

Allan Hawkins, Chairman of Cynotech Holdings Limited

Comments to the Special Shareholders meeting 16th December 2008

Thank you for coming along to our meeting. The main purpose of having you here is to give you a chance to ask questions about how Cynotech is performing and for us to be able to fill in the knowledge gaps for you.

We will issue these comments to the Stock Exchange so that shareholders who were not able to be here at least get a summary of the current position of the Group.

In a nutshell we think we are tracking pretty well. We have managed to avoid the problems which others in the finance sector have had to cope with. Our conservative funding structure and our controlled lending policies have served us very well indeed.

I know that in the past some of the hot shots have criticised us for being too conservative and there are still some who say that. We say, that may be so, but you can judge for yourselves whether we were lucky or we just got it right.

Our next financial year end is 31st December and we expect to announce our preliminary results on 26th February 2009 with the annual meeting scheduled for April 2009.

Economic outlook

The Reserve Bank tells us that we are coming out of a mild recession. We don't see it like that for the finance sector.

There are massive issues still to be worked through for

- Property developers who are under extreme stress
- Trading companies, many of which are facing sales downturns and other pressure which will lead to Liquidation in some instances
- Retail. We do have contact in this area through Snowdon and our Satellite business.
- There has been limited negative effects so far for us.
- Manufacturing is still suffering from structural issues although thankfully some of the cost pressures are reducing.
- Job redundancies

The continual downgrading of Treasury forecasts and these other factors will ensure that your Directors act to ensure that our Group continues to be well and truly battered down and we intend to keep it like this until we see clear evidence of macro economic improvement.

Interest rates

The announcement of the Official Cash Rate by the Reserve Bank in early December was in line with the projected numbers from the experts.

The main effect for us of the major reductions in interest rates is the effect on the Dividend rate on our Convertible Preference shares.

Our Pref dividend rate is reset quarterly at 50% over the OCR.

When we issued the Pref shares in December 2007 the dividend rate was 12.375%

The latest OCR move will reduce our Pref dividend rate to 7.5% at the next effective review date of 1st March 2009 and the pundits are picking further reductions in the OCR before then.

The OCR reductions are therefore very good for the Company in reducing our money cost but of course there is a corresponding detrimental effect on our shareholders who receive less dividends on their prefs.

Holders of Preference shares are reminded that they can convert their Prefs to Ordinary shares at any time by giving the Company 30 days notice in writing.

Our next ordinary dividend is scheduled for payment in April 2009.

Funding

Shareholders are aware that we have had an aversion to borrowings from the public.

We have been running a conservatively financed group and that has been an important factor in being able to weather the financial storms that have hit in NZ and internationally.

Our percentage of equity financing in relation to our total assets is still in excess of 40% and you will be aware that this is a lot more conservative compared to the finance company norm in recent years of equity percentages of 10% or less.

The Reserve Bank deposit guarantee scheme is creating massive distortions in the flows of deposit funds. This is an issue that will have an impact if the Deposit Guarantee scheme as has been announced is only for a two year period.

Cynotech has not applied to become part of the scheme simply because we don't have public borrowings.

Quality of the loan book

Our loan receivables book is in good shape.

Bad debts are a fact of a finance company like ours and we do have some loans which have been written off.

We continue with our policy of providing for any loan more than 90 days overdue except for loans considered by Directors to have sufficient realisable security to be repaid over time.

We have always had a policy of limiting property lending where there is no cash flow and where the client has to have the interest capitalised until the end of a project. We have also had tight limits on the maximum credit exposure to any one client.

We could tell you about one instance where the Group had advanced \$1 million to one particular client but we had individual underwriters of substance backing us to the amount of \$700,000, keeping our credit exposure within our self imposed \$300,000 limit to any one client.

Credit control

I have told you before that I believe that we have one of the best credit control teams of any of the smaller finance companies. This has become particularly relevant in the collection of the loans which we purchased out of the National Finance and Western Bay receiverships.

Progressively over the course of this year we have re-orientated all of our staff to involvement in credit and collection work and this is giving us a very worthwhile benefit in terms of cash flow and profit. This has had the effect of underpinning our profit for this year and the profit and cash flow effect of the collection of the National Finance and Western Bay loan books will continue to give positive effects next financial year.

We have produced massive numbers of court documents this year. We will finish up with well over 5000 court filings for the year and our team achieved a record of over 1000 new filings in one month. An incredible effort.

New lending

We have been doing absolutely minimal levels of new lending as we wait for things to settle down again. We see no point in lending on properties where we do not have any real idea of realistic market levels and we have pulled right back from car lending until that sector settles down and finds a new level.

We have said that it will probably be around the middle of next year before we start developing our finance operation again.

We do see a real future for properly structured and conservatively financed small finance companies and we fully intend to be one of them.

Snowdon

The manufacturing plant. I am pleased to be able to report that Snowdon has turned the corner, and is now reporting monthly profits. We have changed the operational arrangements, honed down staff, and upgraded our machines.

There are still further improvements to be made, which take capital, and we will continue to assess the best place to use our capital to ensure we get a proper return on the investment.

Consumers will know there have been cost increases in the household food budget. Snowdon has felt the effect through a significant increase in the cost of flour and freight increases. Conversely, we have also achieved some product price increases and are negotiating for a lower gas input cost. However contrary to the current declining retail sales trend we are not experiencing a decline. In addition we have made a real effort to meet peak summer demand for our product, something we have struggled to achieve over the past two summers.

Satellite phones

The satellite business, while small has remained profitable through-out. It has a diverse market base, including Government departments, Councils, industry, and private users.

The technology in the Satellite business is not leading edge, and we continue to grapple with getting further volume into this business.

Event seating

You may have heard that the Group has recently made an investment in the company called Seating Systems Ltd. The investment is relatively small and the Group's shareholding is 31% with the balance being owned by Cynotech Securities Ltd.

This is a business with good cash flows and the main contract held by Seating Systems is the installation of 25,000 seats for the Hamilton V8 races in April 2009. We were also involved with this contract early this year and the contract lasts for another 6 years.

Total Assets

The auditors have been doing some interim work in preparation for the year end results. I dont want to be too specific about the numbers because we are now so close to the end of December but we can give you some idea as to how things are looking.

When you think back to Dec 2004 just after we had cleaned out the old Rocom structure, our total assets were just \$1.3 million.

Total assets are now over \$30 million which gives an idea of the high level of compounded growth achieved in a relatively short space of time.

Shareholders funds

Shareholders equity in the business has shown a useful increase this year and our percentage of shareholders funds to total assets is still over 40%

Year end profit forecast

We expect to report a December year end profit which will show a reasonable increase over the 2007 profit.

We are proud that we have been able to report increases in profit in each of the last 3 years and we will carry that into the 2008 results.

Allan Hawkins
Chairman
16th December 2008