



Independent Adviser's Report

Under Rule 18 of the Takeovers Code and

Independent Appraisal Report

under Rule 6.2.2(a) of the NZX Listing Rules

in relation to proposals for

Interests Associated with the Hawkins Family

To acquire and/or be allotted additional ordinary shares in

Cynotech Holdings Ltd

1 December 2008

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1 December 2008

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INDEPENDENT ADVISER REPORT UNDER TAKEOVERS CODE RULE 18 AND INDEPENDENT APPRAISAL REPORT UNDER NZX RULE 6.2.2

1 INTRODUCTION

Cynotech Holdings Limited (“Cynotech”), a company listed on the NZSX Market, is a Code Company for the purposes of the Takeovers Code. Mr. Hawkins, the chairman of Cynotech, together with interests associated with his family (“Hawkins Interests”), currently controls approximately 23.10% of the voting securities of Cynotech. This report is addressed to those directors of Cynotech not associated with Mr Hawkins or the Hawkins Interests.

Cynotech and the Hawkins Interests contemplate up to three transactions, each of which would result in Hawkins Interests increasing its holding, already being in excess of 20% of the voting rights in a Code Company, to a level between 20% and 50%.

Cynotech and the Hawkins Interests seek authorisation from the shareholders of Cynotech to:

1. Allow the conversion of 4,777,776 Convertible Preference Shares presently held by Hawkins Interests into an equivalent number of fully paid ordinary shares (pursuant to Rule 7(d));
2. Allow the Hawkins Interests the ability to exercise up to 7,022,474 Warrants, specifically to allow full exercise to be as early as the earliest warrant exercise date, being 27 June 2009 (pursuant to Rule 7(d)); and
3. Allow the Hawkins Interests to purchase 3,125,000 ordinary shares in the capital of Cynotech that were originally issued to part fund the acquisition of the Western Bay Finance debtors ledger, at the price of 20 cents per share (pursuant to Rule 7(c)).

The Hawkins Interests will not be entitled to vote in respect of the authorising shareholder resolutions.

This report is intended to address the impact of the proposed transactions on all of those shareholders of Cynotech other than the Hawkins Interests, being those shareholders not associated with the Hawkins Interests and entitled to vote in respect of the authorising shareholder resolutions. The report is to be read as being for the benefit of such shareholders.

SCOPE OF REPORT

Requirements of the Takeovers Code

Rule 6(b) of the Takeovers Code prohibits any person holding greater than 20% of the voting rights of a Code Company becoming the holder of an increased percentage of the voting rights of that company except as provided for in certain circumstances set out under Rule 7 of that code.

Rule 7(c) of the Takeovers Code provides that a person may become the holder of an increased percentage of the voting rights of a Code Company by way of acquisition of securities of the Code Company if such acquisition has been approved by way of ordinary resolution of the Code Company.

Rule 7(d) of the Takeovers Code provides that a person may become the holder of an increased percentage of the voting rights of a Code Company by way of an allotment of securities of the Code Company if such allotment has been approved by way of ordinary resolution of the Code Company.

Rule 15 provides that any notice of meeting containing a proposed resolution in respect of an acquisition of securities under Rule 7(c) must be accompanied by an independent advisers report, prepared in accordance with Rule 18.

Rule 16 provides that any notice of meeting containing a proposed resolution in respect of an allotment of securities under Rule 7(d) must be accompanied by an independent advisers report, prepared in accordance with Rule 18.

Rule 18 requires that the directors of a Code Company must obtain a report from an independent adviser on the merits of any proposed acquisition or allotment under Rules 7(c) or 7(d) respectively, having regard to the interests of those persons who may vote to approve the acquisition.

Cynotech has asked that Staples Rodway Corporate Finance Limited (“SRCF”) prepare the required independent adviser’s report to accompany the Notice of Special General Meeting to be sent to shareholders.

We confirm, having performed our standard checks for possible conflicts of interest that no conflict of interest exists that could affect our ability to provide an unbiased report.

The Takeovers Panel has approved SRCF to act as an independent adviser in respect of the proposed transactions for the purposes of Rule 18.

Requirements of the NZX Listing Rules

Rule 7.5 of the NZX Listing Rules states that an Issuer may not issue ordinary shares if there is a significant likelihood that the issue will result in any person or group of Associated Persons materially increasing their ability to exercise or direct the exercise of effective control of the Issuer, unless the precise terms and conditions of the issue have been approved by an ordinary resolution of the Issuer.

In addition to complying with the requirements of the Takeovers Code, resolutions 1 and 2 of the Notice of Special General Meeting are also required in order for the Company to comply with NZX Listing Rule 7.5. Pursuant to NZX Listing Rule 6.2.2(a), an Appraisal Report is required to be prepared and to address the matters raised under Rule 1.2.2, specifically whether the terms and conditions of the proposed transactions are fair to the holders of equity securities other than the Hawkins Interests.

Cynotech has asked that SRCF prepare the required Independent Appraisal Report under Rule 6.2.2(a) to accompany the Notice of Special General Meeting sent to shareholders.

NZX has approved SRCF to act as an Independent Appraiser in respect of the proposed transactions for the purposes of Rule 7.5 in accordance with the requirements of Rule 1.2.2.

Basis of Evaluation for the Purposes of the Takeovers Code

While we are required to comment on the merits of the transactions, the term “merits” is not legally defined, either in the Takeovers Code or in those statutes dealing with securities or commercial law.

One possible source of guidance is contained in the literal meaning of “merits”. The most appropriate formal definition would appear to be *“the rights and wrongs (of a case etc., especially in law)”*. Such a definition would tend to imply that our report should opine on the pros and cons of the proposed acquisition from the perspective of those shareholders not a party to the transaction. In so doing, we have given consideration to the following factors:

- The origins of the Hawkins Interests current respective stakes in the Convertible Preference Shares and Warrants, together with the terms attached to those securities, and the circumstances arising from the different potential timing issues in respect of the Conversion or Exercise of any given holding of each type of security;
- The economic consequences arising from early conversion or exercise, respectively, should the Hawkins Interests be able to do so, and in particular the affect on the value of those Cynotech shares and other securities held by non-associated parties;
- The circumstances that have directly or indirectly led to the proposed transaction to acquire the shares issued as partial consideration for the acquisition of the Western Bay Finance loan ledger, which we have considered against the intent and application of the Takeovers Code;
- The price at which the respective transactions may occur and the ability (or otherwise) for other shareholders to participate in the transaction;
- The effect of the acquisition on any person’s control of voting rights; and
- Alternatives to the respective transactions (including, by implication, the consequences in the event the respective resolutions are not approved).

Based on these factors and considering the pros and cons that constitute the merits of the transactions that are the subject of each resolution, we have arrived at certain conclusions. These conclusions should be taken as a whole rather than in respect of any individual consideration in isolation.

Voting in Respect of the Resolutions

Whether individual shareholders vote to accept or to reject the respective resolutions is a matter for those shareholders according to their own assessment of the value of Cynotech shares and of the implications of the respective transactions for them given market conditions and also the other multivariate factors that may affect their individual situations. Shareholders are advised to consult their own professional advisers if appropriate.

Consents

We consent to the distribution of this report in its current form to the shareholders of Cynotech for the purposes stated above. Our report should be considered as a whole, as selecting individual components of this report in isolation could create a misleading view of the merits or fairness analysis. We accept no responsibility whatsoever to any party for use of this report otherwise than in its current form or for purposes other than those stated above.

BACKGROUND

Overview

The predecessor business of Cynotech was known as Rocom and was established in 1989 focusing on providing advanced telecommunications systems. This business evolved to focus on wireless applications and became Rocom Wireless Limited in 1999. Rocom Wireless Limited listed on the New Capital Market operated by NZX Limited in August 2000 and in January 2001 the shareholders approved the key transaction to acquire Rocom Limited.

Cynotech (still under the name RocomWireless Limited) listed on the NZAX Alternative Market in November 2003.

During 2004 the company was transformed through a series of transactions. In June 2004 the Company entered into an agreement whereby Mr Allan Hawkins was appointed Chairman and CEO and interests associated with him agreed to underwrite a rights issue as part of a restructuring and a new direction for the company. In October 2004 shareholders approved the underwriting arrangement at 5 cents per share and the issue of convertible notes to parties associated with Mr Hawkins (later to become part of what are now referred to as the Hawkins Interests). At this time the Company announced the establishment of a finance business and shortly thereafter changed its name to Cynotech Holdings Limited.

During May 2005 the existing shareholders of Cynotech voted to authorise a series of transactions that had the potential to result in interests associated with Mr Allan Hawkins and with a former director, Mr Richard Guy, together acquiring as much as 43.8% (on a post share placement basis).

The current level of voting interest held by the Hawkins Interests has arisen from participation in the 2005 share placement and from conversion of convertible notes issued in the same set of transactions, less dilution resulting from other transactions.

Cynotech acquired Merlin Foods Limited (now Snowdon Limited) through an arrangement approved by shareholders in April 2005.

Cynotech transferred from the NZAX Market to the NZSX Market on 14 December 2007.

Capital Structure

As at the date of this report, Cynotech has 104,273,039 issued and fully paid ordinary shares. All ordinary shares have equal rights to vote, to receive dividends and to participate in any surplus upon winding up.

Substantial Security Holders (as that term is defined in the Securities Markets Act 1988) of record as at the date of this report are:

Holder	No. of shares	% of voting rights ⁽⁴⁾
Cynotech Securities Limited & Newmarket Securities Limited ⁽¹⁾	21,646,758	20.76%
Philip Robert & Pamela Annette Briggs ⁽²⁾	17,965,616	19.4%
Michael Walter Daniel, Nigel Geoffrey Burton and Michael Murray Benjamin (Wairahi Trust) and Wairahi Holdings Limited ⁽³⁾	10,594,550	10.61%

Notes:

(1) These two companies are part of the Hawkins Interests and have in the past lodged joint and separate substantial security holder notices. The combined holding shown reflects the position following the conversion of all remaining convertible notes held by Cynotech Securities Limited, for which a separate notice for 10,846,576 shares (10.4%) was filed on 6 November 2008.

- (2) Mr and Mrs Briggs' current holding as at 6 November 2008 is recorded as 18,128,944 shares, constituting 17.39% of the ordinary share capital following the conversion of all outstanding convertible notes.
- (3) The combined holdings of these shareholders on the share register as at 6 November 2008 is recorded as 10,634,202 shares, constituting 10.20% of the ordinary share capital following the conversion of all outstanding convertible notes.
- (4) Calculations of percentage holdings are as disclosed in the respective substantial security holders most recent notices. Adjustments for actual current holdings are provided in the notes.

Cynotech also has two other forms of security listed on the NZSX Market:

1. There are currently 21,884,046 convertible preference shares. These were issued under a short form prospectus dated 21 November 2007 on the basis of one convertible preference share for every five ordinary shares at an issue price of \$0.20 each, plus oversubscriptions in respect of shortfall. Subsequently there was a further allotment following a 1:10 bonus issue during 2007. The convertible preference shares carried an initial dividend rate of 12.375% per annum paid quarterly, subsequently re-set under the formula of the New Zealand Official Cash Rate plus 50%. The convertible preference shares are convertible at any time on the giving of 30 days notice, with conversion to be no later than December 2010 (3 years after issue). They have no voting rights other than for changes directly affecting their terms. The convertible preference shares rank ahead of ordinary shares for the payment of dividends and in the event of liquidation.
2. There are currently 28,140,489 Warrants to purchase new ordinary shares. Warrants were originally issued under a prospectus dated 20 May 2005 by way of both attachment to new ordinary shares and also by way of a bonus issue for existing shares, in each case on a 1 for 2 basis. Further Warrants were issued during 2007 as a consequence of a 1:10 Bonus Issue. The initial exercise price per warrant was 25 cents per share exercisable on 27 May 2006 or 2007. The Company subsequently resolved to extend the exercise date to 2008 and later, on 26 November 2007, to amend the terms of the warrants to add additional exercise dates such that the outstanding warrants that have not already been exercised are now exercisable on either 27 June 2009, 2010 or 2011 at an exercise price of \$0.30 per share. The Warrants have no voting rights other than for changes directly affecting their terms.

The 20 largest holders on the respective registers for the three forms of security issued by Cynotech as at 6 November 2008 are shown in Appendix B.

The following table shows the respective positions of the parties that comprise the Hawkins Interests as at 6 November 2008, prior to the proposed transactions.

Holder	Ordinary Shares	Conv Pref Shares	Warrants
Cynotech Securities Limited	10,846,576	1,954,388	4,334,775
Newmarket Securities Limited	10,800,182	2,242,915	2,332,927
Laurel Anne Hawkins	0	200,000	0
Glenn and Sonja Hawkins	768,611	130,597	78,357
Glenn Hawkins	1,098,016	197,017	111,939
Wayne Hawkins	96,653	0	48,360
Mark Hawkins	55,000	0	30,000
Maree Dawn Hawkins	91,498	15,547	9,327
Dominic Hawkins	54,898	9,328	5,596
Alisondra Hawkins	54,898	9,328	5,596
Zane Hawkins	54,898	9,328	5,596
Sophia Hawkins	54,898	9,328	5,596

Jared Hawkins	24,162	0	12,090
Cody Hawkins	24,162	0	12,090
Shannon Hawkins	24,162	0	12,090
Cathy Hutchinson	35,312	0	18,135
Total Hawkins Interests	24,083,926	4,777,776	7,022,474
Total On Issue	104,273,039	21,884,046	28,140,489
% of Class	23.10%	21.83%	24.96%

Share Trading

We set out below a table showing movements in the share price of Cynotech (including the end of the period when the Company was still named Rocom Wireless Limited) over the last five years along with information on the volume of transactions:



Source: MarketWatch, Inc/NZX.com

The average daily and monthly volume and value of Cynotech shares traded has varied significantly since listing. Trading variance is such that it is not infrequent for there to be no shares traded on any given days as the average number of daily transacted trades has varied between 1 and 5 per day over the last two years. (The daily transactional average has been 1 trade during 7 months; 2 trades during 8 months; 3 trades during 8 months; and 5 trades during 1 month). Volumes traded per month have varied between 239,151 and 20,632,949 during the last 2 years, although the monthly mean was 4.98 million during the first 12 months and only 1.20 million during the last 12 months.

We consider it to be a reasonable supposition that a factor in the diminished trading volumes may be attributed to the wider market perception of the finance company sector, and of Cynotech as a finance company, in particular through diminishing potential buying interest.

Despite its shift from the NZAX Market to the NZSX Market, Cynotech retains a low profile among its finance peers. While we suspect that Cynotech directors and management may consider this desirable in many respects, it is possible that it is a further contributing factor to low trading volumes.

In the context of share price performance Cynotech has outperformed the finance company sector during the last 3, 6 and 12 month periods (to 10 November 2008), but this has not resulted in greater investor attention or increased market volumes traded.

Comparison of Finance Company Share Price Movements

Company	3 Months	6 Months	12 Months
Cynotech	3.4%	-1.3%	-13.8%
Dominion	-92.6%	-98.8%	-99.3%
Dorchester	-44.4%	-75.0%	-89.4%
NZF Group	-12.5%	-30.0%	-59.3%
Geneva	-30.7%	-46.2%	n/a
Lombard	20.0%	-64.7%	-92.8%
PGC	5.0%	-2.3%	-18.6%
Group Mean	-21.7%	-45.5%	-62.2%
Cynotech relative to mean	+25%	+44%	+48%

In this context the sale of 3,125,000 shares held by vendors of the Western Bay Finance loan ledger must be considered a significant transaction in volume terms as it exceeds the total number of Cynotech shares traded during the last three months, or indeed the volume traded in any single month since July 2007.

At the date of preparation of this report, the last closing share price of Cynotech was \$0.13, giving a market capitalisation of \$13.56 million. The volume weighted average share price was \$0.144 per share over the last month, \$0.149 over the last three months and \$0.143 over the last six months (source: Bloomberg).

The last closing price for Cynotech Convertible Preference shares was \$0.14 per share, and the last closing warrant price was \$0.03 per warrant. We note that trading volumes for the preference shares and warrants are even more sparse than for the ordinary shares with average monthly turnover over the last year being just 5 trades a month for the preference shares and 16 trades a month for the warrants (for monthly average totals of 113,396 preference shares and 703,214 warrants respectively).

DETAILS OF THE PROPOSED ARRANGEMENTS

We have been supplied with details of the three resolutions to be voted upon by shareholders not associated with the Hawkins Interests, together with the Explanatory Notes in respect of each resolution.

We have analysed the resolutions both individually and collectively.

Resolution One – Conversion of Convertible Preference Shares

Resolution One authorises Cynotech to allot ordinary shares on the conversion of the 4,777,776 Convertible Preference Shares held by the Hawkins Interests. This resolution is required under Rule 7(d) of the Takeovers Code and Rule 7.5 of the NZSX Listing Rules.

This resolution provides that the Hawkins Interests will have the ability to exercise the conversion terms of the Convertible Preference Shares at any time prior to the final date for conversion. This is a right generally exercisable by all holders of Convertible Preference shares. However, as conversion may result in an allotment that gives rise to an increase in the aggregate holding of the Hawkins Interests contrary to Rule 7.5(d) of the Takeovers Code, and as there is the potential for the allotment also to result in an increase of effective control of Cynotech, contrary to Rule 7.5 of the NZX Listing Rules, a shareholder resolution is required to approve the ability of Cynotech to allot shares should the Hawkins Interests elect to exercise their rights of conversion.

Resolution Two – Exercise of Warrants

Resolution Two authorises Cynotech to allot ordinary shares on the exercise of the 7,022,474 Warrants held by the Hawkins Interests should the Hawkins Interests elect to exercise some or all of their warrants on one or other of 27 June 2009 or 27 June 2010, being the two earliest days for the exercising of the Cynotech Warrants. This resolution is also required under Rule 7(d) of the Takeovers Code and Rule 7.5 of the NZSX Listing Rules.

The effect of this resolution is analogous to Resolution One in that it effectively allows the Hawkins Interests to exercise the terms of their Warrants on one or other of the two earliest dates for exercise. This is also a right generally exercisable by all holders of Warrants but again, as it may result in an allotment that gives rise to an increase in the aggregate holding of the Hawkins Interests contrary to Rule 7(d) of the Takeovers Code; and as there is the potential for the allotment also to result in an increase of effective control of Cynotech, contrary to Rule 7.5 of the NZX Listing Rules; a shareholder resolution is required to approve the ability of Cynotech to allot shares should the Hawkins Interests elect to exercise the terms of their Warrants.

Resolution Three – Purchase of ordinary shares issued to part fund the Western Bay Finance Loan Book

Resolution Three authorises Cynotech Securities Limited, an existing substantial security holder and one of the parties that comprise the Hawkins Interests, to purchase up to 3,125,000 ordinary shares in the capital of Cynotech at a price of 20 cents per share. This resolution is required to satisfy Rule 7(c) of the Takeovers Code as the Hawkins Interests collectively hold more than 20% of the voting capital of Cynotech.

The explanatory notes to the resolution advise that the transaction involves the 3,125,000 shares that were issued by way of part consideration for the acquisition of the Western Bay Finance loan ledger in April 2008 at a price of 16 cents each. These shares are presently registered under the names of Western Bay Operations Limited and Lindquist Investments Limited although we understand that these companies have exercised a put option to sell these shares to CBD Solutions Limited, a company of which the Directors are Mark Lowndes and Mike Whale, partner and consultant to law firm Lowndes Associates, at an average price of 15.58 cents per share.

Cynotech Securities Limited has advised Cynotech that the shares are for sale and that it wishes to acquire the parcel if it is able to do so. It has further advised that there is no obligation for it to acquire the share parcel (in which case it would have been in breach of the Takeovers Code).

EVALUATION OF MERITS

Application of Takeovers Code

The stated objective of the proposed transactions is to demonstrate the confidence of the Hawkins Interests in the future prospects of the Cynotech by increasing its investment exposure to the Company.

The stated aim of the Takeovers Code¹ (“the Code”), as published in a Takeovers Panel statement is:

“to provide commercial and sensible rules to ensure that takeovers take place in an orderly fashion.”

The Takeovers Code seeks to ensure that:

- Those shareholders electing to participate in an offer are treated fairly and equally; and
- There is full transparency of all relevant information required by shareholders in making an informed decision as to whether or not to accept an offer or to approve an acquisition or allotment that may affect control.

To achieve these goals, the Code contains a fundamental rule prohibiting any person (considered together with any associated persons) from becoming the holder or controller of in excess of 20% of the voting rights in a Code Company other than in a manner allowed by the Code. In this respect the Code provides for five key mechanisms:

- A full takeover offer made to all shareholders;
- A partial takeover offer made to all shareholders on a pro rata basis;
- An acquisition or allotment of shares approved by ordinary resolution of shareholders (as is the case in this instance);
- Once a person holds or controls 50% of the voting securities in a Code Company, they may further increase their holding by a maximum of 5% per annum;
- A compulsory acquisition of remaining shares once a person holds 90% of a Code Company’s voting rights.

The rationale for the rule affecting a transaction is to prevent the accumulation of control without paying an appropriate premium to all shareholders (as opposed to those selling in the transaction) unless approved by shareholders. While circumstances will differ from company to company, it is generally considered that a shareholding which controls in excess of 30% of the voting rights of a code company is sufficient to give effective management control, while the acquisition of holdings which control in excess of 50% of the voting rights of a Code Company provide varying levels of formal control. Acquisition at these levels, unchecked, would defeat the purpose of the Code in that not all shareholders would be given equal opportunity to participate in what is, in substance, a takeover and therefore not all shareholders would benefit to the same (proportional) extent from the Takeover Offer.

The ‘associated persons’ test is important in that it prevents groups of people who should otherwise be considered as one investor by virtue of their relationships or circumstances, from circumventing the fundamental rule by sharing ownership of voting rights such that no one person holds or controls voting rights in excess of 20%. The associated persons test seeks to accumulate the voting rights held or controlled by persons in the following circumstances:

- where such persons are acting jointly or in concert to acquire voting rights or control;
- where there is an existing relationship under which one person is accustomed to acting upon the instruction of another person;

¹ As published on the Takeovers Panel website page <http://www.takeovers.govt.nz/code/business.htm>

- where the persons are related companions;
- where the persons have a personal, business or ownership relationship, the circumstances of which should result in them being considered associates (as is likely to be the case in this instance); or
- where common associates of a third person are deemed associates of each other, depending on the precise relationships between the three parties.

Rather than prohibiting outright acquisitions by persons (or associated persons) in breach of the fundamental rule, Rules 7(c) and 7(d) allow shareholders to consider the merits of non pro-rata acquisitions and allotments of shares affecting control and, depending on the precise circumstances of a transaction, approve such acquisition or allotment or veto it (effectively forcing a formal takeover in the latter instance, should the intended acquirer or allottee still seek increased voting control). This rule is particularly relevant in circumstances where a strategic stakeholder wishes to make a cornerstone shareholding in a Code Company without proceeding with a full or partial takeover offer and the consensus view is that the presence of such a shareholder would add considerable shareholder value to all other shareholders.

The Code is necessarily prescriptive in the manner in which it captures changes in control in excess of 20% of a company’s voting rights and, as such, correctly captures the proposed transaction for the consideration of shareholders. While the Takeovers Panel has powers to grant exemptions from compliance with the Code under Section 45 of the Takeovers Act 1993, any such exemptions must be consistent with the stated objectives of the Code. Cynotech, having sought legal advice, has elected to seek approval of the acquisition by shareholders in accordance with Rules 7(c) and 7(d).

Application of the NZX Listing Rules

Resolutions 1 and 2 of the Notice of Special General Meeting provide for the company to be able to allot shares in the event of early conversion of the Convertible Preference shares or early exercise of the Warrants held by the Hawkins Interests. Rule 7.5 of the NZX Listing Rules states that an Issuer may not issue ordinary shares if there is a significant likelihood that the issue will result in any person or group of Associated Persons materially increasing their ability to exercise or direct the exercise of effective control of the Issuer, unless the precise terms and conditions of the issue have been approved by an ordinary resolution of the Issuer.

Conversion of Convertible Preference Shares

In assessing the merits of the resolution to allow Cynotech to allot shares on the early conversion of the Convertible Preference Shares we have considered: (a) the terms of issue of the Convertible Preference shares; and (b) the implications for voting control.

Unless substantially all other Convertible Preference Share converted at the same time, it is impossible to see how the Hawkins Interests would be able to convert all of their holdings at any time prior to the final conversion date without increasing their percentage holding of voting rights and thereby contravening the Takeovers Code.

While in practice it may be possible for the Hawkins Interests to adopt a “pegging” strategy to convert a portion of their holdings in tandem with the conversion of other holders, such that their post-conversion percentage of voting rights is equal to the pre-conversion percentage, such a conversion “strategy” is dependent on the actions of others and clearly restricts the optionality inherent within these particular Convertible Preference Shares relative to those held by all other shareholders.

We stress that it is not the purpose of this report to opine on the merits, fairness or otherwise of the proposed resolutions, or of any possible transactions resulting from the resolutions, upon the Hawkins Interests. It is not and nor should it be the purpose of the Takeovers Code to specifically safeguard the economic interests of parties in a potential position to acquire and exercise control. Nevertheless, it is not

possible to analyse the potential transactions without reference to economic or control implications for the different parties.

We also make no judgement as to the ability of the Hawkins Interests to rely on the Takeovers Code (Class Exemptions) Notice (No 2) 2001 in relation to an allotment of shares pursuant to a pro rata offer to all holders of a class of voting shareholders in a Takeovers Code company if the allottee has acquired no more than the allottee's pro rata share of securities offered (Clause 8), although this exemption also requires that the control percentage be decreased to the original level within 6 months of the increase and that the additional voting rights not be exercised in the interim. It appears that the legal entitlement of the Hawkins Interests to rely on this exemption and convert their Convertible Preference shares up to six months early may depend on a legal interpretation of the circumstances as they apply at that time.

In the short-term the effect of early conversion, assuming that no other shareholders exercise the right to do so beforehand, would be to increase the voting rights of the Hawkins Interests from 23.10% to 26.47% (not considering the possible exercise of the Warrants and the share acquisition transaction herein considered). However, as the Hawkins Interests only hold 21.83% of the total number of Convertible Preference Shares on issue, which all ultimately convert to ordinary shares no later than December 2010, the Hawkins Interests would expect to eventually have their voting rights in Cynotech diluted back down to 22.88%. Looking at the conversion of Convertible Preference Shares in isolation the possible increase in voting rights over the short-term is unlikely to be sufficiently material as to have an impact that could be considered either detrimental or unfair to other shareholders. While it is noted that the period during which the Hawkins Interests have a higher level of voting rights could be almost 2 years in duration, it is also noted that other substantially security holders, grouped together, hold voting rights that could largely offset the degree of control enjoyed by Hawkins Interests should such shareholders vote against the Hawkins Interests.

The other key consideration, indicated above, is that the future rational economic behaviour of remaining convertible preference shareholders may be influenced by future profitability of Cynotech and by the influence this has on dividend policy, or by the impact of future interest rates on Convertible Preference dividend levels. Cynotech paid semi-annual dividends of 0.5 cents per share over the last year. While conversion by the Hawkins Interests in the short-term may involve the sacrifice of short-term dividend yield from the quarterly preference share dividends, should ordinary dividend expectations be higher than the expected level of preference share dividends (which are now subject to quarterly re-setting lower owing to linkage to the Official Cash Rate), it may be rational for all preference shareholders to convert early prior to a higher ordinary share dividend. We note that should public predictions by a number of bank and sharebroker economists of the Official Cash Rate reaching as low as 3.5% to 4.5%, the resulting Convertible Preference dividend rate would be as low as 5.25% to 6.75% respectively (gross dividend rates of 1.05 cps to 1.35 cps respectively).

We have considered and are inclined to agree with the proposition that as the terms of the Convertible Preference Shares are known and fully in the public domain, from an economic perspective approval of the right to convert the shares prior to the final conversion date, is effectively approval to act on an equal basis to other Convertible Preference Share holders. In the absence of an ability to so convert, the Takeovers Code imposes a specific impediment on the Hawkins Interests being able to exercise an economic choice available to all other Convertible Preference Share holders (with the possible exception of the Briggs interests, in respect of which conversion may also result in a greater than 20% holding in the voting rights of Cynotech). From an economic perspective we do not consider that such an approval would result in a detriment to shareholders other than the Hawkins Interests and, accordingly, we consider that the proposal is fair to the Equity Security holders other than those associated with the Hawkins Interests.

	Current Ordinary Shares	Conversion of Prefs Only	Dilution Once all Prefs Converted
Total Hawkins Interests	24,083,926	28,861,702	28,861,702
Total Shares	104,273,039	109,050,815	126,157,085

% Voting Shares	23.10%	26.47%	22.88%
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Potential Early Exercise of Warrants

We have also considered and agree with the proposition that as the terms of the Cynotech Warrants are known and fully in the public domain, approval of the right to convert the shares early is effectively approval to act on an equal basis to other Warrant holders, whereas the Hawkins Interests are otherwise subject to a detriment in that their economic choice to act in the same manner as all other Warrant holders is impeded by the impact of the Takeovers Code.

As discussed above, it is not the purpose of this report to opine on the merits, fairness or otherwise of the proposed resolutions, or of any possible transactions resulting from the resolutions, upon the Hawkins Interests. Nevertheless, it is not possible to analyse the potential transactions without reference to economic or control implications for the different parties. We repeat that it is not and nor should it be the purpose of the Takeovers Code to specifically safeguard the economic interests of parties in a potential position to acquire and exercise control.

Unlike the position in respect of the Convertible Preference shares, for the Hawkins Interests to exercise their Warrants on one or other of the earlier exercise dates, rather than at expiry, would in theory be a sub-optimal economic decision. In our view were the Hawkins Interests to exercise their warrants early, including the consequent injection of up to \$2,106,742 there would be a value transfer to the holders of ordinary shares prior to exercise. The earlier the exercise, the greater the degree of economic value transfer to other shareholders.

The following table illustrates the potential impact of the early exercise of the Hawkins Interests' Warrants using the most recent share price and net tangible asset backing per ordinary share (undiluted).

Warrant Exercise Impact	Latest	Post Exercise	Increase
At share price	0.130	0.141	8.3%
At NTA	0.094	0.107	13.8%

Similarly to the position in respect of the Convertible Preference Shares, we consider that the Hawkins Interests appear unable to exercise Warrants at any individual point in time prior to expiry without increasing their percentage holding and thereby contravening the Takeovers Code, unless substantially all other Warrant holders were doing so at the same time. However, in this case the economic rationale for all other Warrant holders is to delay exercise (and indeed were Cynotech to pay higher ordinary dividends between now and the final expiry date there would be detrimental effects for Warrant holders).

In the event the Hawkins Interests were to exercise all Warrants early and no other Warrant holders were to do likewise until expiry, and in the absence of the other transactions on which shareholders are being asked to vote under Resolutions One and Three, the percentage of ordinary shares held by the Hawkins Interests would rise to up to 27.95%. In the uncertain event that all other Warrants are exercised prior to expiry (and in the absence of all other transactions), this holding would be diluted back to 23.49% which would be the same position in the event none of the present resolutions are passed and all Warrants are exercised (but excluding the additional dilution resulting from conversion of the convertible preference shares during 2010).

	Current Ordinary Shares	Exercise of Warrants Only	Dilution if all Warrants Exercised
Total Hawkins Interests	24,083,926	31,106,400	31,106,400
Total Shares	104,273,039	111,295,513	132,413,528
% Voting Shares	23.10%	27.95%	23.49%

In practice it is rare for 100% of warrants in most listed company situations to be exercised as there will either be holders constrained by circumstances or else other forms of inaction. As noted above there is also uncertainty that the ordinary share price will equal or exceed the option exercise price by the time of expiry in 2011 (notwithstanding the past willingness of the company to modify the terms of exercise of warrants). From a financial theory perspective, the expansion of the Cynotech capital base early in the event of early Warrant exercise would accelerate the rate of future earnings accumulation and, in the absence of higher dividends, increase the likelihood of most Warrants being exercised.

Accordingly, from the perspective of the merits of early exercise by the Hawkins Interests for all other shareholders there is a conflict between two factors:

- (a) the economic desirability of early exercise; and
- (b) the consequences of higher voting ability, at least in the short-term and possibly not diluted by expiry in 2011.

In the absence of the other proposed transaction we have formed the view that economic benefits to ordinary shareholders other than the Hawkins Interests of early exercise would outweigh the extension of voting control, regardless of whether this is ultimately diluted by future Warrant exercise or not.

Situation if Both Early Preference Conversion and Warrant Exercise

If the possible early Convertible Preference share conversion and Warrant exercise transactions are considered together, given that both may occur in time regardless of the present resolutions, a different range of possible outcomes may be considered. From this perspective, although in the short-term there is the possibility that through early exercise the Hawkins Interests may increase their combined stake as high as 30.92% of the voting capital of Cynotech, the impact of dilution would reduce the ultimate level to between 26.94% (if no other Warrant holders exercised their Warrants before expiry) and 23.26% (if all other Warrant holders exercise their Warrants).

Holder	Early Pref Conversion and Warrant Exercise	Fully Diluted
Total Hawkins Interests	35,884,176	35,884,176
Total Shares	116,073,289	154,297,574
% By Class	30.92%	23.26%

Purchase of ordinary shares issued to part fund the Western Bay Finance Loan Book

The proposed acquisition of shares, were it to take be authorised by shareholder approval, would result in an immediate increase in the voting rights held by the Hawkins Interests from 23.10% to 26.09% (in the absence of any other resolutions being passed).

The only relevant issue is the consequential increase in the total voting interest and the impact that this may have on other shareholders.

The Hawkins Interests' stated objectives behind the share purchase, and behind the other approvals being sought, is to demonstrate confidence in Cynotech to the market through the enhancement of its investment exposure.

	Current Ordinary Shares	Current + Acquired Shares
Total Hawkins Interests	24,083,926	27,208,926
Total On Issue	104,273,039	104,273,039
% Voting Shares	23.10%	26.09%

We consider it relevant, but not determinative, to consider the implications whereby the original shares were issued, the acquisition of the Western Bay Finance loan ledger. It is our understanding that at the time the Hawkins Interests would have been in a position to assist funding of the acquisition transaction. However, it is clear that had that been proposed as a financing solution, rather than financing by way of an issue of vendor shares, there would have been a clear obligation for Cynotech to call a special general meeting to approve the capital raising in order to fund the acquisition. In such circumstances there is significant doubt that Cynotech would have completed the transaction owing to the time required to obtain shareholder approvals.

The merits of the Western Bay Finance transaction are such that in our reckoning it has added between 3 and 6 cents to the fully diluted value of Cynotech ordinary shares. We have arrived at this range of values by considering the most likely out of a range of scenarios for collection of the outstanding debts owing on this ledger, including the quantum and timing of recovery. The basis is consistent with the overall approach taken to value Cynotech shares and also reflects the economies resulting from the shift of focus to the collection of other distressed loan books over the last 2 years. The range takes account of the possibility of exercise or otherwise of the outstanding Warrants in calculating the diluted asset backing.

Basis	Disc Cash Flow	Less Cost of \$1.5m	Fully Diluted Shares	Cents/Share
Low	6,111,111	4,611,111	154,297,574	0.03
High	10,740,740	9,240,740	154,297,574	0.06

However, while the proposed share transaction effectively corresponds to the position as if the original ledger acquisition had instead been part funded by an issue of shares for cash directly to Cynotech Securities Limited, we are of the view that the proposed share acquisition under Resolution 3 must now be considered on its own merits and not taking this into account.

The only factors that shareholders have to consider is whether or not the increase in the voting shareholding of the Hawkins Interests give rises to an actual increase in effective voting control, and is either acceptable as an expression of confidence by a cornerstone shareholder, or if not whether it may be outweighed by other considerations.

Situation if Transactions Under All Three Resolutions Completed

If all three resolutions are passed and if the Hawkins Interests act upon those resolutions to acquire shares, convert Convertible Preference shares and exercise Warrants early, the potential situation would be as follows. Assuming no other early conversions or Warrant exercise, the Hawkins Interests could potentially increase their combined holdings to 33.61% of the voting capital of Cynotech.

We note, however, that depending on the ultimate level of exercise of the Cynotech Warrants prior to expiry, the consequential dilution would result in a holding level of between 29.29% (no other Warrants exercised) and 25.28% (all Warrants exercised).

Holder	All Transactions Completed	If Fully Diluted (Prefs and Warrants)
Total Hawkins Interests	39,009,176	39,009,176
Total On Issue	116,073,289	154,297,574
% Voting Shares	33.61%	25.28%

We consider that on the totality of the contemplated transactions, although the Hawkins Interests would rise above the indicated 30% holding level, the further conversion or exercise of other securities would

lead to some degree of dilution below that level in future (in the absence of other transactions that might occur over time). The actual level of holding that would result is uncertain, but would be within the ranges indicated above.

Accordingly we consider it appropriate to balance a number of potential outcomes of the transactions:

1. Extension of control. While we consider that these transactions, and the share acquisition especially, fall squarely within the ambit of transaction intended to be covered by the application of the Takeovers Code for the prevention of the passing of control without the payment of a premium to all shareholders, we do not consider that any one or all of the transactions would result in any identifiable change from the status quo position in respect of effective control.
2. Although the resulting position may be a temporary or permanent interest of greater than 25% of voting rights, and therefore implied negative control in respect of special shareholder resolutions, we do not consider that this is a true expression of the position given the influence of the Hawkins Interests as effective “cornerstone” shareholders and past voting support for their position.
3. During the period before and subsequent to potential dilution by the conversion or exercise of other Convertible Preference Shares or Warrants, the Company’s two other substantial security holders (both or whom own material holdings of Convertible Preference Shares and/or Warrants also) would have effective countervailing influence by way of a combined holding of 28.71% (based on existing ordinary shares and diluted only for the allotments to the Hawkins Interests), sufficient in our view to effectively negate any attempt by the Hawkins Interests to vote on changes that might be considered to be detrimental to the interests of all other shareholders.
4. Through converting their Convertible Preference Shares the Hawkins Interests would be foregoing the higher degree of certainty of the preferential dividend entitlement associated with those shares.
5. We are cognisant that in the current environment few investors are willing to make investment commitments to illiquid positions, such that raising new equity capital has been extremely difficult. The possibility that the Hawkins Interests may be either willing or able to exercise their Warrants early would, in this context, involve a potential economic detriment and consequently an implicit value transfer to all other shareholders.
6. In this context the expression of confidence in the company by insiders who would not readily be able to liquidate their holdings (and who may trigger a takeover under the terms of the Takeovers Code were they to do so) may be of value to other shareholders if it highlights confidence in the outlook and brings greater investment exposure to the company.
7. As a result of wider enquiries and research regarding media and investor commentary, we believe that a material portion of the Cynotech share register has invested in the Company because of the investments made by the Hawkins Interests as an effective cornerstone shareholder, and not despite the Hawkins Interests investments.

Should the shareholders decide not to vote in favour of resolution 3, we consider it unlikely that the Hawkins Interests would commit to the proposed transaction and thereby trigger the obligation to make a full offer for all of the shares of Cynotech.

In respect of the issue of the fairness of the Convertible Preference Share and Warrant transactions to other Application of the NZX Listing Rules

Resolutions 1 and 2 of the Notice of Special General Meeting provide for the company to be able to allot shares in the event of early conversion of the Convertible Preference shares or early exercise of the Warrants held by the Hawkins Interests. Rule 7.5 of the NZX Listing Rules states that an Issuer may not issue ordinary shares if there is a significant likelihood that the issue will result in any person or group of Associated Persons materially increasing their ability to exercise or direct the exercise of effective control

of the Issuer, unless the precise terms and conditions of the issue have been approved by an ordinary resolution of the Issuer.

As discussed above, early conversion or exercise would result in an increase in the level of voting shares controlled by the Hawkins Interests. It must be pointed out that the effect of each resolution is to allow early conversion or exercise to take place and not necessarily to authorise the respective actions to actually take place, although that may be the actual outcome. These are existing rights attached to all Convertible Preference shares and Warrants, except that the fact that the Hawkins Interests would increase their holdings by exercising those rights would give rise to a breach of Rule 7.5 through the allotment process.

Accordingly the Hawkins Interests are effectively unable to exercise the rights of early conversion or exercise enjoyed by all other holders of these securities and may be placed at an economic disadvantage as a consequence. We repeat our earlier comments that it is not the purpose of this report to opine on the fairness or otherwise of the situation for the Hawkins Interests, other than in the context of analysing the effects on all other shareholders.

While early conversion or exercise of the respective securities would result in an increase in the total holding of the Hawkins Interests, for the reasons discussed above we consider that (a) future conversion or exercise by other security holders would dilute the Hawkins Interests back to a lower level of holding of voting ordinary shares; and (b) we do not consider that either (or both) transaction(s), assuming the Hawkins Interests act upon the shareholder approvals, would result in an actual increase in the degree of actual effective control of Cynotech by the Hawkins Interests.

Pricing

We have considered the pricing contained in the proposed transaction with reference to observed market trades of minority interests.

When preparing an independent adviser's report in situations such as a full or partial takeover offer, or an acquisition or allotment of shares affecting control, it is customary to perform a full valuation of the Code Company to ensure that the offer price, or the consideration offered for an acquisition or allotment, fully reflects the value of control. Minority interest trades in a liquid market are generally considered to trade at a price that incorporates a discount for lack of control and, as such, may be misleading when used to assess takeover consideration. In the current circumstances we consider that a formal valuation is required to provide guidance.

We have estimated the fully diluted value per ordinary Cynotech share to be between 18 and 25 cents per share, based on the status quo position. These have been derived by a discounted equity cash flow analysis to determine a value of between \$18.77 million and \$26.18 million, adjusted for different dilution scenarios.

Further details of our valuation and of the underlying assumptions are provided in Appendix C.

The key operational assumptions are as follows:

1. Cynotech remains primarily focused on the collection of the distressed ledgers it has acquired until the end of 2009. By early 2010 the collectible value of outstanding sums in these books will be more reliably determinable and the Company will shift its focus back to lending by FY2011.
2. The effective economic rationale for the strategy is to accelerate accumulation of capital resources through the collection process.
3. Distressed loans are written onto Cynotech's books only at such time as a payment arrangement has been entered into by a debtor, and there is evidence that the debtor is abiding by that arrangement through continuing payments.

4. From FY2011 we have modelled the level of new lending according to an assumed debt:equity ratio of 4:1. We note that this would still be more conservative than any other listed company operating in the finance market. Margins between lending and deposits are assumed to be similar to those that applied historically.
5. Snowden is a small and ongoing profit contributor.
6. We have made no allowance for an increase in the ordinary dividend rate and have assumed Convertible Preference dividends at the rate expected to apply in the quarter commencing 1 December 2008.
7. We have used FY2012 as the basis for calculation of terminal cash flows.
8. The uplift in net tangible assets (driven by the ledger collection rates) between the present and the expiry of the Warrants means that the likelihood of exercise increases to 75%.

On this basis it is our view that:

- (a) The early conversion of the Convertible Preference shares has no material negative impact on the fully diluted share value and may have a positive impact;
- (b) The early conversion of the Warrants would have a positive effect on the fully diluted ordinary share value based on the increase to net tangible asset backing and the increased investment capital available to Cynotech; and
- (c) The proposed share purchase falls in the lower half of our equity valuation. This means that while it involves a 54% premium to the current share price, this may be discounted based on current market conditions. In our view a greater premium would be required by ordinary shareholders in order to accept a bid for all of the shares in the company in return for foregoing expected future returns to those shareholders.

Alternatives to the Transactions

The key question is whether, in the event shareholders were to vote against each or any of the resolutions, the Hawkins Interests would be motivated to make a full offer for all of the shares and listed securities of Cynotech. In our opinion this is an unlikely outcome and contrary to the rationale for the Hawkins involvement with Cynotech.

As regards the specific resolutions there are other potential issues in respect of alternative outcomes.

In respect of the first two resolutions we consider that while the outcomes in the event of non-approval would mean no change to the status quo position, ultimately this would be an economic detriment to the ordinary shareholders in that earlier conversion of the Convertible Preference Shares and, especially, the earlier exercise of the Warrants would be value accretive to ordinary shareholders other than the Hawkins Interests.

The potential impact of the proposed share transaction is more difficult. We have not discussed the future plans of the vendors (as long-term holders or otherwise) but have considered that in the absence of the proposed share transaction, and assuming that there is no current buyer in the market for a large number of shares (which is consistent with recent thin trading) we consider that CBD Solutions Limited would be regarded by other shareholders as a likely future seller of shares and not a long-term holder. The expected consequence of on market selling (whether as an actual or a perceived “overhang”), given relative illiquidity of the shares, would be material downward pressure on the share price.

SUMMARY OF FINDINGS

Individually we consider the merits of each transaction outweigh the detriments.

As noted above, the effective consequences of resolutions 1 and 2 may enable the Hawkins Interests to increase their voting interests in Cynotech in the short term, but while the conversion of Convertible Preference shares no later than 2010 is certain, given the uncertainty as to the level of exercise of the Warrants over the next 3 years the final level of dilution is unclear. We do, however, consider the countervailing voting power of other large shareholders prevents abuse of increased voting holdings in the intervening period. Moreover, resolutions 1 and 2, if acted on, would confer specific economic benefits for other ordinary shareholders.

Nor do we consider that the proposed share acquisition results in such increase in voting control to amount to either a detriment or unfairness to shareholders other than the Hawkins Interests.

We summarise the key merits of the proposed acquisition, as they are relevant to those persons entitled to vote on an ordinary resolution approving such acquisition to be that:

- The proposed acquisition is squarely captured by the provisions of the Takeovers Code and falls within the ambit of the type of transactions that the Code was philosophically created to control, so that no person (or group of associated persons) can materially increase their ability to influence control without paying a premium to the minority shareholders. Weighing the relevant factors, we do not consider that any tangible or intangible increase in influence or control will result.
- In our opinion, as the Hawkins Interests have a smaller overall share of the convertible preference shares than of the ordinary shares, and as all of the convertible preference shares will ultimately convert to ordinary shares, the economic reality of an early conversion is that any increase in the level of holding through early conversion will be more than fully reversed within the next 2 years. In the meantime the Hawkins Interests would potentially forego the economic benefit of higher short-term dividends.
- The ability to exercise the Hawkins Interests' Warrants early effectively places them in the same position as other Warrant holders, although it may in fact be desirable for all of the other shareholders of Cynotech were these Warrants to be exercised early as it would result in a small but tangible value enhancement.
- Subsequent to the transactions (whether individually or together) the level of voting shares held by other large substantial security holders is sufficient to effectively offset any increased control that might have been possible in the absence of dilution by the conversion of all other Convertible Preference Shares or the exercise of other Warrants.
- Should the shareholders reject the resolution to approve the share acquisition, we do not consider that the Hawkins Interests would proceed with the transaction and therefore would not make an offer for all of the shares in Cynotech.
- In the absence of the proposed share transaction, we consider that the vendors, CBD Solutions Limited, would be perceived as actual or implicit future sellers of shares and therefore as creating a market "overhang". The expected consequence of on-market selling, given relative illiquidity of the shares, would be material downward pressure on the share price.
- The overriding rationale and substance of the proposed set of transactions is as an expression of confidence in the future prospects of Cynotech. This is an intangible factor, the merits of which we consider only the shareholders can decide.
- Based on the above analyses it is our conclusion that the proposed transactions under Resolutions 1 and 2 are fair to the ordinary shareholders of Cynotech other than the Hawkins Interests.

QUALIFICATIONS AND DECLARATIONS

Qualifications

SRCF has been a provider of comprehensive corporate finance, investment banking and strategic advisory services since its inception thirteen years ago. Our services have included lead advisory roles for merger, acquisition and divestment activities, capital raising engagements, valuation engagements, project management and the provision of complex strategic advice for a wide range of businesses.

SRCF is associated with the chartered accounting practice of Staples Rodway Limited (“Staples Rodway”). Staples Rodway is a leading chartered accountancy practice that has provided audit, taxation, accounting and insolvency services to New Zealand businesses over the past sixty years. Staples Rodway is one of the largest independent chartered accountancy practices in New Zealand.

Staples Rodway achieves international reach through its alliance with Baker Tilly International, a network of high quality, independent business consulting and accountancy firms. Baker Tilly International is the 8th largest network in the world by fee income and is represented by 138 firms in 104 countries, with a global fee income of US \$2.5 billion and 24,000 staff worldwide.

The persons responsible for the preparation of this report are Hugh Ammundsen, BA LLB, Wade Glass, BMS CA A.Fin and Kevin Pitfield, CA. All have had significant experience in corporate advisory roles in relation to valuation, merger & acquisition and strategic consulting engagements.

Independence

We confirm that SRCF will receive a fee for preparing this report on a time and cost basis. The fee will not be contingent in any way upon the outcome of the transactions or the conclusions contained within our report. Neither SRCF nor any of its employees or officers will receive any other benefit from the preparation of this report.

Neither SRCF nor any of its employees or officers has had any involvement in the formulation of the proposed transaction or any aspect thereof. The sole involvement of SRCF will be the preparation of this report.

No conflict of interest exists that would affect our ability to provide an unbiased report.

The Takeovers Panel has approved our appointment to act as an independent adviser for the purposes of Rule 18 of the Takeovers Code and NZX has approved our appointment to act as independent adviser for the purposes of Rule 6.2.2 (a) of the NZX Listing Rules.

Nothing in our terms of reference has materially affected the scope of our report.

Information Provided to Shareholders

In accordance with NZX Listing Rule 1.2.2 (d) we are of the opinion that the information provided by Cynotech to the ordinary shareholders other than the Hawkins Interests is sufficient to enable holders to understand all relevant factors, and to make an informed decision, in respect of the fairness of Resolutions 1 and 2 to those ordinary shareholders.

Reliance on Information

We have relied upon publicly available information and that provided to us by the Management of Cynotech or their advisers in forming the opinions contained within this report. While we have applied commercial judgment in accepting and relying on this information, we have not audited the information provided or performed any other form of independent verification. For the sake of clarity, we express no opinion as to the reliability, accuracy or completeness of the information supplied to us and upon which

we have relied. A list of the information upon which we have relied in forming our opinion is set out at Appendix A.

The directors and senior management of Cynotech (and their advisers) have formally confirmed to us that they have provided us with all information relevant to the proposed transaction, that such information is complete and accurate and is not misleading by way of omission or otherwise. We have necessarily relied on management representations to this end, and accept no liability for loss attributable to any error contained within our report as a result of deliberate misstatement or omission.

Our opinion has been made on the basis of economic and market conditions in existence at the date of this report. Such conditions may change significantly over very short periods of time. SRCF reserves the right, but is under absolutely no obligation to amend or revise its report or opinion for any change in circumstances that come to its attention after the date of this report.

Indemnity

The directors of Cynotech have agreed that to the maximum extent allowed by law, Cynotech will indemnify SRCF, its officers and employees for any liability or loss suffered as a result of or in connection with the preparation of this report except for any component of liability or loss directly attributable to conduct which a court subsequently finds to be gross negligence or wilful misconduct or conduct clearly falling outside of the parameters of our engagement contract.

This indemnification shall include the value of time spent by officers and employees of SRCF, calculated at standard hourly rates, in any legal proceedings arising as a result of or in connection with the preparation of this report and any related legal costs and expenses.

Yours sincerely

STAPLES RODWAY CORPORATE FINANCE LIMITED



Hugh Ammundsen
Director

Appendix A Sources of Information

1. Draft Notice of Special General Meeting;
2. Annual Reports for Cynotech for the periods since the restructuring of the Company in 2004;
3. Management accounts prepared for the Board for the months of September and October 2008, including detailed discussion of the position in respect of operating performance, the performance of loans made by Cynotech subsidiaries and also the collection of distressed loan books;
4. Full share registry data including the full register for each Cynotech security and summaries of the trading histories for each security;
5. The Constitution of Cynotech;
6. Prospectuses, Investment Statements and subsequent Notices of Meeting to vote on issues in respect of the issue of the Warrants and Convertible Preference Shares;
7. Discussions with Mr Allan Hawkins, Chairman of Cynotech, and Mr Brett Tawse, Director of Cynotech, including responses to a detailed questionnaire in respect of past and expected future issues and performance.

Appendix B Top 20 Security Holders

As at 6 November 2008 the following were the 20 largest holders on the respective registers for the three forms of security issued by Cynotech:

Ordinary Shares

Holder	Ordinary Shares	% Total
Philip Robert Briggs & Pamela Annette Briggs	18128944	17.39
Cynotech Securities Limited	10846576	10.40
Newmarket Securities Limited	10800182	10.36
Michael Walter Daniel, Nigel Geoffrey Burton and Michael Murray Benjamin	10147215	9.73
Craig Raymond Foss & Kristal Anne Foss & Lauchlan Ronald Griffin	2591400	2.49
Allan Michael Nobilo & Lynne Nobilo	1877346	1.80
Brian Douglas Mackenzie & Guy Patrick Newlove	1633772	1.57
John Kent McMillan & Brendan John Lawler & Lois Eileen Lawler	1567165	1.50
Lindquist Investments Limited	1562500	1.50
Western Bay Operations Limited	1562500	1.50
Richard Dale Agnew & Richard Heywood Taylor	1400499	1.34
Kevin Patrick McDonald	1382794	1.33
Polar Blast Limited	1374287	1.32
Norman Louis Godden & Josephine Godden	1212039	1.16
Malamute Investments Limited	1104683	1.06
Glenn Hawkins	1098016	1.05
Ace Finance Limited	961635	0.92
Prospect Custodian Limited	812390	0.78
Douglas Henry Tallott	774595	0.74
Glenn Hawkins & Sonja Hawkins	768611	0.74

Convertible Preference Shares

Holder	Convertible Pref Shares	% Total
Philip Robert Briggs & Pamela Annette Briggs	4761199	21.76
Newmarket Securities Limited	2242915	10.25
Cynotech Securities Limited	1954388	8.93
Michael Walter Daniel, Nigel Geoffrey Burton and Michael Murray Benjamin	1521432	6.95
Brian Douglas Mackenzie & Guy Patrick Newlove	600000	2.74
Craig Raymond Foss & Kristal Anne Foss & Lauchlan Ronald Griffin	440312	2.01
Hedgehog Funds Nominees Limited	415000	1.90
Brendan John Hall & Wayne Robert Adsett	350000	1.60
Anthony Edwin Falkenstein	280800	1.28
John Kent McMillan & Brendan John Lawler & Lois Eileen Lawler	279851	1.28
Allan Michael Nobilo & Lynne Nobilo	277406	1.27
Polar Blast Limited	250000	1.14
Malamute Investments Limited	250000	1.14
Elsje Trinette Mackenzie	250000	1.14
Alan Liddell	250000	1.14
Richard Dale Agnew & Richard Heywood Taylor	237963	1.09
Kevin Patrick McDonald	234954	1.07
Farquharson and Fraser Limited	225000	1.03
Ace Finance Limited	206719	0.94
Norman Louis Godden & Josephine Godden	205941	0.94

Warrants

Holder	Warrants	% Total
Cynotech Securities Limited	4334775	15.40
Andrew Ronald Bailey	3000000	10.66
Newmarket Securities Limited	2332927	8.29
Philip Robert Briggs & Pamela Annette Briggs	2068118	7.35
Oxbow Holdings Limited	1018015	3.62
Ross William McMeeken & Elizabeth Ann McMeeken	826048	2.94
Austen Herbert Stewart Kyle	746044	2.65
John Jeffers Harrison	625000	2.22
Norman Louis Godden & Josephine Godden	609377	2.17
Lorraine Mary McCaffrey	291706	1.04
John Arbuckle	276000	0.98
Anthony Edwin Falkenstein	268980	0.96
Kevin Patrick McDonald	267270	0.95
Craig Raymond Foss & Kristal Anne Foss & Lauchlan Ronald Griffin	264187	0.94
William John Reynolds	250000	0.89
Malcolm Frederick Chambers	206120	0.73
Brian Douglas Mackenzie & Guy Patrick Newlove	203070	0.72
Exchequer Securities Limited	202500	0.72
Dayal Lallu	200000	0.71
Sagacity Investments Limited	200000	0.71

Appendix C Valuation Summary Table

\$000s	Low	High
Finance Cash Flow Valuation	18,770	26,180
Other adjustments	4,069	7,036
Adjustment for CPS dividends	-131	- 65
Adjustment for Warrants (at PV)	-	5,423
Equity valuation	22,708	38,574
Fully Diluted Shares	126,157	154,298
Value per share	0.18	0.25
EV/EBIT 2008	14.25	19.88
EV/EBIT 2009	3.31	4.62
P/E 2008	31.90	54.18
P/E 2009	8.39	14.25
P/NTA (historic)	1.91	2.66

Comparative Table – New Zealand Listed Finance Companies

The following table of comparative data is derived from Bloomberg. It is included as being illustrative only as we do not consider the data to be useful in valuing Cynotech.

Entity	Market Capitalisation (NZ\$mil)	Enterprise Value (NZ\$mil)	EV/EBITD A (H)	EV/EBITD A (F)	EV/EBIT (H)	EV/EBIT (F)	P/E Ratio	Equity Beta	D/E	Asset Beta
NZF Group Ltd	26.8	269.4	9.6x	n/a	45.1x	n/a	7.0x	n/a	1,084%	n/a
Dominion Finance Holdings Ltd	0.7	(3.2)	n/a	n/a	n/a	n/a	0.1x	0.64	764%	0.10
Dorchester Pacific Limited	5.4	2.5	0.1x	n/a	n/a	n/a	n/a	0.38	251%	0.14
Pyne Gould Corp Ltd	344.3	1,524.0	13.7x	27.1x	16.7x	36.9x	7.6x	0.68	489%	0.15
Cynotech Holdings Ltd	15.0	14.7	n/a	n/a	n/a	n/a	6.7x	0.62	-	0.62
Canterbury Building Society	50.5	n/a	n/a	n/a	n/a	n/a	37.7x	n/a	n/a	n/a
Propertyfinance Group Ltd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Geneva Finance Ltd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Summary										
Low			0.1x	27.1x	16.7x	36.9x	0.1x	0.38	-	0.10
Median			9.6x	27.1x	30.9x	36.9x	7.0x	0.63	489.0%	0.14
Mean			7.8x	27.1x	30.9x	36.9x	11.8x	0.58	517.6%	0.25
High			13.7x	27.1x	45.1x	36.9x	37.7x	0.68	1,084.4%	0.62