loans)		(997)	(1,393)	-	-
Convertible preference share dividend	24	(21)	(134)	(21)	(134)
Capital securities dividend	24	(167)	(133)	(167)	(133)
Equity raising costs		-	(72)	-	(72)
Dividends paid	27	-	(920)	-	(920)
<b>Net cash flows (used in) / from financing activities</b>		<b>(147)</b>	<b>(2,137)</b>	<b>1,127</b>	<b>7,494</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>99</b>	<b>(250)</b>	<b>(68)</b>	<b>137</b>
Cash and cash equivalents balances at beginning of the period		216	466	96	(41)
<b>Cash and cash equivalents at end of period</b>	9	<b>315</b>	<b>216</b>	<b>28</b>	<b>96</b>
<b>Presented as:</b>					
Cash and cash equivalents		414	466	28	96
Bank overdraft		(99)	(250)	-	-
<b>Net cash and cash equivalents at end of period</b>		<b>315</b>	<b>216</b>	<b>28</b>	<b>96</b>

*The notes on pages 11 to 41 are an integral part of these financial statements.*

# Notes to the Financial Statements *for the year ended 31 March 2011*

## 1 Statement of Accounting Policies

### Reporting entity

Cynotech Holdings Limited (the "Company") is a company incorporated and domiciled in New Zealand. The Company is registered under the Companies Act 1993 and is listed on the New Zealand Exchange. The Company is an Issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The Company and associated entities in the Group are profit-oriented entities.

Financial statements for the Company and consolidated financial statements are presented (hereafter collectively referred to as "the financial statements"). The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associate companies.

The Company's parent is Cynotech Securities Group Limited which is owned by Cynotech Securities Limited. Refer to Note 37 for further details.

The financial statements were approved by the Board of Directors on 1 August 2011.

The major companies in the Group are:

Cynotech Holdings Limited	–	Group holding company
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

### Change of reporting date

The Group/Company changed its reporting date from 31 December 2009 to 31 March 2010.

The accounting period reported on is for a 12 month period (2010: 15 months).

### Statement of compliance

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 other applicable Financial Reporting Standards as appropriate to profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

### 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 Group 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 note 2.

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. Certain comparative amounts have been reclassified to conform with the current year's presentation.

### New accounting standards and interpretations not yet adopted

The new standards, amendments to published standards and interpretations that are mandatory for the Company's financial periods beginning on or after 1 April 2011 or later periods, but which the Company has not early adopted, are as follows:

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 27, "Consolidated and Separate Financial Statements" – The amendment to NZ IAS 27 removes the consolidation requirements under the current version of NZ IAS 27 to NZ IFRS 10. NZ IAS 27 amended now contains the accounting requirements and some of the disclosure requirements for investments in Associates, Subsidiaries and Joint Ventures in an entity's separate financial statements. This is effective for annual periods beginning on or after 1 January 2013.

Amendment to NZ IAS 28, "Investments in Associates and Joint Ventures" – The amendment to NZ IAS 28 details the requirements for equity accounting an entity's investments in associates and joint ventures. The new NZ IAS 28 also requires that where an entity ceases to have significant influence or joint control, and retained interest does not get remeasured. This is effective for annual periods beginning on or after 1 January 2013.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### **New accounting standards and interpretations not yet adopted (continued)**

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 are currently assessing the impact of the standard on its results, financial position and cash flows.

NZ IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013) supersedes NZ IAS 27 and NZ SIC -12 – Consolidation – Special Purpose Entities and introduces a new approach to determining which investees should be consolidated. There is now a single model to be applied in the control analysis for all investees. To have control, an investor must:

- Be exposed or have rights to the variable returns from its involvement with the investee;
- Have the ability to affect those returns through its power over the investee; and
- There is a link between power and returns.

NZ IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2011) contains the disclosure requirements for entities that have interest in subsidiaries, associates, joint operations (either joint arrangements or joint ventures) and/ or unconsolidated structured entities. The information to be provided should enable users to evaluate:

- The nature of, and risks associated with, an entity's interests in other entities; and
- The effects of those interests on the entity's financial position, financial performance and cash flows.

NZ IFRS 13 "Fair Value Measurement" will be adopted for the first time for its annual financial reporting period ending 30 June 2014. NZ IFRS 13 will assist with the determination of what is considered to be fair value in valuing its derivative assets and liabilities, investment properties, and investments. Additional note disclosures will also be required.

### **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.

#### *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 Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements 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 associate, 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.

In the Company's separate financial statements, investments in associates are carried at cost less impairment losses.

#### *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. 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 is allocated to cash generating units and is tested annually for impairment.

### **Foreign currencies**

Transactions in foreign currencies are converted at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on conversion are recognised in profit or loss. Monetary assets and liabilities at reporting date are converted at the exchange rates ruling at reporting date. Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are reconverted 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 converted 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 year 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, and any adjustment to tax payable in respect of previous years.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### **Income tax (continued)**

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.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary difference, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 Reporting**

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 Chairman to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group determines and presents operating segments based on the information that internally is provided to the Chairman, who is the Group's chief operating decision maker.

### **Finance income and expenses**

#### *Finance income*

Finance income comprises income on funds invested and 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 comprise initial fees received in respect of new loans and fees received from add-ons to delinquent customer 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 and capital securities are 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 or loss using the effective interest method unless they relate to qualifying assets in which case they are capitalised as part of the asset.

### **Goods Sold**

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 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 profit or loss when the advisory and management services are performed.

#### *Rental Income*

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

### **Provisions**

A provision is recognised when the 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 profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### **Expenses (continued)**

#### *Finance 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. 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 trade and other receivables, cash and cash equivalents, finance receivables, loan receivable designated at fair value, investments and advances to associates, securitised assets, deposits, capital securities, interest bearing loans and borrowings, liability relating to securitised assets, Intercompany loan owed to subsidiaries, and trade and other payables.

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 cancelled.

Financial assets and financial liabilities are offset only when the Group or Company 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.

#### *Financial assets at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group 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 profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or 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 or loss over the period of the receivable on an effective interest basis.

#### *Derecognition*

Financial assets are derecognised when the rights to the cash flows of the assets have expired or the Group has transferred its rights to receive the cash flows of the assets and substantially all the risk and rewards of the assets. Where the Company has sold the rights to receive the cash flows of the assets but has not transferred substantially all the risk and rewards of the assets the Company continues to recognise the asset, which is measured in accordance with the Company's policies, and recognises an equivalent liability, as required by NZ IAS 39.

#### *Trade and other payables*

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

#### *Deposit & 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 or loss over the period of the borrowings on an effective interest basis.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### *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 or 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 or loss.

### **(iii) Compound financial instruments**

Compound financial instruments issued by the Group or Company included convertible preference shares that were converted to share capital by the Company compulsorily in December 2010 and the number of shares issued did not vary with changes in their fair value. These carried a dividend of 150% of the Official Cash Rate to their full term on 22 December 2010 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 by the holder. These carry a 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. The liability component of the convertible preference shares and capital securities is determined by discounting the future dividend payments at the market rate of dividend applicable to similar liabilities that do not have a conversion option. The balance of the amount raised from the issue of the capital securities shares and not converted is recognised as equity. All convertible preference shares have been converted at reporting date.

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

### **(iv) Asset quality**

#### *Other impaired assets*

An asset for which an impairment loss is required in accordance with NZ IAS 39 paragraphs 58 to 62, but is not a restructured asset.

#### *Restructured assets*

A restructured assets is an asset for which,

- the original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms; and
- the revised terms of the facility are not comparable with the terms of new facilities with comparable risk; and
- the yield on the asset following restructuring is equal to, or greater than, the group's average cost of funds, or that a loss is not otherwise expected to be incurred.

#### *Past due assets*

Financial assets on which a counterparty has failed to make a payment when contractually due and which is not a restructured asset or other impaired asset.

#### *Assets acquired through the enforcement of security*

Are loan receivable contracts legally assigned to the Company which satisfy part or full repayment of wholesale funding facilities. The Company does not acquire assets through the enforcement of security on individual loan contracts. Where repossession of security occurs the assets remain owned by the borrower and any realisation proceeds are applied immediately to the outstanding debt.

### **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 an appropriate share of overheads based on normal operating capacity.

In the case of manufactured inventories and work in progress, cost includes 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 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 to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group'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.

#### *Investment Property held for sale*

Investment Property held for sale is valued at fair value (supported by a current registered valuation) less cost to sell. Any gains or losses on fair value measurement are recognised in profit or loss when incurred.

#### *Plant held for sale*

Plant held for sale is valued at fair value less cost to sell. Any gains or losses on fair value measurement are recognised in profit or loss when incurred.

## Notes to the Financial Statements for the year ended 31 March 2011

### 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 for the current and prior year:

Factory plant and equipment	3% - 10%
Leasehold improvements	3% - 15%
Furniture and fittings	7.5% - 50%
Computer equipment	15% - 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 and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

### Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative profit or loss is re-presented as if the operation had been discontinued from the start of the comparative period.

### Impairment

The carrying amounts of the Group's 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. For goodwill the recoverable amount is calculated at each reporting date.

#### Impairment of non financial assets

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"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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, 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 Issuer;
- 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;

## Notes to the Financial Statements *for the year ended 31 March 2011*

### **Impairment of financial assets (continued)**

Indicators of impairment (continued):

- 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 risk 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.

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 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 and historical loss experience for assets with credit characteristics similar to those in the Group.

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 the 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.

### **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 Group has no externally imposed capital management requirements. The Directors continually review liquidity so that funds are available from operations to ensure adequacy of cover for the repayment of short term liabilities.

The Groups borrowings, deposits and other liabilities are being reduced in line with the planned reduction in Group assets.

### **Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group/Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and convertible preference shares. Instruments that are anti-dilutive are excluded from the diluted EPS calculation.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 2. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future that affects the amount reported in the financial statements. 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 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.

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

The Group have designated distressed loans acquired by the Group as "fair value through profit or 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 reporting date. The principal assumptions together with a sensitivity analysis and details of changes in the key assumptions 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 judgments 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 and plant held for sale*

The Group has assessed the extent to which the carrying value of its property held for resale and its surplus Snowdon machines are impaired as at reporting date. The impairment assessment is based upon estimates of the realisable value of these assets as provided by independent valuers and in the case of the machines by market realisable values. 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*

The Group has not recognised the net deferred tax asset of \$323,449 as it has not meet the recognition criteria set out in NZ IAS12.

*(v) Impairment of the advance to the associate Seating Systems Limited*

The shareholders have resolved to sell the assets owned by the business of the associate Seating Systems Limited in an orderly manner while the Company continues to trade. The Directors have made an assessment of the fair value of the underlying assets less the costs to sell. An impairment allowance has been provided for the difference between the Group's share of the net proceeds and the Group's net investment in that company.

*(vi) Going Concern*

The financial statements and the notes to the accounts disclose a mismatch between the contractual maturities of deposits and other term loans when compared to the projected cash inflows from the assets of the Group, see note 5. The Directors have addressed this mismatch and have concluded that it is a manageable mismatch given historical factors and relationships. In the last year the Group has reduced deposits and interest bearing loans by \$1.1 million and expect to have fully repaid bank borrowings by July 2011. During the financial year the Directors reached an agreement with the Groups' funder (Wairahi Trust) to settle 50% of the funders' outstanding secured loans by the assignment of \$3 million dollars of fair value and other finance receivables. The 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 1 August 2010. In addition the remaining depositors the majority of which are shareholders are aware that the CHL Group is in a rundown mode with specific emphasis on the realisation of assets and the repayment of debt.

*(vii) Derecognition of loans*

The Group has derecognised a number of fair value loans that total \$452,911 (2010: 758,431) following agreement on totally new terms with the borrower. The new terms include fixed repayment amounts with no interest and changes to the underlying security for the loans. The new loans are accounted recorded at their fair value applying a interest rate of 20% (which is considered a market rate for such loans). They are subsequently recorded at amortised cost, using the effective interest rate method, adjusted for impairment losses. A gain of \$266,273 has been recognised on derecognition of the original loan, being the difference between the carrying value of the loans at derecognition and the fair value of the new loan.

*(viii) Securitisation Arrangements*

As disclosed in note 34 the Group has entered into a securitisation arrangement to settle a portion of its outstanding debt with the Wairahi Trust (Wairahi). Legally the assignment of the loans settles the liability to Wairahi. As the Group has guaranteed the underlying performance of the loans it is not able to derecognise the loans from the Group's statement of Financial Position. A corresponding liability is recognised to reflect this position.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 3. Financial Risk Management

All companies are exposed to a variety of financial risks depending on the industry in which they operate. The Group/Company 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 minimize 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 4
liquidity risk	refer note 5
credit risk	refer note 6
other risks	refer note 7

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 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. General treasury risk management policies 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 Holdings Limited:

- oversees all matters relating to the financial accounting and reporting for the Cynotech Holdings Limited group of companies; and
- monitors risk management and the processes which are undertaken by management.

### 4. 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 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 re-price;
- 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 borrowings are generally short term in nature to match the profile of maturing assets. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

#### *(ii) Sensitivity analysis*

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

#### *(iii) Re-pricing 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 as changes occur and reported to and reviewed by the Board of Directors from time to time.

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 year ended 31 March 2011*

### 4. 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/Company's interest bearing assets and liabilities are at fixed rates.

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

<b>GROUP 2011</b>	Effective Rate	Total \$'000	0-6 months \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000
<b>Financial assets</b>							
Cash and cash equivalents	3.75%	414	414	-	-	-	-
Finance receivables	20.00%	2,256	44	115	438	1,447	212
Advance to associate	12.00%	952	-	-	952	-	-
Loan receivables - designated at fair value	7.50%	6,434	6,213	36	29	116	40
Securitised assets	13.00%	1,960	-	-	-	1,960	-
<b>Total assets</b>		<b>12,016</b>	<b>6,671</b>	<b>151</b>	<b>1,419</b>	<b>3,523</b>	<b>252</b>
<b>Financial liabilities</b>							
Bank overdraft	7.39%	99	99	-	-	-	-
Deposits	11.82%	4,499	4,058	191	250	-	-
Capital securities	9.25%	668	-	-	-	-	668
Interest bearing loans	11.24%	5,484	4,546	357	120	217	244
Liability relating to securitised assets	13.00%	1,960	-	-	-	1,960	-
<b>Total liabilities</b>		<b>12,710</b>	<b>8,703</b>	<b>548</b>	<b>370</b>	<b>2,177</b>	<b>912</b>
<b>Re-pricing gap</b>		<b>(694)</b>	<b>(2,032)</b>	<b>(397)</b>	<b>1,049</b>	<b>1,346</b>	<b>(660)</b>

#### GROUP 2010

<b>GROUP 2010</b>	Effective Rate	Total \$'000	0-6 months \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000
<b>Financial assets</b>							
Cash and cash equivalents	3.75%	466	466	-	-	-	-
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
<b>Total assets</b>		<b>16,091</b>	<b>2,631</b>	<b>2,348</b>	<b>6,086</b>	<b>4,726</b>	<b>300</b>
<b>Financial liabilities</b>							
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
Interest bearing loans	12.19%	8,536	6,560	311	1,660	5	-
<b>Total liabilities</b>		<b>13,765</b>	<b>10,777</b>	<b>431</b>	<b>1,750</b>	<b>255</b>	<b>552</b>
<b>Re-pricing gap</b>		<b>2,326</b>	<b>(8,146)</b>	<b>1,917</b>	<b>4,336</b>	<b>4,471</b>	<b>(252)</b>

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

<b>COMPANY 2011</b>	Effective Rate	Total \$'000	0-6 months \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000
<b>Financial assets</b>							
Cash and cash equivalents	3.75%	28	28	-	-	-	-
Advance to associate	12.00%	952	-	-	952	-	-
<b>Total assets</b>		<b>980</b>	<b>28</b>	<b>-</b>	<b>952</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>							
Capital securities	9.25%	668	-	-	-	-	668
Interest bearing loans	12.25%	159	26	26	107	-	-
Intercompany loan owed to subsidiaries	8.00%	11,138	446	446	892	2,676	6,678
<b>Total liabilities</b>		<b>11,965</b>	<b>472</b>	<b>472</b>	<b>999</b>	<b>2,676</b>	<b>7,346</b>
<b>Re-pricing gap</b>		<b>(10,985)</b>	<b>(444)</b>	<b>(472)</b>	<b>(47)</b>	<b>(2,676)</b>	<b>(7,346)</b>

#### COMPANY 2010

<b>COMPANY 2010</b>	Effective Rate	Total \$'000	0-6 months \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000
<b>Financial assets</b>							
Cash and cash equivalents	3.75%	96	96	-	-	-	-
Advance to associate	13.50%	2,543	-	-	2,543	-	-
<b>Total assets</b>		<b>2,639</b>	<b>96</b>	<b>-</b>	<b>2,543</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>							
Convertible preference shares	5.75%	20	-	20	-	-	-
Capital securities	9.25%	552	-	-	-	-	552
Intercompany loan owed to subsidiaries	8.00%	9,984	399	399	798	2,394	5,994
<b>Total liabilities</b>		<b>10,556</b>	<b>399</b>	<b>419</b>	<b>798</b>	<b>2,394</b>	<b>6,546</b>
<b>Re-pricing gap</b>		<b>(7,917)</b>	<b>(303)</b>	<b>(419)</b>	<b>1,745</b>	<b>(2,394)</b>	<b>(6,546)</b>

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 5. Financial Risk Management - Liquidity risk

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

The Group'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, its Board and management is on realising the Group'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 is funded by a variety of financial instruments which includes share capital, convertible preference shares and capital securities and the debt portion of convertible preference shares (to Dec 10) (note 24) and secured bank loans (note 23) and deposits (see note 22 to the financial statements for further details of these deposits).

The concentration of ordinary shares and convertible preference shares and capital securities is disclosed on pages 44 and 45. Bank borrowings are from one bank and are disclosed in note 23. The significant concentration of secured loans from other parties is disclosed in note 22. The unsecured deposits disclosed in note 22 are from 37 separate investors.

#### *(iii) Maturity analysis*

The following tables show the undiscounted cash flows on the Group's 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 year ended 31 March 2011*

### 5. 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 2011	Carrying amount	Gross nominal inflow / (outflow)	On demand	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<b>Financial assets</b>								
Cash and cash equivalents	414	414	414	-	-	-	-	-
Finance receivables	2,256	4,540	659	680	621	889	1,499	192
Trade and other receivables	423	423	59	361	3	-	-	-
Advance to associate	952	1,344	2	11	14	30	114	1,173
Loan receivables - fair value*1	6,434	26,288	26,288	-	-	-	-	-
Securitised assets	1,960	2,545	-	454	454	857	780	-
<b>Total assets</b>	<b>12,439</b>	<b>35,554</b>	<b>27,422</b>	<b>1,506</b>	<b>1,092</b>	<b>1,776</b>	<b>2,393</b>	<b>1,365</b>
<b>Financial liabilities</b>								
Bank overdraft	99	99	99	-	-	-	-	-
Deposits	4,499	4,596	4,057	70	211	258	-	-
Trade and other payables	1,324	1,324	759	565	-	-	-	-
Capital securities*	1,805	2,639	-	83	83	167	501	1,805
Interest bearing loans and borrowings	5,484	7,828	3,000	1,813	588	556	1,450	421
Liability relating to securitised assets	1,960	2,545	-	454	454	857	780	-
<b>Total liabilities</b>	<b>15,171</b>	<b>19,031</b>	<b>7,915</b>	<b>2,985</b>	<b>1,336</b>	<b>1,838</b>	<b>2,731</b>	<b>2,226</b>
<b>Liquidity gap</b>	<b>(2,732)</b>	<b>16,523</b>	<b>19,507</b>	<b>(1,479)</b>	<b>(244)</b>	<b>(62)</b>	<b>(338)</b>	<b>(861)</b>

#### GROUP 2010

Financial assets	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	466	466	466	-	-	-	-	-
Finance receivables	4,288	7,149	1,567	982	1,287	1,669	1,604	40
Trade and other receivables	658	658	-	658	-	-	-	-
Advance to associate	2,543	3,926	-	209	209	3,508	-	-
Loan receivables - fair value	8,794	34,471	34,471	-	-	-	-	-
<b>Total assets</b>	<b>16,749</b>	<b>46,670</b>	<b>36,504</b>	<b>1,849</b>	<b>1,496</b>	<b>5,177</b>	<b>1,604</b>	<b>40</b>
<b>Financial liabilities</b>								
Bank overdraft	250	250	250	-	-	-	-	-
Deposits	4,407	4,529	3,993	-	125	131	280	-
Trade and other payables	1,089	1,089	-	1,089	-	-	-	-
Convertible Preference shares	20	20	-	-	20	-	-	-
Capital securities*	1,805	2,808	-	84	84	167	668	1,805
Interest bearing loans and borrowings	8,536	8,859	6,000	698	429	1,704	28	-
<b>Total liabilities</b>	<b>16,107</b>	<b>17,555</b>	<b>10,243</b>	<b>1,871</b>	<b>658</b>	<b>2,002</b>	<b>976</b>	<b>1,805</b>
<b>Liquidity gap</b>	<b>642</b>	<b>29,115</b>	<b>26,261</b>	<b>(22)</b>	<b>838</b>	<b>3,175</b>	<b>628</b>	<b>(1,765)</b>

\*Capital securities are only redeemable at the Company's option and will attract dividends at 9.25% per annum until redeemed.

\*1 Gross Loan receivables - fair value are the gross loan balances which are due from debtors undiscounted. Financial accounts carrying value is arrived at after undertaking a discounted cash flow calculation.

#### Expected gross undiscounted maturities of financial assets and liabilities:

GROUP 2011	Carrying amount	Gross nominal inflow / (outflow)	On demand	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<b>Financial assets</b>								
Cash and cash equivalents	414	414	414	-	-	-	-	-
Finance receivables	2,256	3,301	-	638	467	721	1,284	191
Trade and other receivables	423	423	-	420	3	-	-	-
Advance to associate	952	1,344	-	13	14	30	114	1,173
Loan receivables - fair value	6,434	12,239	-	1,360	1,360	2,720	6,119	680
Securitised assets	1,960	2,545	-	454	454	857	780	-
<b>Total assets</b>	<b>12,439</b>	<b>20,266</b>	<b>414</b>	<b>2,885</b>	<b>2,298</b>	<b>4,328</b>	<b>8,297</b>	<b>2,044</b>
<b>Financial liabilities</b>								
Bank overdraft	99	99	99	-	-	-	-	-
Deposits	4,499	4,596	-	4,127	211	258	-	-
Trade and other payables	1,324	1,324	-	1,324	-	-	-	-
Capital securities*	1,805	2,639	-	83	83	167	501	1,805
Interest bearing loans and borrowings	5,484	7,828	-	4,813	588	556	1,450	421
Liability relating to securitised assets	1,960	2,545	-	454	454	857	780	-
<b>Total liabilities</b>	<b>15,171</b>	<b>19,031</b>	<b>99</b>	<b>10,801</b>	<b>1,336</b>	<b>1,838</b>	<b>2,731</b>	<b>2,226</b>
<b>Liquidity gap</b>	<b>(2,732)</b>	<b>1,235</b>	<b>315</b>	<b>(7,916)</b>	<b>962</b>	<b>2,490</b>	<b>5,566</b>	<b>(182)</b>

#### GROUP 2010

Financial assets	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	466	466	466	-	-	-	-	-
Finance receivables	4,288	6,713	-	1,137	1,433	2,006	2,049	88
Trade and other receivables	658	658	-	658	-	-	-	-
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
<b>Total assets</b>	<b>16,749</b>	<b>21,537</b>	<b>466</b>	<b>3,809</b>	<b>3,263</b>	<b>7,898</b>	<b>5,743</b>	<b>358</b>
<b>Financial liabilities</b>								
Bank overdraft	250	250	250	-	-	-	-	-
Deposits	4,407	4,529	-	3,993	125	131	280	-
Trade and other payables	1,089	1,089	-	1,089	-	-	-	-
Convertible preference shares	20	20	-	-	20	-	-	-
Capital securities*	1,805	2,808	-	84	84	167	668	1,805
Interest bearing loans and borrowings	8,536	9,704	-	1,088	819	7,769	28	-
<b>Total liabilities</b>	<b>16,107</b>	<b>18,400</b>	<b>250</b>	<b>6,254</b>	<b>1,048</b>	<b>8,067</b>	<b>976</b>	<b>1,805</b>
<b>Liquidity gap</b>	<b>642</b>	<b>3,137</b>	<b>216</b>	<b>(2,445)</b>	<b>2,215</b>	<b>(169)</b>	<b>4,767</b>	<b>(1,447)</b>

\*Capital securities are only redeemable at the Company's option and will attract dividends at 9.25% per annum until redeemed.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 5. 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:

	Carrying amount	Gross nominal inflow / (outflow)	On demand	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>COMPANY 2011</b>								
<b>Financial assets</b>								
Cash and cash equivalents	28	28	28	-	-	-	-	-
Trade and other receivables	30	30	24	6	-	-	-	-
Advance to associate	952	1,344	2	11	14	30	114	1,173
Total assets	1,010	1,402	54	17	14	30	114	1,173
<b>Financial liabilities</b>								
Trade and other payables	341	341	231	110	-	-	-	-
Capital securities*	1,805	2,639	-	83	83	167	501	1,805
Interest bearing loans and borrowings	159	182	-	35	35	112	-	-
Total liabilities	2,305	3,162	231	228	118	279	501	1,805
Liquidity gap	(1,295)	(1,760)	(177)	(211)	(104)	(249)	(387)	(632)
<b>COMPANY 2010</b>								
<b>Financial assets</b>								
Cash and cash equivalents	96	96	96	-	-	-	-	-
Trade and other receivables	55	55	-	55	-	-	-	-
Advance to associate	2,543	3,926	-	209	209	3,508	-	-
Total assets	2,694	4,077	96	264	209	3,508	-	-
<b>Financial liabilities</b>								
Trade and other payables	279	279	-	279	-	-	-	-
Convertible Preference shares	20	20	-	20	-	-	-	-
Capital securities*	1,805	2,808	-	84	84	167	668	1,805
Total liabilities	2,104	3,107	-	383	84	167	668	1,805
Liquidity gap	590	970	96	(119)	125	3,341	(668)	(1,805)

\*Capital securities are only redeemable at the Company's option and will attract dividends at 9.25% per annum until redeemed.

#### Expected gross undiscounted maturities of financial assets and liabilities:

	Carrying amount	Gross nominal inflow / (outflow)	On demand	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>COMPANY 2011</b>								
<b>Financial assets</b>								
Cash and cash equivalents	28	28	28	-	-	-	-	-
Trade and other receivables	30	30	-	30	-	-	-	-
Advance to associate	952	1,344	-	13	14	30	114	1,173
Total assets	1,010	1,402	28	43	14	30	114	1,173
<b>Financial liabilities</b>								
Trade and other payables	341	341	-	341	-	-	-	-
Capital securities*	1,805	2,639	-	83	83	167	501	1,805
Interest bearing loans and borrowings	159	182	-	35	35	112	-	-
Total liabilities	2,305	3,162	-	459	118	279	501	1,805
Liquidity gap	(1,295)	(1,760)	28	(416)	(104)	(249)	(387)	(632)
<b>COMPANY 2010</b>								
<b>Financial assets</b>								
Cash and cash equivalents	96	96	96	-	-	-	-	-
Trade and other receivables	55	55	-	55	-	-	-	-
Advance to associate	2,543	1,344	2	11	14	30	114	1,173
Total assets	2,694	1,495	98	66	14	30	114	1,173
<b>Financial liabilities</b>								
Trade and other payables	279	279	-	279	-	-	-	-
Convertible Preference shares	20	20	-	20	-	-	-	-
Capital securities*	1,805	2,808	-	84	84	167	668	1,805
Total liabilities	2,104	3,107	-	383	84	167	668	1,805
Liquidity gap	590	(1,612)	98	(317)	(70)	(137)	(554)	(632)

\*Capital securities are only redeemable at the Company's option and will attract dividends at 9.25% per annum until redeemed.

### 6. 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 or 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.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 6. Financial Risk Management - Credit risk (continued)

	GROUP		COMPANY	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Maximum exposures to credit risk at reporting date are:				
Cash and cash equivalents	414	466	28	96
Advances to associates	952	2,543	952	2,543
Trade and other receivables	370	658	4	-
Finance receivables	2,256	4,288	-	-
Loan receivables - designated at fair value	6,434	8,794	-	-
Securitised assets	3,015	-	-	-
	13,441	16,749	984	2,639

*(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.

*(ii) Concentrations of credit risk*

As at 31 March 2011 the Group's finance receivables were split between:

- retail customers \$3,975,865 (2010: \$6,780,446) (average size of loan \$5,210 (2010: \$9,900))
- commercial customers nil (2010: \$552,078) (average size of loan nil (2010: \$70,000))

As at 31 March 2011 the Group had one credit exposure that exceeded 10% of Group equity.

The exposure to Seating Systems Ltd an associate company was \$951,379 (2010: \$2,543,000).

The advances to associates of \$951,379 (2010: \$2,543,000) 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. This GSA is subordinate to the GSA's granted to 3 prior external lenders for an amount of \$1,111,429.

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

Trade receivables of \$370,171 (2010: \$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 valued on a fair value basis that have been refinanced at 31 March 2011 was \$861,389 (2010: \$879,830).

*(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 \$6,433,594 (2010: \$8,793,932).

Credit derivatives or similar instruments that mitigate the maximum exposure to credit risk is nil (2010: nil).

The amount of change in fair value during the period that is attributable to changes in the market risk is nil (2010: nil).

### 7. 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 to foreign exchange risk arising from currency exposures to the US dollar (US\$2,210) and Australian dollar (AU\$549).

*(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 at amortised cost, with the exception of loans receivable designated at fair value through profit and loss. Financial assets measured at amortised cost are \$4,044,709 (2010: \$8,087,000). Financial liabilities measured at amortised cost are \$11,406,192 (2010: \$14,854,000). Loan receivable at fair value through profit or loss are \$6,433,594 (2010: \$8,793,932).

*(iv) Fair value estimation*

The carrying amounts of assets and liabilities at the reporting date approximate their fair values. As financial assets and liabilities are not traded in an active market, fair values are estimated by discounting the future contractual cash flows using the current market interest rate at the reporting date applicable for an instrument with similar terms and conditions. The Statement of Financial Performance figures approximate the carrying amounts with the exception of the unsecured deposits and capital securities which have a fair value of \$2,078,382 and \$667,714. As these financial instruments are not traded in the open market, estimates of market rates have been provided by management.

The fair value of trade receivables and payables is approximately equal to their carrying value.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 8. Operating Segments

Segment information is presented in respect of the Group's operating segments. Operating segments are based on the Group's management and internal reporting structure. For each of the segments the Group's Chairman reviewed internal management reports on a monthly basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses. Inter-segment pricing is determined on an arm's length basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The major operating segments of the Group are as follows:

Business segments	Products and Services
Finance	Lending to consumers and businesses for motor vehicle, property finance and mortgages.
Satellite	Management of the sale and rental of satellite phones and providing airtime connections.
	Discontinued operation in 2010
Manufacturing	Manufactures and distributes cone and waffle products.

Other segments include specialist lending and fee income and the group's head office activities. None of these segments meet any of the qualitative thresholds for determining reportable segments in 2011 or 2010.

	GROUP				
	Manufacturing 2011 \$'000	Finance 2011 \$'000	Other 2011 \$'000	Adjustments 2011 \$'000	Consolidated 2011 \$'000
<b>Business segments</b>					
Sales to customers outside Group	4,338	1,864	403	-	6,605
Interest income	-	651	2	-	653
Services to customers outside Group	-	-	65	-	65
Inter-segmental revenue	-	358	1,035	(1,393)	-
Segment revenue	4,338	2,873	1,505	(1,393)	7,323
<b>Segment result</b>	102	(840)	(3,360)	-	(4,098)
<b>Income tax credit / (expense)</b>					146
<b>Loss for the period after tax</b>					(3,952)
<b>Segment assets</b>	3,000	20,460	3,412	(11,180)	15,692
<b>Segment liabilities</b>	915	11,158	1,961	-	14,034
Capital expenditure	-	-	-	-	-
Depreciation	105	-	77	-	182
Impairment - Associates	-	-	2,198	-	2,198
Impairment - Investment Property	-	-	166	-	166
Interest on deposits	-	513	-	-	513
Interest expense - other	2	664	74	-	740
Receivables impairment loss	-	399	-	-	399

	GROUP					
	Manufacturing 2010 \$'000	Finance 2010 \$'000	Discontinued 2010 \$'000	Other 2010 \$'000	Adjustments 2010 \$'000	Consolidated 2010 \$'000
<b>Business segments</b>						
Sales to customers outside Group	6,133	3,537	1,282	311	-	11,263
Services to customers outside Group	-	-	-	91	-	91
Inter-segmental revenue	-	1,693	-	3,013	(4,706)	-
Unallocated revenue	-	-	647	65	-	712
Segment revenue	6,133	5,230	1,929	3,480	(4,706)	12,066
<b>Segment result</b>	(537)	(3,939)	787	(3,554)	-	(7,243)
<b>Loss for the period after tax</b>						(7,243)
<b>Segment assets</b>	3,182	13,140	107	4,530	-	20,959
<b>Segment liabilities</b>	1,266	12,136	18	1,565	-	14,985
Capital expenditure	321	-	-	71	-	392
Depreciation	130	-	-	75	-	205
Impairment losses	600	-	-	1,255	-	1,855
Impairment losses reversed	174	-	-	-	-	174
Interest on deposits	-	513	-	-	-	513
Interest expense - other	2	664	-	358	-	1,024
Receivables impairment loss	-	944	-	-	-	944

#### Geographical segments

The manufacturing, finance segments operate in the North Island of New Zealand. Revenues from external customers are from New Zealand customers with the exception of the manufacturing segment which sells to Australia. These sales are immaterial to the segment and the Group.

#### Major Customers

Revenues from one customer of the manufacturing segment represented approximately \$2 million (2010: \$3 million) of the Group's total revenue.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 9. Cash and Cash Equivalents

	GROUP		COMPANY	
	12 Months	15 Months	12 Months	15 Months
	2011	2010	2011	2010
<u>Current Assets</u>	\$'000	\$'000	\$'000	\$'000
Cash at bank	414	466	28	96
Bank overdraft	(99)	(250)	-	-
	315	216	28	96

Both the cash at bank and the bank overdraft are held with National Bank. The Group has an overdraft limit of \$100,000 which carries an interest of 7.79% p.a. There are no offsetting arrangements in place.

### 10. Trade and Other Receivables

	GROUP		COMPANY	
	12 Months	15 Months	12 Months	15 Months
	2011	2010	2011	2010
<u>Current Assets</u>	\$'000	\$'000	\$'000	\$'000
Trade receivables	370	660	4	-
Impairment	-	(2)	-	-
Prepayments	53	132	26	55
Total trade and other receivables	423	790	30	55

As at 31 March 2011, the amount owed in aggregate by the six largest trade debtors was \$302,156 (2010: \$427,214).

		GROUP				
		Total	Current	31-60 days	61-90 days	Over 90 days
		\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	<b>2011</b>	370	29	331	10	-
Trade receivables	<b>2010</b>	658	612	31	10	5

No material impairment loss has been recognised 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. No collateral is held against the trade receivables balance.

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

### 11. Finance Receivables

		GROUP	
		12 Months	15 Months
		2011	2010
		\$'000	\$'000
Finance receivables		3,676	7,254
Less impairment loss allowance		(1,420)	(2,966)
Total net receivables		2,256	4,288
Repayment terms	- Current less than 12 months	1,447	1,035
	- Non current over 12 months	809	3,253
Total net receivables		2,256	4,288

The range of terms to final maturity date of finance receivables are from 1 month to 60 months (2010: 1 month to 60 months).

The range of standard interest rates of finance receivables are from 16.5% pa to 29.5% pa (2010: 16.5% pa to 29.5% pa).

As at 31 March 2011, the amount owed (net of impairment) in aggregate by the six largest loans was \$189,936 (2010: \$830,631).

As at 31 March 2011, 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 \$25,000 (2010: \$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.

### 12. Ageing Analysis of Finance Receivables

		GROUP					Total
		Current	1-30 days	30-60 days	60-90 days	Over 90 days	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2011</b>							
Finance receivables (current, past due, but not impaired)		1,167	642	179	42	-	2,030
Finance receivables individually impaired		261	78	18	102	1,187	1,646
Impairment		(151)	(37)	(6)	(92)	(1,134)	(1,420)
		1,277	683	191	52	53	2,256
		<b>56.6%</b>	<b>30.3%</b>	<b>8.5%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>100.0%</b>
<b>2010</b>							
Finance receivables		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
		<b>59.4%</b>	<b>14.9%</b>	<b>6.0%</b>	<b>3.7%</b>	<b>16.0%</b>	<b>100.0%</b>

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 12. Ageing Analysis of Finance Receivables (continued)

All amounts which are not current and that are past due up to 90 days as at 31 March 2011 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 instalments of finance receivables 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 as the Directors have assessed the likelihood of recoveries as remote. Maturity analysis of current loans reflect repayment arrangements.

### 13. Impairment Allowance - for finance receivables

	2011 Finance receivables \$'000	2010 Finance receivables \$'000
Reconciliation of Impairment allowances		
Balance at beginning of period	2,966	1,749
Impairment loss for the year	825	1,557
Impairment recovered during the year	(2,371)	(340)
Net change recognised in profit or loss	(1,546)	1,217
Balance at end of period	1,420	2,966

#### Analysis of finance receivables and impairment 2011

	Carrying value \$'000	Not Past Due & Not Impaired \$'000	Past Due & Not Impaired \$'000	Impaired \$'000
Current finance receivables	2,030	1,167	863	-
Finance receivables individually impaired	1,646	-	-	1,646
Impairment	(1,420)	-	-	(1,420)
	2,256	1,167	863	226

#### 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	-
Other individual impaired assets	3,653	-	-	3,653
Impairment	(2,966)	-	-	(2,966)
	4,288	2,547	1,054	687

#### Impaired asset expenses

	GROUP		Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Allowance for impairment on advances to subsidiaries	-	-	-	-
Bad debts written off	2,076	394	-	-
Bad debts recovered	(131)	(667)	-	-
Increase/(decrease) in allowance for impairment:				
Collectively determined	-	-	-	-
Individually determined	(1,546)	1,217	-	-
<b>Total impaired asset expense</b>	<b>399</b>	<b>944</b>	<b>-</b>	<b>-</b>

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 effective to do so.

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

	GROUP	
	2011 \$'000	2010 \$'000
<b>Level 3 instruments</b>		
Opening loans - designated at fair value through profit or loss	8,794	9,850
Purchases and other adjustments	(394)	385
Securitised Fair Value loans	(1,748)	-
Transferred to finance receivables following rewrite of terms and conditions	(453)	(805)
Receipts	(1,910)	(2,296)
Fair Value Uplift	2,145	1,660
Closing loans - designated at fair value through profit or loss	6,434	8,794

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 14. Loan Receivables - designated at fair value through profit or loss (continued)

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. These forecasts are reviewed annually and management have extended the forecast period for a further year (this is consistent with past periods when actual performance and remaining balance of loans has provided support for the cash flows to continue for a further year. This year the directors have reduced the forecast cash flows to reflect actual collections in the 2011 financial year (adjusted for the fair value loans securitised see note 34 and rewritten see note 2). In light of this the management have also removed the reductions in the cash flows used in prior years of 25% per annum starting in year 4 for the main paying categories of loans. The impact of this revision to the discounted cash flows is to increase the fair value by \$1.045m.

#### Fair value sensitivity analysis

For the Group, loan receivables acquired at fair value are measured at fair value through profit or loss. At 31 March 2011 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 reporting date, profit before tax at 31 March 2011 would have been \$941,414 higher / \$619,238 lower.

If the term to maturity had changed by +/- 1 year from the reporting date, profit before tax at 31 March 2011 would have been \$1,174,229 lower / \$622,544 higher.

		\$'000	Fair value measurement		
			Level 1	Level 2	Level 3
Loan receivables - designated at fair value	2011	6,434	-	-	6,434
	2010	8,794	-	-	8,794

The table on page 27 presents the movement in Level 3 instruments in the year ended 31 March 2011.

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.

There have been no transfers between Level 1 and 2 at any time during the year.

### 15. Inventories

	GROUP	
	2011 \$'000	2010 \$'000
Raw materials - manufacturing	180	118
Finished goods - manufacturing	79	343
	<u>259</u>	<u>461</u>
Opening provision for obsolete stock	(21)	(66)
Recognised in profit or loss	9	45
	<u>(12)</u>	<u>(21)</u>
Closing provision for obsolete stock		
Closing Stock	<u>247</u>	<u>440</u>

Inventories are not used as security for borrowings.

### 16. Investment property & plant held for sale

	2011	Investment	GROUP	Total
		Properties	Plant	
		\$'000	\$'000	\$'000
Opening carrying amount		1,132	-	1,132
Less: decrease in fair value		(166)	-	(166)
Carrying amount		<u>966</u>	<u>-</u>	<u>966</u>
	2010	Investment	GROUP	Total
		Properties	Plant	
		\$'000	\$'000	\$'000
Opening carrying amount		1,459	600	2,059
Less: decrease in fair value		(327)	-	(327)
Less: impairment		-	(600)	(600)
Carrying amount		<u>1,132</u>	<u>-</u>	<u>1,132</u>

Plant held for sale is fully impaired as at 31 December 2011.

Investment properties held for sale are stated at their fair value. All three residential apartments are held for sale.

Properties held for sale are at the current realisable value of the three residential apartments which have been acquired by subsidiary company Cynotech Corporation Limited and which are held for sale. Their valuations are supported by Property Solutions Limited, QV, and Middleton Valuation, registered valuers as at November 2010. The valuations were arrived at by reference to comparable sales.

Shayne Donovan-Grammer of QV Valuations and Harley Balsom of Property Solutions Limited are members of the New Zealand Institute of Valuers (ANZIV, SPINZ), and have the appropriate qualifications and experience in the location and category of the property being valued.

Paul Higson of Middleton Valuations is a member of the New Zealand Institute of Valuers (ANZIV, MPINZ), and has the appropriate qualifications and experience in the location and category of the property being valued.

First mortgages are held of \$721,129 against properties held for sale. A second mortgage of \$65,000 is held against properties held for sale.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 17. Property, Plant and Equipment

<u>Non Current Assets</u>	GROUP					
	Factory plant and equipment \$'000	Leasehold improvements \$'000	Furniture and fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>						
Balance at 1 January 2009	2,196	128	371	268	16	2,979
Additions	223	144	4	21	-	392
Disposals	(37)	-	(2)	(4)	-	(43)
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>
Balance at 1 April 2010	2,382	272	373	285	16	3,328
Additions	6	2	2	19	232	261
Disposals	-	-	(2)	(2)	(11)	(15)
Balance at 31 March 2011	<u>2,388</u>	<u>274</u>	<u>373</u>	<u>302</u>	<u>237</u>	<u>3,574</u>
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 January 2009	792	26	334	182	7	1,341
reversal of impairment losses	(174)	-	-	-	-	(174)
Disposals	(13)	-	(1)	(3)	-	(17)
Depreciation charge for the year	117	17	6	62	3	205
Balance at 31 March 2010	<u>722</u>	<u>43</u>	<u>339</u>	<u>241</u>	<u>10</u>	<u>1,355</u>
Balance at 1 April 2010	722	43	339	241	10	1,355
Disposals	-	-	(1)	(1)	(1)	(3)
Reclassify	6	-	(2)	(4)	-	-
Depreciation charge for the period	98	15	4	29	36	182
Balance at 31 March 2011	<u>826</u>	<u>58</u>	<u>340</u>	<u>265</u>	<u>45</u>	<u>1,534</u>
<b>Carrying amounts</b>						
At 1 January 2009	1,404	102	37	86	9	1,638
At 31 March 2010	<u>1,660</u>	<u>229</u>	<u>34</u>	<u>44</u>	<u>6</u>	<u>1,973</u>
At 1 April 2010	1,660	229	34	44	6	1,973
At 31 March 2011	<u>1,562</u>	<u>216</u>	<u>33</u>	<u>37</u>	<u>192</u>	<u>2,040</u>

Assets under finance leases held in the Group factory plant, equipment and motor vehicles are \$192,402 (2010: \$50,809). Refer to Note 30.

<u>Non Current Assets</u>	COMPANY				
	Leasehold improvements \$'000	Furniture and fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>					
Balance at 1 January 2009	49	215	256	23	543
Additions	48	2	21	-	71
Disposals	-	(2)	(2)	-	(4)
Balance at 31 March 2010	<u>97</u>	<u>215</u>	<u>275</u>	<u>23</u>	<u>610</u>
Balance at 1 April 2010	97	215	275	23	610
Additions	-	-	19	232	251
Disposals	-	(2)	(2)	(11)	(15)
Balance at 31 March 2011	<u>97</u>	<u>213</u>	<u>292</u>	<u>244</u>	<u>846</u>
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 January 2009	18	176	176	13	383
Disposals	-	(1)	(1)	-	(2)
Depreciation charge for the year	12	6	54	3	75
Balance at 31 March 2010	<u>30</u>	<u>181</u>	<u>229</u>	<u>16</u>	<u>456</u>
Balance at 1 April 2010	30	181	229	16	456
Disposals	-	(1)	(1)	(1)	(3)
Depreciation charge for the period	10	4	27	36	77
Balance at 31 March 2011	<u>40</u>	<u>184</u>	<u>255</u>	<u>51</u>	<u>530</u>
<b>Carrying amounts</b>					
At 1 January 2009	31	39	80	6	160
At 31 March 2010	<u>67</u>	<u>34</u>	<u>46</u>	<u>7</u>	<u>154</u>
At 1 April 2010	67	34	46	7	154
At 31 March 2011	<u>57</u>	<u>29</u>	<u>37</u>	<u>193</u>	<u>316</u>

Finance leases held in Company plant, equipment and motor vehicle are \$158,567 (2010: nil). Refer to Note 30.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 18. Discontinued operations

In March 2010 the Group sold its Satellite phone operation.

	<b>2010</b>
	<b>\$'000</b>
Results of discontinued operation	
Revenue	1,282
Expenses	<u>(1,142)</u>
	140
Income tax	<u>(42)</u>
	98
Gain on sale of discontinued activity	<u>647</u>
<b>Profit for the period</b>	<b><u>745</u></b>
<b>Cash flows from discontinued operation</b>	
Net cash used in operating activities	161
Net cash from discontinued operation	<u>674</u>
	<b><u>835</u></b>
<b>Effect of disposal on the financial position of the Group</b>	
Inventories	9
Property, plant and equipment	<u>18</u>
<b>Net assets and liabilities</b>	<b><u>27</u></b>
Consideration received satisfied in cash	<u>674</u>
<b>Net cash flow</b>	<b><u>674</u></b>

### 19. Investment in and Advances to Associates

	<b>FinData Ltd</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Investments in Associates</b>		
Opening balance 1 January 2009	650	650
Share of losses in associate	(634)	(634)
Impairment in value of investments	(16)	(16)
Closing balance of investments in associates at 31 March 2010	<u>-</u>	<u>-</u>
<b>Advances to Associates</b>		
Opening balance 1 January 2009	1,483	1,483
Advance to associate	2,315	2,315
Advances to associates impairment loss	(1,255)	(1,255)
Closing balance of advances to associates at 31 March 2011	<u>2,543</u>	<u>2,543</u>
Opening balance 1 April 2010	2,543	2,543
Advances to associate	607	607
Advances to associates impairment loss	(2,198)	(2,198)
Closing balance of advances to associates at 31 March 2011	<u>952</u>	<u>952</u>

The Group's share of loss in its equity accounted associates for the year was a loss of \$nil (2010: loss \$634,000).

FinData was sold for \$72,000. The consideration is payable by 36 monthly payments.

Summary financial information for equity accounted associates not adjusted for the percentage ownership held by the Group:

	<b>Group Ownership</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>Expenses</b>	<b>Profit / (Loss)</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>2011</b>						
Seating Systems Ltd	31.00%	4,009	8,154	1,854	3,555	(1,701)
<b>2010</b>						
FinData Ltd	23.72%	39	40	185	2,859	(2,674)
Seating Systems Ltd	31.00%	4,738	6,506	2,533	4,111	(1,578)

Both associate companies have a reporting date of 31 March (2010: 31 March).

The shareholders of Seating Systems Limited (SSL) have resolved to reduce the size of the business by selling down some of the equipment that is available for hire. Accordingly, as at 31 March 2011 the assessment by the company of the value of its fixed assets has been based on an independent valuation dated 23 May 2011 undertaken by Deloitte. The Deloitte valuation assumed a sale of all equipment within a relatively short time frame and the Directors have resolved that the sale process will be measured and conducted over a longer term and integrated with the continued operations of SSL as a going concern seating sale and hire company. Cynotech Holdings Ltd has reflected the valuation set by the Directors of SSL in arriving at the carrying value of the advances made to SSL by CHL. The total of the CHL advances to SSL has been impaired by an amount of \$2,198,458 in this accounting period.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 20. Investment in Subsidiaries

The Group has the following investments in subsidiaries:

	Country of Incorp.	% Owned 2011	Value Invested 2011 \$'000	% Owned 2010	Value Invested 2010 \$'000	Reporting Date *
<b>Subsidiaries Directly Held</b>						
Cynotech Corporation Limited Principal activity - specialist lending and fee income	NZ	100%	2,000	100%	2,000	31 Mar
Cynotech Systems Limited Not trading	NZ	100%	23	100%	23	31 Mar
Cynotech Finance Group Limited Principal activity - finance group funding	NZ	100%	5,904	100%	7,500	31 Mar
Broadway Mortgage Custodians Limited Not trading	NZ	100%	300	100%	300	31 Mar
Snowdon Limited Principal activity - manufactures and distributes cone, waffle and bakery products.	NZ	100%	1,465	100%	1,465	31 Mar
			9,692		11,288	
<b>Subsidiaries Indirectly Held</b>						
Budget Loans Limited Principal activity - consumer and commercial loans Budget Loans is owned by Cynotech Finance Group Limited.	NZ	100%	2,000	100%	2,000	31 Mar
Evolution Finance Limited Principal activity - consumer and commercial loans Evolution Finance Limited is owned by Cynotech Corporation Limited.	NZ	100%	1,500	100%	1,500	31 Mar

### 21. Trade and Other Payables

	GROUP		COMPANY	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current:				
Trade payables (payable in 30 days)	576	460	32	-
Non trade payables	371	629	75	278
Accrued expenses	377	131	234	1
	1,324	1,220	341	279
Non Current:				
Trade payables	-	-	-	-
Total trade and other payables	1,324	1,220	341	279

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 22. Secured and Unsecured Deposits

		Interest rates	GROUP		COMPANY	
			2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Deposits due within 12 months	Unsecured		2,943	2,515	-	-
Deposits due within 12 months	Secured		1,556	1,552	-	-
Term deposits due greater than 1 year	Unsecured		-	340	-	-
<b>Total deposits</b>			<b>4,499</b>	<b>4,407</b>	<b>-</b>	<b>-</b>
Analysis of interest rates on deposits:						
		8.00%	-	287	-	-
		9.50%	162	176	-	-
		10.00%	-	98	-	-
		11.00%	256	203	-	-
		11.25%	153	210	-	-
		11.50%	100	100	-	-
		12.00%	3,577	3,098	-	-
		13.00%	50	50	-	-
		13.50%	201	185	-	-
<b>Total deposits</b>			<b>4,499</b>	<b>4,407</b>	<b>-</b>	<b>-</b>
Related party deposits included in the above:						
Cynotech Finance Ltd		12.00%	15	-	-	-
Cynotech Securities Limited		11.00%	53	-	-	-
Cynotech Securities Limited		12.00%	524	175	-	-
Cynotech Securities Group Limited		8.00%	-	287	-	-
Cynotech Securities Group Limited		10.00%	-	98	-	-
Cynotech Securities Group Limited		12.00%	187	-	-	-
Farquharson and Fraser		12.00%	20	-	-	-
Hawkins, Matthew		12.00%	82	-	-	-
Hawkins, Wayne		12.00%	5	4	-	-
Hutchinson, Rodney Paul		12.00%	3	2	-	-
Newmarket Securities Limited		12.00%	-	101	-	-
P.J. Hutchinson		13.50%	201	185	-	-
			<b>1,090</b>	<b>852</b>	<b>-</b>	<b>-</b>
Interest paid to related parties:						
Cynotech Finance Ltd		12.00%	1	-	-	-
Cynotech Securities Limited		11.00%	5	14	-	-
Cynotech Securities Limited		12.00%	31	48	-	-
Cynotech Securities Limited		13.00%	-	238	-	-
Cynotech Securities Group Limited		12.00%	3	-	-	-
FinData Limited		10.00%	-	4	-	-
Farquharson and Fraser		12.00%	3	6	-	-
Hawkins, Matthew		12.00%	8	-	-	-
Hawkins, Wayne		12.00%	-	1	-	-
Newmarket Securities Limited		12.00%	-	13	-	-
P.J. Hutchinson		13.50%	17	30	-	-
			<b>68</b>	<b>354</b>	<b>-</b>	<b>-</b>

The Company has guaranteed Unsecured Deposits entered into by its subsidiary for \$1,555,901 (2010: \$1,551,663).

The primary obligation for the amounts due by subsidiaries to third parties is recorded in the financial accounts of the subsidiary company. The guarantee obligation of the Company is treated as nil in the financial statements of the Company because the guaranteed subsidiaries have sufficient resources to finalise the primary obligation.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 23. 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 4 and 7.

Current liabilities	Note	Interest rates	GROUP		COMPANY	
			2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Secured loans-Wairahi Trust (GSA over National Finance Loan book) (\$3,104,145)		13.00%	3,000	6,000	-	-
Finance Liability -Goodman Fielder (PPSR security over Snowdon Limited plant and equipment) (\$104,434)		9.50%	25	23	-	-
Secured loans (Mortgage Security over Property held for resale) (\$966,350)		12.00%	315	574	-	-
Secured loans-National Bank (General security agreement over Snowdon Limited) (\$2,084,688)		7.26%	-	275	-	-
Secured loans -Cynotech Securities Ltd (GSA over Evolution Finance Ltd) (\$2,957,488)	36	13.00%	1,506	-	-	-
Secured loans - European Financial Services (PPSR security over Motor vehicle) (\$173,974)		12.25%	52	-	52	-
			4,898	6,872	52	-
<b>Non-current liabilities</b>						
Secured loans (Mortgage Security over Property held for resale) (\$966,350)		9.08%	471	136	-	-
Finance Liability -Goodman Fielder (PPSR security over Snowdon Limited plant and equipment) (\$104,434)		9.50%	8	28	-	-
Secured loans -Cynotech Securities Ltd (GSA over Evolution Finance Ltd) (\$2,957,488)	36	13.00%	-	1,500	-	-
Secured loans - European Financial Services (PPSR security over Motor vehicle) (\$173,974)		12.25%	107	-	107	-
			586	1,664	107	-
			5,484	8,536	159	-
<b>The secured loans are guaranteed as follows</b>						
Guarantee	A.R. Hawkins		-	711		

Under the terms of the finance lease agreements no contingent rents are payable (note 28).

The loan of \$786,129 is secured over the property held for sale (valued at \$966,350). This loan will be repaid on sale of the properties.

The Company has guaranteed the Interest Bearing Loans and Borrowings entered into by its subsidiaries for \$5,325,503 (2010: \$8,536,000).

The primary obligation for the amounts due by subsidiaries to third parties is recorded in the financial accounts of the subsidiary company.

The guarantee obligation of the Company is treated as nil in the financial accounts of the Company because the guaranteed subsidiaries have sufficient resources to finalise the primary obligation.

### 24. Convertible preference shares and capital securities

#### Convertible preference shares

	GROUP		COMPANY	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Opening balance	20	798	20	798
Released to equity *	-	(656)	-	(656)
Liability component of shares issued	-	-	-	-
Dividends paid	(20)	(134)	(20)	(134)
Notional interest	-	12	-	12
Closing balance	-	20	-	20

\* This represents impact of early conversions and reduced dividend rates.

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 27.

#### Capital Securities

	GROUP		COMPANY	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Opening balance	552	-	552	-
Liability component of securities issued	-	668	-	668
Dividends paid	(169)	(133)	(169)	(133)
Notional interest	285	17	285	17
Closing balance	668	552	668	552

Capital securities are considered to be a compound financial instrument. The liability portion is completed by determining the net present value of the obligation to pay dividends by using the DCF model at 9.25% discounted by 25%.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 25. Reconciliation of Operating Cashflows

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

	GROUP		COMPANY	
	12 Months 2011 \$'000	15 Months 2010 \$'000	12 Months 2011 \$'000	15 Months 2010 \$'000
<b>Loss for the year</b>	(3,952)	(6,609)	(4,914)	(3,427)
<b>Non cash items and other add backs</b>				
Depreciation	168	62	63	76
Movement in deferred tax	(146)	(624)	255	20
Fair value movement of property held for sale	166	327	-	-
Impairment of plant and equipment	-	600	-	-
Receivables impairment loss	399	944	-	-
Decrease in receivables	991	2,421	-	-
Impairment of investment in and advances to associates	1,829	2,926	1,829	1,394
Share of losses from associate	369	511	369	-
Allowance against investment in subsidiary	-	-	1,596	2,043
Items included in investing activities (Gain on disposal of subsidiary)	-	(647)	-	-
	<u>3,776</u>	<u>6,520</u>	<u>4,112</u>	<u>3,533</u>
<b>Movement in working capital</b>				
Decrease/(increase) in trade and other receivables	967	4,538	377	(11)
Decrease in inventory	193	91	-	-
Increase/(decrease) in trade creditors other payables & provisions	104	(540)	62	(499)
	<u>1,264</u>	<u>4,089</u>	<u>439</u>	<u>(510)</u>
Net cash inflows/(outflows) from operating activities	<u>1,088</u>	<u>4,000</u>	<u>(363)</u>	<u>(404)</u>

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 26. Company and Group Taxation

	GROUP		COMPANY	
	12 Months 2011 \$'000	15 Months 2010 \$'000	12 Months 2011 \$'000	15 Months 2010 \$'000
<b>Income tax expense</b>				
<b>Current tax expense</b>				
Current period	-	-	-	20
Prior year over provision	-	(1,480)	-	-
	-	(1,480)	-	20
<b>Deferred tax expense</b>				
Originating and reversing temporary differences	(470)	(242)	8	-
Previously unrecognised temporary differences	-	1,046	-	-
Deferred tax asset	324	-	-	-
	(146)	804	8	-
<b>Total tax (credit) / expense</b>	(146)	(676)	8	20
<b>Reconciliation of the effective tax rate to prima facie tax payable</b>				
Operating profit before taxation	(4,098)	(7,084)	(4,906)	(3,390)
Prima facie income tax @ 30%	(1,229)	(2,125)	(1,472)	(1,017)
Effect of tax exempt items	660	(194)	1,139	1,037
Benefit of unrecognised tax losses	100	1,490	335	-
Unrecognised deferred tax asset	323	-	6	-
Share of losses of associates (net of tax)	-	153	-	-
Income tax (credit) / expense	(146)	(676)	8	20
<b>Deferred tax asset and liabilities</b>				
	GROUP		COMPANY	
	2011	2010	2011	2010
Balance at beginning of the period	(146)	658	8	10
Current year movement	493	242	(2)	(2)
Previously unrecognised temporary difference	-	(1,046)	-	-
Change in company tax rate to 28%	(24)	-	-	-
Unrecognised deferred tax asset	(323)	-	(6)	-
Balance at the end of the period	-	(146)	-	8
<b>The balance comprises temporary differences @ 28% attributable to:</b>				
	GROUP		COMPANY	
	2011	2010	2011	2010
Finance receivables - impairment allowance	444	859	-	-
Impairment of property held for sale	220	186	-	-
Employee benefits	16	20	6	8
Property plant and equipment	232	249	-	-
Loan receivables	(594)	(1,473)	-	-
Other	5	13	-	-
Total asset / (liability)	323	(146)	6	8
<b>Expected settlement:</b>				
Within 12 months	465	893	6	8
In excess of 12 months	(142)	(1,039)	-	-
	323	(146)	6	8

Under existing tax legislation, obtaining the benefits of deferred tax assets is dependent upon deriving sufficient assessable income and complying with relevant tax legislation. The Group has not recognised a deferred tax asset in the current year.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 27. Equity

Number on Issue	Ordinary share capital	Convertible pref. shares	Warrants	Capital Securities
Balance at 1 January 2009	104,273,039	21,884,046	28,140,489	-
Conversion of Conv.pref.shares to ordinary shares April 2009	17,149,443	(17,149,443)	-	-
Conversion of Conv.pref.shares to ordinary shares April 2009	1,290,702	(1,290,702)	-	-
Warrants exercised June 2009	32,135	-	(32,135)	-
Conversion of Conv.pref.shares to ordinary shares June 2009	42,000	(42,000)	-	-
Capital securities issued June 2009	-	-	-	1,682,109
Capital securities issued July 2009	-	-	-	76,722
Capital securities issued October 2009	-	-	-	45,827
Conversion of Conv.pref.shares to ordinary shares October 2009	98,677	(98,677)	-	-
Balance at 31 March 2010	<b>122,885,996</b>	<b>3,303,224</b>	<b>28,108,354</b>	<b>1,804,658</b>
Balance at 1 April 2010	122,885,996	3,303,224	28,108,354	1,804,658
Conversion of Conv.pref.shares to ordinary shares December 2010	3,303,224	(3,303,224)	-	-
<b>Balance at 31 March 2011</b>	<b>126,189,220</b>	<b>-</b>	<b>28,108,354</b>	<b>1,804,658</b>

#### Share capital

All ordinary shares have no par value, equal voting rights and share equally in dividends on winding up. 3,303,224 shares were issued on the conversion of convertible preference shares during the year.

#### Convertible preference shares (note 24)

Convertible preference shares are non voting and attract dividends as detailed below. They automatically convert to ordinary shares 3 years after issue at 1 ordinary share for each existing preference share. The holder may elect to convert at an earlier date.

3,303,224 convertible preference shares were converted to ordinary shares during the year

The final conversion date for all remaining convertible preference shares was 22 December 2010.

#### Warrants

The terms of the warrants give holders a right to subscribe for new ordinary shares at an exercise price of 30 cents per share on 27 June 2011 (the final exercise date). If the Warrants are not exercised, they will lapse. They carry no voting rights.

#### Capital Securities (note 24)

Capital Securities are considered to be a compound financial instrument. They are non redeemable by the holder but may be redeemed by the Company. The capital securities attract a return of 9.25% per annum payable quarterly. The liability and equity portion are \$667,714 and \$1,136,944 respectively. The Company does not expect to redeem these securities and will incur a dividend of \$167,000 annually.

#### Dividend ranking in terms of priority of payment:

Convertible preference shares

Capital Securities

Ordinary shares

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 28. Contingent Liabilities and Financial Guarantees

#### Contingent Liabilities

The Group has no contingent liabilities as at 31 March 2011 (2010: nil).

The Company has no contingent liabilities (2010: nil).

#### Financial Guarantees

The Group has guaranteed performance of a number of assets, including finance receivables, loan receivables designated at fair value and a loan to an associate, in settlement of a portion of the debts owing to Wairahi as at 31 March 2011 (2010: nil). Refer to Note 34 for further details.

The Company has guaranteed the obligations entered into by the subsidiaries:

	GROUP		COMPANY	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Secured Deposits	-	-	1,556	1,551
Bank	-	-	99	250
Interest Bearing Loans and Borrowings	-	-	5,325	6,985
	-	-	6,980	8,786

The primary obligation for the amounts due by subsidiaries to third parties is recorded in the financial accounts of the subsidiary company.

The guarantee obligation of the Company is treated as nil in the financial accounts of the Company because the guaranteed subsidiaries have sufficient resources to finalise the primary obligation.

The Company's bankers have provided a guarantee to the NZX on behalf of the Company for \$15,000 representing the Company's listing bond.

### 29. Credit Facilities

There are no unused credit facilities as at 31 March 2011 (2010: nil).

### 30. Finance Lease Liabilities

#### Group 2011

#### Finance lease liabilities

Finance lease liabilities are payable as follows:

	Interest outstanding \$'000	Principal outstanding \$'000	Minimum lease payment outstanding \$'000
Less than one year	20	78	98
Between one and five years	6	114	120
Later than five years	-	-	-
	26	192	218

The items on lease are motor vehicle, factory plant and equipment (see Note 17).

#### Group 2010

#### Finance lease liabilities

Finance lease liabilities are payable as follows:

	Interest outstanding	Principal outstanding	Minimum lease payment outstanding
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 (see Note 17).

### 31. Remuneration of Auditors

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

	GROUP	
	2011 12 Months \$'000	2010 15 Months \$'000
BDO Auckland		
Audit and review of financial reports	130	246
Taxation advisory services	36	35

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 32. Commitments

	GROUP		COMPANY	
	2011 12 Months \$'000	2010 15 Months \$'000	2011 12 Months \$'000	2010 15 Months \$'000
Lease commitments under non cancellable operating leases				
Less than one year	284	534	183	329
Between one and five years	1,026	1,074	998	840
Greater than five years	-	152	-	123
Total operating lease commitments	1,310	1,760	1,181	1,292

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.

#### Capital commitments

The Company and Group have no material commitments for capital expenditure (2010: nil).

#### Rental and operating lease expense:

Some of the building leases have been sublet by the Group. During the periods ended 31 March 2011 and 31 March 2010 the rental expense in profit or loss was reduced by sublease revenue so that the lease rental expense showing in profit or loss reflects the underlying rental expense for the space occupied by the Group.

	GROUP		COMPANY	
	2011 12 Months \$'000	2010 15 Months \$'000	2011 12 Months \$'000	2010 15 Months \$'000
Total rental expense	494	613	273	338
Sublease rental revenue	(20)	(60)	(20)	(60)
Rental and operating lease costs	474	553	253	278

### 33. Earnings Per Share

	2011	2010
	12 Months \$'000	15 Months \$'000
<b>Basic earnings per share</b>		
The calculation of basic earnings per share based on:		
Net loss attributable to ordinary shareholders		
from continuing operations adjusted for preference share dividends	(3,952)	(7,470)
from discontinued operations	-	745
Total	(3,952)	(6,725)
<b>Weighted average number of ordinary shares</b>		
	Number	Number
	'000	'000
Issued Ordinary Shares at beginning of period	122,886	104,273
Effect of warrants exercised in June 2009	-	21
Effect of conversion of Conv.pref.shares to ordinary shares March 2009	-	14,863
Conversion of Conv.pref.shares to ordinary shares April 2009	-	1,033
Effect of conversion of Conv.pref.shares to ordinary shares June 2009	-	28
Effect of conversion of Conv.pref.shares to ordinary shares October 2009	-	39
Effect of conversion of Conv.pref.shares to ordinary shares December 2010	895	-
Weighted average number of ordinary shares at 31 March 2011	123,781	120,257
<b>Basic loss per share (cents)</b>		
from continuing operations	(3.19)	(6.21)
from discontinued operations	-	0.62
Total	(3.19)	(5.59)

#### Diluted earnings per share

Convertible preference shares are convertible into ordinary shares and are therefore considered dilutive securities for the calculation of diluted net earnings per share. For the years ended 31 March 2011 and 2010 these were anti-dilutive.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 34. Securitisation Arrangement

The Group has entered into a securitisation arrangement with Wairahi Trust (Wairahi), a major funder of the Group. The arrangement was put in place to partially settle the outstanding borrowings from Wairahi, which are on call.

Under the agreement the Group has assigned a number of assets, including finance receivables, loan receivables designated at fair value and a loan to an associate, in settlement of a portion of the debts owing to Wairahi. Under the arrangement the Group has guaranteed the performance of these assets.

While, legally the arrangement has the effect of settling a significant portion of the Group's on call funding, under NZ IAS 39 Financial Instrument: Recognition and Measurement the guaranteed performance of the underlying assets means the Group cannot derecognise the assets as it has retained substantially all the risks and rewards of ownership of the assets.

Accordingly, the Group continues to recognise the assets and a related securitisation liability for the amount of the assets.

The principal components of the arrangement are :

i) Nature assets transferred

	Face Value	Carrying Value	Settlement Date
Finance Receivables	1,096,434	572,436	1 Jun 10
Fair value receivables	1,747,715	1,180,151	1 Jun 10
SSL Loan	200,000	200,000	1 Jun 10
CCS shares	18,726	7,892	1 Jun 10
CCS shares	2,605	-	31 Dec 10
CSSL Preferences	107,500	-	1 Jun 10
	<b>3,172,980</b>	<b>1,960,479</b>	

ii) Details of the guarantee

The Group guarantees that if any of the assigned receivables subject to the arrangement should enter into a salvage state and / or collectability of these receivables becomes doubtful these debts will be replaced with debts of which the debtors are

iii) There is no relationship between CHL and the Trust other than this transaction and a continuing borrowing relationship in respect of a further \$3 million which the CHL Group has with Wairahi.

iv) CHL Group continues to administer the loan ledgers on behalf of Wairahi and does not charge a fee for this service.

v) CHL Group (the assignor) has covenanted that

- a) the consideration for the transfer has been calculated between the parties as the current value of the debt taking account of the terms of the agreement and the requirements, costs and risks associated with the collection of the debts from the
- b) the assignor will provide the assignee with a signed notice to the debtor of the assignment effected by the deed
- c) the assignor warrants that it has not created any charge or encumbrance in respect of the debt
- d) the assignor guarantees that if any of the assigned debts subject to the deed of assignment should enter into a salvage state and/or collectability of those debts becomes doubtful then these debts will be replaced with debts of which the debtors are

### 35. Subsequent Events

Subsequent to reporting date the company tax rate in New Zealand has reduced from 30% to 28% effective for financial period beginning 1 April 2011. There are no subsequent events that require disclosure or adjustments on the financial statements.

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 36. Impairment of Intercompany Investments and Receivables

*Impairment of intercompany investments* - 2011 \$nil (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 year (2010: nil).

### 37. Related Parties

#### Identity of related parties:

All of the Directors listed in the Directory are related parties to the Group. The Directors are commonly Directors of Cynotech Finance Group Ltd, Budget Loans Ltd, Evolution Finance Ltd, Cynotech Systems Ltd (not trading), and Broadway Mortgage Custodians Ltd (not trading).

Cynotech Securities Group Ltd is the majority shareholder in Cynotech Holdings. All of the Directors are common Directors of Cynotech Securities Group Ltd.

Cynotech Securities Ltd is the sole ordinary shareholder of Cynotech Securities Group Ltd. Mr. AR Hawkins is the sole Director of Cynotech Securities Ltd. Cynotech Securities Ltd is a private investment company owned by various Hawkins interests.

Allan Hawkins is a common Director and shareholder of the Group, Cynotech Securities Group Ltd and sole Director of its parent Cynotech Securities Limited. He is also a common Director of Newmarket Securities Limited, Cynotech Finance Ltd and Cynotech Corporation Ltd.

Laurel Hawkins, wife of Allan Hawkins is a Director of Cynotech Finance Ltd.

Wayne Hawkins is a Director of Cynotech Securities Group Limited, Cynotech Finance Ltd and Cynotech Corporation Ltd.

Paul Hutchinson is the common Director of the Group, Cynotech Securities Group Limited, Cynotech Corporation Ltd, Personal Finance Limited and Bridging Finance Limited.

Paul Hutchinson and Cynotech Securities Limited are major shareholders of Newmarket Securities Limited.

Paul Hutchinson is a shareholder in Cynotech Holdings Ltd.

Kevin McDonald is common Director and shareholder of the Group and Cynotech Securities Group Ltd and is a common shareholder of Cynotech Corporation Ltd. He also provides legal advice for the Group.

Brett Tawse is a Director of Farquharson and Fraser Limited, is a shareholder of Cynotech Holdings Ltd and was a Director of FinData Limited (resigned May 2010). He is also a Director of Cynotech Corporation Ltd, Cynotech Finance Group Ltd, Budget Loans Ltd, Evolution Finance Ltd, Cynotech Systems Ltd (not trading) and Broadway Mortgage Custodians (not trading).

Brett Tawse and Wayne Hawkins are key management personnel and are shareholders of the Group's parent company Cynotech Securities Ltd.

FinData Ltd was a 23.72% associate of Cynotech Holdings Ltd until 23 July 2010 when it was sold.

Seating Systems Ltd is a 31% associate of Cynotech Holdings Ltd.

Cynotech Holdings Ltd received no management and executive fees from FinData Ltd for 2011 (2010: \$12,187).

Cynotech Holdings Ltd received no management fee from Seating Systems Ltd for 2011 (2010: \$78,750).

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:

*A.R. Hawkins related party transactions:*

Deposits from related parties - refer note 22.

Interest paid on deposits from related parties - refer note 22.

Cynotech Securities Ltd has unsecured deposits with the Group of \$577,610 (2010: \$174,709) refer note 22.

Cynotech Securities Ltd has registered a general security agreement over the undertaking of Evolution Finance Ltd in respect of its loan to that company. Value \$1,505,727. (2010: \$1,500,000).

Cynotech Securities Ltd owns 69 shares being 69% of the share capital of Seating Systems Ltd.

Cynotech Securities Group Ltd transferred 100 ordinary CYT shares to each of Paul Hutchinson and Brett Tawse in 2011.

Cynotech Finance Ltd purchased as a nominee holder for an unrelated third party 37,265 CYTHA shares from Cynotech Corporation Ltd

Seating Systems Ltd has an intercompany loan with Cynotech Holdings Ltd, (\$2,967,798, 2010: \$3,856,509.72) and with Cynotech Finance Ltd (\$700,000, 2010: Nil) and Cynotech Securities Ltd (\$1,020,136, 2010: \$2,481,546).

Seating Systems Limited pays interest to Cynotech Securities Ltd at the rate of 8% and 12% per annum on funds advanced by Cynotech Securities Ltd. Total advanced \$1,020,136 (2010: \$2,481,546). Interest paid \$223,160 (2010: \$197,338)

Seating Systems Limited pays interest to Cynotech Holdings Ltd at the rate of 8% and 12% per annum on funds advanced by Cynotech Holdings Ltd. Total advanced \$2,967,798 (2010 \$3,875,009). Interest earned \$387,209 (2010: \$247,988)

## Notes to the Financial Statements *for the year ended 31 March 2011*

### 37. Related Parties (continued)

The Group paid management fees of \$300,000 to Cynotech Securities Ltd to 12 months ended March 2011 (\$360,000 15 months ended March 2010).

Receivables where the credit risk and funding is shared with Cynotech Securities Ltd totalled \$25,000 (2010: \$155,500) - refer note 11.

Cynotech Securities Group Ltd converted 1,702,608 Convertible Preference shares to ordinary shares.

During the year guarantees provided by Directors on loans secured against properties held for sale at Mt. Maunganui ceased subject to normal banking rules when the National Bank loans were repaid. - refer note 23.

#### *P.J. Hutchinson related party transactions:*

Directors fees paid by the Company, \$22,750. (2010: \$30,750).

Deposits from related parties - refer note 22.

Interest paid on deposits from related parties - refer note 22.

During the year guarantees provided by Directors on loans secured against properties held for sale at Mt. Maunganui ceased subject to normal banking rules when the National Bank loans were repaid. - refer note 23.

#### *K.P. McDonald related party transactions:*

Directors fees paid by the Company. \$21,000 (2010: \$32,750).

Kevin McDonald purchased as Trustee for Cynotech Holdings Ltd a property at Mt. Maunganui from Cynotech Corporation Ltd

He receives a 2%p.a. facility fee paid monthly on the diminishing loan balance and a 2% p.a. fee for the deposit taken as security on another of his properties.

During the year guarantees provided by Directors on loans secured against properties held for sale at Mt. Maunganui ceased subject to normal banking rules when the National Bank loans were repaid. - refer note 23.

#### *N.B. Tawse related party transactions:*

NB Tawse has a deposit of \$20,000 (2010 \$89,530) with Cynotech Finance Group Ltd.

During the year Guarantees provided by Directors on loans secured against properties held for sale at Mt. Maunganui ceased subject to normal banking rules when the National Bank loans were repaid. - refer note 23.

### Subsidiaries

Cynotech Holdings Ltd owe Cynotech Finance Group Ltd \$9,975,884 (2010: \$8,844,684) as an intercompany loan.

Cynotech Holdings Ltd owe Snowdon Ltd (not trading) \$286,613 (2010: \$67,482) as an intercompany loan.

Cynotech Holdings Ltd is owed by Cynotech Corporation Ltd \$ 218,796 (2010: owe \$66,070) as an intercompany loan.

Cynotech Holdings Ltd owe Cynotech Systems Ltd (not trading) \$783,339 (2010: \$694,586) as an intercompany loan.

Cynotech Holdings Ltd owe Broadway Mortgage Custodian Ltd (not trading) \$310,807 (2010: \$310,807) as an intercompany loan.

#### *FinData related party transactions*

FinData has been sold and is no longer a related party.

At the time of the sale of Cynotech Holdings Ltd share holding in FinData to Broker Technology Trustee Ltd the settlement agreement included extended payment terms.

### Associate

#### *Seating Systems Ltd related party transactions*

Seating Systems pays interest on loans to Cynotech Securities Ltd (\$223,160) (2010: \$197,338) and to Cynotech Holdings Ltd (\$387,209) (2010: \$311,047).

#### *FinData related party transactions*

FinData has been sold and is no longer a related party.

At the time of the sale of Cynotech Holdings Ltd share holding in FinData to Broker Technology Trustee Ltd the settlement agreement included extended payment terms.

### Key management personnel remuneration

	2011 \$'000	2010 \$'000
Short term employment benefits	355	584
Post-employment benefits	-	-
Other long-term benefits	4	7
Termination benefits	-	-
Share-based payment	-	-
	359	591

The above includes payments to Directors and ex-Directors, Mr. Wayne Hawkins and Mr. Brett Tawse, respectively. It excludes fees paid in respect of Mr. Allan Hawkins of \$300,000. Refer to details on page 47.

## Governance

### Governance

The overall responsibility for ensuring that the Company is properly managed to enhance investor confidence through corporate governance and accountability lies with the Board of Directors. The Board of Directors has adopted a corporate governance code ("Code").

The Code and its governance practices for the year ended 31 March 2011 are generally consistent with the principles identified in the "Corporate Governance in New Zealand Principles and Guidelines" report, released by the New Zealand Securities Commission in 2004.

Our governance practices for the year ended 31 March 2011 generally comply with the NZX Corporate Governance Best Practice Code with some amendments to best suit the status of our business.

The Company will continue to monitor best practice in the governance area and update its policies to ensure it maintains the most appropriate standards. A copy of our corporate Governance document is available on our website under Investor Relations.

### The Board of Directors

The Board's key responsibilities are to formulate the strategic direction of the Company, to oversee the financial and operational controls of the business and to manage appropriate risk management strategies and policies. Our governance structure and practices encourage high standards of ethical conduct and provide accountability and control systems commensurate with the size of the business, our management structure and the risks involved.

The Board is also responsible for fostering corporate culture, the appointment and remuneration of the Managing Director and reviewing senior executives' appointments, the adoption of corporate plans and policies, the approval of transactions of substance and the review of business risks.

### Board Membership

To year end March 2011 the Board consisted of two independent Directors, one Chairman and one Executive Director, with non Executive Directors being elected based on the value they bring to the Board.

Each Cynotech Holdings Director is a skilled and experienced business person. Together they provide value by making quality contributions to corporate governance matters, conceptual thinking, strategic planning, policies and providing guidance to management.

The Board to 31 March 2011 consisted of:

Mr Allan Hawkins	Chairman
Mr Wayne Hawkins	Executive Director
Mr Kevin McDonald	Independent Director
Mr Paul Hutchinson	Independent Director

The number of elected Directors and the procedure for their retirement and re-election at annual meetings of shareholders are set out in the Constitution of the Company.

### Director Independence

In order for a Director to be independent, the Board has determined that he or she must not be an executive of Cynotech Holdings and must have no disqualifying relationship.

### Nomination and Appointment of Directors

The Board is responsible for identifying and recommending candidates. Directors may also be nominated by shareholders under NZAX Listing Rule 3.2.2.

A Director may be appointed by ordinary resolution.

The Board may at any time appoint additional Directors. A Director appointed by the Board shall only hold office until the next annual meeting of the Company, but shall be eligible for election at that meeting.

One third of Directors shall retire from office at the annual meeting each year. The Directors to retire shall be those who have been longest in office since they were last elected or deemed to be elected.

## Governance (Continued)

### Directors Meetings

The number of meetings held during the year and attended by Directors is detailed in the following table:

Director	AGM and Board
Allan Hawkins	12
Paul Hutchinson	12
Kevin McDonald	11
Wayne Hawkins	11

### Disclosure of Interests by Directors

The Code sets out the procedures to be followed where Directors have an interest in a transaction or proposed transaction or are faced with a potential conflict of interest requiring the disclosure of that conflict to the Board. Each Company in the Cynotech Holdings Group is required to maintain an interests register in which particulars of certain transactions and matters involving Directors must be recorded. The interests register for Cynotech Holdings and its subsidiaries is available for inspection at its registered office.

Details of matters entered into the interests register by individual Directors are outlined on pages 46,47 and 48 of the report.

### Board Committees

The Board does not operate formal committees. There are also lending policies set by the Board where individual loans may require full Board approval prior to an advance being made, effectively operating as a Lending and Credit Committee. The Board, having regard to the size of the Company's Board, deals with matters that might otherwise be dealt with by committees.

### Audit Committee

The full board of directors including executive and non executive directors is constituted as an audit committee to formally meet with the auditors for full respect of reviews in

- \* Accounting policies
- \* Annual report and notes to the accounts
- \* Forward budget and cash flow forecasting practices
- \* Going concern
- \* Internal control functions
- \* Review of significant accounting decisions and policies

Although the Board as a whole is responsible for accuracy and relevance of the Company's financial statements, the Company employs professional advisors whose professional judgment and advice the Board depends on. The company also uses the services of shareholder appointed Auditors for additional and more specialised oversight in terms of the Audit and preparation of the Annual Financial statements. The Board critiques internal processes and the quality and cost of the audit undertaken by the Company's external auditors.

### Remuneration Committee

During the 2010/11 financial year, the full Board dealt with the functions of a remuneration committee, being to review and recommend remuneration, benefits and terms of employment for the Company's senior executives, including the CEO (noting Disclosure of Interests by Directors in the clause above). This function includes responsibility for share option schemes, incentive performance packages and fringe benefit policies.

### Lending and Credit Committee

The full Board of Directors acting as a Lending and Credit Committee reviews the lending and credit performance and policies of Cynotech Holdings Ltd and its subsidiaries. It is also responsible for the approval of subsidiary company lending policy, the approval/decline of loan applications within the terms of senior management approval authority and reviews the recovery of overdue loans and doubtful debt provisions in order to ensure that provisioning is satisfactory.

### Remuneration of Directors

Remuneration of Directors is approved by shareholders. Details of Directors and Executives' remuneration and entitlements are detailed on pages 47 and 48.

No resolution was put to shareholders regarding fees payable to Directors which was \$43,750 per annum in 2011. (For 15 month period ended 31 March 2010 the total sum approved was \$56,250).

The amount currently being paid to each non-executive Director (other than the Chairman) of the Company is on the basis of \$1,750 per Board Meeting attended (resolved at AGM in April 2009). Cynotech Securities Ltd is paid an annual management fee of \$300,000.

## Shareholder and Additional Statutory Information

### Stock Exchange Listing

The Company's shares were listed on the main board of the New Zealand Exchange (NZX) for 2010 year, moving to NZAX on 28 April 2010.

Ordinary shares are listed under the ticker code CYT.

Warrants are listed under the ticker code CYTWA.

Cynotech Capital Securities are listed under the ticker code CTYHA.

Shares are also listed on DEBEX, a Trading facility where share trading can be viewed at:

[http://www.debentures.co.nz/secondary\\_market.html](http://www.debentures.co.nz/secondary_market.html)

### Principal Security Holders as at 29 April 2011

#### Ordinary Shares

This table lists the names and holdings of the 20 largest holdings of ordinary shares issued by the Company:

	Ordinary Shares	
	No.	%
Cynotech Securities Group Ltd	98,026,157	77.68
FNZ Custodians Ltd	3,206,800	2.54
Guardian Trust Investment Nominees Ltd	3,125,000	2.48
Ace Finance Ltd	1,168,354	0.93
Anthony Edwin Falkenstein	828,060	0.66
Prospect Custodian	812,390	0.64
Sean Anthony Dennehy	629,714	0.50
Anthony Edwin Falkenstein + Ian Donald Malcom	521,792	0.41
Penelope Margaret Hutchins	444,045	0.35
William Francis Coman.	427,479	0.34
Walter Mick George Yovich	406,676	0.32
Hedgehog Funds Nominees Ltd	401,854	0.32
Maximilian Richard McCabe	333,000	0.26
Heather Patricia O'Loughlin	326,487	0.26
Paul Harvey Quinn	306,272	0.24
Heather Jeanette Falkenstein	285,329	0.23
Basil Courtney McGirr	281,656	0.22
John Rennie Scott	271,361	0.22
David Clifford Young	254,296	0.20
Paul Skolik	253,314	0.20
<b>Total large holders</b>	<b>112,310,036</b>	<b>89.00</b>
<b>Total securities on issue</b>	<b>126,189,220</b>	

### Principal Warrant Holders as at 29 April 2011

This table lists the names and holdings of the 20 largest holdings of warrants issued by the Company:

	Warrants	
	No	%
Cynotech Securities Group Ltd	20,211,664	71.90
Heather Patricia O'Loughlin	1,581,722	5.63
John Jeffers Harrison	625,000	2.22
FNZ Custodians Ltd	286,157	1.02
Anthony Edward Falkenstein	268,980	0.96
Exchequer Securities Ltd	202,500	0.72
Dayal Lallu	200,000	0.71
Kelvin Robert Green	175,883	0.63
Francesse Kaye Middleton	150,000	0.53
William Richard Treuren	150,000	0.53
Estate Rafael Cohn	139,484	0.50
Rex Raymond & Norma May Tanner	124,543	0.44
David George Clark	112,412	0.40
John Reginald Wood	107,200	0.38
Richard Selwyn Hamblett	100,000	0.36
ACE Finance Ltd	99,999	0.36
Bryan Hector Heron	87,230	0.31
John Alfred George Paul	85,000	0.30
Gary David Turner & Diane Brabant	81,081	0.29
GR & SE Walker & WM Patterson	75,000	0.27
<b>Total large holders</b>	<b>24,863,855</b>	<b>88.46</b>
<b>Total warrants on issue</b>	<b>28,108,354</b>	

Warrants expired on 27 June 2011

## Shareholder and Additional Statutory Information (Continued)

### Principal Capital Securities Holders as at 29 April 2011

This table lists the names and holdings of the 20 largest holdings of Capital Securities issued by the Company:

	Capital Securities	
	No	%
Philip & Pamela Briggs	285,611	15.83
Cynotech Securities Group Ltd	188,008	10.41
M.Daniel, N. Burton, M. Benjamin	157,480	8.73
Newmarket Securities Ltd	135,722	7.52
FNZ Custodians Ltd	42,751	2.37
Guardian Trust Investment Nominees Ltd	41,667	2.31
Cynotech Finance Limited	39,870	2.21
Brian McKenzie & G. Newlove	29,784	1.65
Glenn & Sonja Hawkins	29,129	1.61
Allan & Lynne Nobilo	28,197	1.56
J McMillan, B. Lawler, L. Lawler	24,627	1.36
Tribal Nominees Limited	22,016	1.22
Polar Blast Limited	21,657	1.20
Kevin Patrick McDonald	21,570	1.20
Wairahi Holdings Ltd	19,828	1.10
Norman & Josephine Godden	18,906	1.05
Malamute Investments	18,062	1.00
Glenn Hawkins	17,267	0.96
Richard & Elizabeth Craddock	16,198	0.90
Ace Finance Ltd	15,578	0.86
<b>Total large holders</b>	<b>1,173,928</b>	<b>65.05</b>
<b>Total Capital Securities on issue</b>	<b>1,804,658</b>	

### Preference shares

Preference shares automatically converted to Ordinary shares at 1:1 on 22 December 2010.

### Spread of Security Holders as at 29 April 2011

#### Ordinary Shares

The following table shows the spread of voting ordinary shares by number of holders and number of securities held:

Size of holding	Ordinary Shares		Holders	
	No.	%	No.	%
1-1,000	12,693	0.01	24	4.19
1,001-5,000	447,308	0.35	190	33.16
5,001-10,000	592,052	0.47	79	13.79
10,001-100,000	7,781,735	6.17	229	39.96
Over 100,000	117,355,432	93.00	51	8.90
<b>Totals</b>	<b>126,189,220</b>	<b>100.00</b>	<b>573</b>	<b>100.00</b>

#### Warrants

The following table shows the spread of warrants by number of holders and number of securities held:

Size of holding	Warrants.		Holders	
	No.	%	No.	%
1-1,000	116,715	0.41	198	33.56
1,001-5,000	529,573	1.89	219	37.12
5,001-10,000	495,985	1.76	70	11.86
10,001-100,000	2,630,536	9.36	89	15.09
Over 100,000	24,335,545	86.58	14	2.37
<b>Totals</b>	<b>28,108,354</b>	<b>100.00</b>	<b>590</b>	<b>100.00</b>

Warrants expired on 27 June 2011

## Shareholder and Additional Statutory Information (Continued)

### Capital Securities

The following table shows the spread of capital securities by number of holders and number of securities held:

Size of holding	Capital Securities.		Holders	
	No.	%	No.	%
1-1,000	146,503	8.12	525	77.09
1,001-5,000	253,365	14.04	110	16.15
5,001-10,000	82,034	4.54	13	1.91
10,001-100,000	555,935	30.81	29	4.26
Over 100,000	766,821	42.49	4	0.59
<b>Totals</b>	<b>1,804,658</b>	<b>100</b>	<b>681</b>	<b>100</b>

### Directors share dealing to 31 March 2011

- Cynotech Securities Group Ltd (a company associated with Mr A.R. Hawkins) converted 1,702,608 Convertible Preference shares to Ordinary shares on 22 December 2010, being their maturity date.
- Cynotech Securities Group Ltd (a company associated with Mr Hawkins) transferred 100 Ordinary shares to each of Mr.PJ Hutchinson and Mr NB Tawse on 21 July 2010.
- Cynotech Finance Ltd (a company associated with Mr A.R. Hawkins) purchased as a nominee holder for an unrelated third party 37,265 Cynotech Capital Securities from Cynotech Corporation Ltd on 30 August 2010.
- Cynotech Finance Ltd (a company associated with Mr A.R. Hawkins) purchased as a nominee holder for an unrelated third party 2,605 Cynotech Capital Securities on 10 January 2011.
- Cynotech Corporation Ltd purchased Cynotech Capital Securities (a company associated with Mr A.R. Hawkins) as follows: 7 April 10 23,400 shares ; 19 April 7,500 shares; 20 April 6,365 shares.
- Mr P J Hutchinson was transferred 100 Cynotech Ordinary shares on 21 July 2010.

### Substantial security holders

The following information is given pursuant to section 26 of the Securities Markets Act 1988.

During the year no Substantial Security Holder Notices were provided to the company.

The following are registered by the Company as at 29 April 2011 as substantial security holders in the Company, having declared a relevant interest in voting securities under section 35F of the Securities Markets Act 1988.

Substantial security holders	No. of voting Securities	Total Number of voting securities	Holding Percentage
Cynotech Securities Group Ltd	98,026,157	98,026,157	77.68%

### Directors' shareholding

The following details the Directors interests in the Company as at 29 April 2011

Directors Holding	Ordinary shares	Warrants	Cynotech Capital Securities
Mr A Hawkins (through Cynotech Securities Group Ltd)	98,026,157	20,211,664	188,088
Mr K McDonald	Nil	Nil	21,570
Mr PJ Hutchinson	100	Nil	4,985
Mr WR Hawkins	Nil	Nil	1,289

## Shareholder and Additional Statutory Information (Continued)

### Directors holding office during the year

<b>Group and Parent</b>	A.R. Hawkins	B.Com	Chairman & Chief Executive
	P.J. Hutchinson		Independent Director
	K.P. McDonald	LLB	Independent Director
	W.R. Hawkins		Executive Director

### Remuneration of Directors

#### Directors fees

	GROUP		COMPANY	
	2011 12 Mths	2010 15 Mths	2011 12 mths	2010 15 mths
A.R. Hawkins	-	-	-	-
P.J. Hutchinson	22,750	30,750	22,750	30,750
K.P. McDonald	21,000	27,750	21,000	27,750
W.R. Hawkins	-	-	-	-
N.B. Tawse	-	-	-	-
	<u>43,750</u>	<u>58,500</u>	<u>43,750</u>	<u>58,500</u>

#### Other fees

	GROUP		COMPANY	
	2011 12 Mths	2010 15 Mths	2011 12 mths	2010 15 mths
A.R. Hawkins	300,000	360,000	300,000	360,000
P.J. Hutchinson	-	-	-	-
K.P. McDonald	2	-	-	-
W.R. Hawkins	-	-	-	-
N.B. Tawse	-	-	-	-
	<u>300,002</u>	<u>360,000</u>	<u>300,000</u>	<u>360,000</u>

Mr A.R. Hawkins' interests have been paid an amount of \$300,000 (15 month period ended 31 March 2010: \$360,000) being remuneration for Mr Hawkins' involvement as Chairman and Chief Executive.

Mr W.R. Hawkins remuneration was \$133,000 (2010 15 month period \$166,250).

Mr N.B. Tawse remuneration was \$195,500 (2010 15 month period \$244,375).

### Remuneration of employees

There was one employee whose remuneration was between \$110,000 and \$119,999.

There was one employee whose remuneration was between \$130,000 and \$139,999.

There was one employee whose remuneration was between \$190,000 and \$199,999.

The above analysis includes the amounts paid to Mr. W.R. Hawkins and Mr. N.B. Tawse details as above.

### Entries in the interest register

A.R. Hawkins declared interests in respect of:

Being a Director of Cynotech Securities Group Ltd a company holding 78% of ordinary shares in Cynotech Holdings Ltd; 52% of Cynotech preference shares until their maturity date of 22 December 2010 when they converted to ordinary shares at 1:1; and holding 72% of Cynotech Warrants.

Being sole Director and a shareholder of Cynotech Securities Ltd, parent company of Cynotech Securities Group Ltd.

Cynotech Securities also holds 10% of Cynotech Holdings Capital Securities.

Being a Director and shareholder in Newmarket Securities Ltd, a company in which Cynotech Securities Ltd holds shares. Newmarket Securities also holds 8% of Cynotech Holdings Capital Securities.

Unsecured deposit funds advanced to Cynotech Finance Group Ltd.

Secured deposit funds advanced to Evolution Finance Ltd.

Receivables written by the Budget Loans Ltd where the credit risk and funding is shared equally with Cynotech Securities Ltd.

As a shareholder in Seating Systems Ltd through Cynotech Securities Ltd and as a Director of Seating Systems Ltd, as well as being a Director of Cynotech Holdings a company which holds 31% of the shares in Seating Systems Ltd.

Director of subsidiary companies, Cynotech Finance Group Ltd, Budget Loans, Evolution Finance Ltd, Cynotech Corporation Ltd, Snowdon Ltd, Cynotech Systems Ltd (not trading) and Broadway Mortgage Custodians Ltd (not trading)

Cynotech Capital Securities issued previously to both Cynotech Securities Ltd and Newmarket Securities Ltd by Cynotech Holdings Ltd

K.P. McDonald declared interests in respect of:

Being a Director of Cynotech Securities Group Ltd a company holding 78% of ordinary shares in Cynotech Holdings Ltd; 52% of Cynotech preference shares until their maturity date of 22 December 2010 when they converted to ordinary shares at 1:1; and holding 72% of Cynotech Warrants.

Cynotech Capital Securities previously issued to Mr K.P. McDonald by Cynotech Holdings Ltd.

Being the holder in Trust of a mortgage, and providing security for a property owned by Cynotech Corporation Ltd.

Director of subsidiary companies Cynotech Finance Group Ltd, Budget Loans, Evolution Finance Ltd, Cynotech Corporation Ltd, Snowdon Ltd, Cynotech Systems Ltd (not trading) and Broadway Mortgage Custodians Ltd (not trading).

Being paid professional fees for legal advice given to Group companies.

P.J. Hutchinson declared interests in respect of:

Being a Director of Cynotech Securities Group Ltd a company holding 78% of ordinary shares in Cynotech Holdings Ltd; 52% of Cynotech preference shares until their maturity date of 22 December 2010 when they converted to ordinary shares at 1:1; and holding 72% of Cynotech Warrants.

Ordinary shares held in Cynotech Holdings Ltd.

Being a Director and shareholder in Newmarket Securities Ltd, a company in which Cynotech Securities Ltd holds shares. Newmarket Securities also holds 8% of Cynotech Holdings Capital Securities.

Cynotech Capital Securities previously issued to Newmarket Securities Ltd by Cynotech Holdings Ltd.

Unsecured deposit funds advanced to Cynotech Finance Group Ltd.

Director of subsidiary companies Cynotech Finance Group Ltd, Budget Loans, Evolution Finance Ltd, Cynotech Corporation Ltd, Snowdon Ltd, Cynotech Systems Ltd (not trading) and Broadway Mortgage Custodians Ltd (not trading).

## Shareholder and Additional Statutory Information (Continued)

### Entries in the interest register (Continued)

W.R. Hawkins declared interests in respect of:

Being a Director of Cynotech Securities Group Ltd a company holding 78% of ordinary shares in Cynotech Holdings Ltd; 52% of Cynotech preference shares until their maturity date of 22 December 2010 when they converted to ordinary shares at 1:1; and holding 72% of Cynotech Warrants.

Cynotech Capital Securities previously issued to Wayne Hawkins by Cynotech Holdings Ltd

Unsecured deposit funds advanced to Cynotech Finance Group Ltd.

Director of subsidiary companies Cynotech Finance Group Ltd, Budget Loans, Evolution Finance Ltd, Cynotech Corporation Ltd, Snowdon Ltd, Cynotech Systems Ltd (not trading) and Broadway Mortgage Custodians Ltd (not trading).

N.B. Tawse as a senior executive of Cynotech Holdings declared interests in respect of:

Ordinary shares held in Cynotech Holdings Ltd.

An unsecured deposit in the name of Farquharson and Fraser.

Unsecured deposits held by his brother Daryll, and sister Merrilyn in Cynotech Finance Group Ltd.

Director of FinData Ltd. (resigned 4 May 2010).

Director of subsidiary companies Cynotech Finance Group Ltd, Budget Loans, Evolution Finance Ltd, Cynotech Corporation Ltd, Snowdon Ltd, Cynotech Systems Ltd (not trading) and Broadway Mortgage Custodians Ltd (not trading).

Being a Director of Farquharson and Fraser a company holding Cynotech Capital Securities previously issued by Cynotech Holdings Ltd.

### Directors Indemnity and Insurance

The Company has arranged policies of Directors and Officers liability insurance which together with an indemnity provided under the company constitution ensures that generally directors will incur no monetary loss as a result of actions taken by them as directors. Certain actions are excluded, for example penalties and fines may be imposed in respect of breaches of law, and there are normal insurance limitation/condition clauses.

### Dividend Reinvestment Plan

The Company does not operate a Dividend Re-Investment plan.

### Hawkins interests

Pursuant to section 45 of the Takeovers Act 1993 an exemption was granted on 2 December 2008 to Hawkins interests.

The Takeovers Panel in granting an exemption from rule 7(d) and 16(b) of the Takeovers Code relating to Hawkins interests converting convertible preference shares and warrants required the following information to be published.

Exemptions from Rule 7(d) and 16(b) Conversion and Warrant Exercise Approved.

The Panel approved the granting, by notice signed under seal, of the following exemptions from the Code, pursuant to section 45 of the Takeovers Act 1993:

- a) An exemption for Cynotech from rule 16(b) of the Code in relation to the Conversion and Warrant Exercise.
- b) An exemption for each of the Hawkins Interests (listed in the attached schedule) from rule 7(d) of the Code in respect of the Conversion and Warrant Exercise, to the extent that that provision requires a notice of meeting of shareholders to be in accordance with rule 16(b) of the Code.

Conditions applying to this exemption

- c) Summary of terms of convertible preference shares & warrants.  
The terms of the convertible preference shares are that the shares can be converted to ordinary shares at the rate of one for one by giving the Company 30 days notice in writing.  
The terms of the warrants are that they can be converted on the 27 June 2009 or 27 June 2010 by paying 30c per share.
- d) The following information is to be provided on the basis that there is no change to the total number of voting securities on issue up to the final conversion / exercise date other than Hawkins interests.

- 1) Converting their convertible preference shares.
- 2) Exercising their warrants.

Further summarized conditions of the Takeover Panel exemption are that:

- 3) The number of shares converted or warrants exercised is to be published.
- 4) The percentage of total voting securities after allotment in 3) above is to be published.
- 5) The maximum number and percentage that could be held by Hawkins interests after allotment.
- 6) The maximum percentage that could be held by Hawkins interests if CBD Solutions Ltd may have been an associate of Hawkins interests as per Takeover Panel deliberations.
- 7) There is no change to effective control of Cynotech Securities Ltd or Newmarket Securities Ltd up to the date of last allotment of voting securities under the Conversion and Warrant Exercise.

Following the Take-over offer by Cynotech Securities Group Ltd, and full disclosure of that transaction to the market, and in this report, Hawkins interests do not now hold any Ordinary shares, Convertible preference shares, or Warrants in Cynotech Holdings effective from 31 March, 2010.

In terms of full disclosure it has previously been reported as required under the take-over exemption that all ordinary shares, and warrants held by Hawkins Interests converted to Cynotech Securities Group Ltd preference shares on 31 March 2010. There were no Cynotech preference shares being held by Hawkins Interests at the time of the Take-over.

Cynotech Securities Group Ltd also received acceptances for a total of 1,702,608 Cynotech Holdings convertible preference shares from other than Hawkins Interests at the time of its take-over offer. These Cynotech preference shares held by a subsequent entity of 'Hawkins Interests' were converted on maturity date of 22 December 2010 to Cynotech Holdings ordinary shares.

- A.R. Hawkins**      **Chairman**  
Allan has over 40 years experience in the finance industry at all levels of accounting and management roles. Over this period he has been involved at senior management, CEO, CFO and Director level. Allan has an intimate knowledge of all aspects of finance company management and an extensive background in all aspects of finance company administration, credit control and finance company funding. He provides a solid platform and wealth of experience and knowledge to the strategic management of the Cynotech Holdings Group businesses.
- W.R.Hawkins**      **Executive Director**  
Wayne has business experience both in New Zealand and abroad. He has been involved in the management of a variety of operations from a wide range of different industries. He has received training in the IT industry which enables him to also manage our IT needs. Wayne brings a disciplined, hands-on approach to our senior management team.
- P.J. Hutchinson**      **Director**  
Paul has been in the banking/finance industry for over 40 years and has held senior management positions in several finance companies over the past 35 years. He has considerable experience in finance company operations, particularly in the credit assessment/lending field and is currently the Managing Director of a successful, privately owned finance company.
- K.P. McDonald**      **Director**  
Kevin is a solicitor with approximately 30 years experience as a principal in a law firm. He is a Director of a number of private companies, and a trustee of a number of trusts. He has wide general experience in the legal field. He is currently the principal of a law firm with three staff solicitors and four other staff members. He is experienced in legal issues relating to lending, enforcement of securities, and property transactions.

## Financial Calendar

Year end	31 March 2011
NZX year end preliminary announcement	14 June 2011
Final Warrant exercise date, Warrants expire	27 June 2011
Second Quarter CYTHA dividend closing date	30 June 2011
Advice of opening and closing date Director nominations	1 July 2011
Second Quarter CYTHA dividend payment date	8 July 2011
Closing date for Director nominations	22 July 2011
Annual Report published	29 July 2011
Notice of Meeting issued	7 September 2011
Annual General Meeting	21 September 2011
Share Register closed for ordinary share dividend	N/A
Ordinary share dividend payment	N/A
Half Year	30 Sept 2011
Half Year results preliminary announcement	Mid Dec 2011
Half Year results announced (Latest date)	31 Jan 2012

**C**ynotech Holdings Ltd

**Annual Report**

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