

# DIRECTORY

## THE COMPANY

Cynotech Holdings Limited  
Level 4, National Bank Building  
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Newmarket  
Auckland  
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## DIRECTORS

A. R. Hawkins - Chairman  
N. B. Tawse - Managing Director  
P. J. Hutchinson  
K. P. McDonald

## REGISTERED OFFICE

Level 4, National Bank Building  
187 Broadway  
Newmarket  
Auckland

## AUDITORS

BDO Spicers, Auckland  
Level 8  
120 Albert St.  
Auckland

## SOLICITORS TO THE COMPANY

Lowndes Associates  
Level 5  
18 Shortland St.  
Auckland

## BANKERS

ASB Bank  
National Bank of New Zealand

## SHARE REGISTRY

Link Market Services  
P.O. Box 314  
Ashburton  
Ph: (03) 308 8887  
Fax:(03) 308 1311

### Financial Calendar

Year end	31st December
NZX year end announcement	12th March 2007
Annual report mailed	23rd March 2007
Dividend reinvestment statement mailed	23rd March 2007
Notice of AGM mailed	23rd March 2007
Share register closed for dividend	20th April 2007
Annual meeting	26th April 2007
Notice of exercise of warrants mailed	1st May 2007
Dividend payment	4th May 2007
Final 2007 date for warrant exercise	27th June 2007
Half yearly results announcement	Mid August 2007

## DIRECTORS' REVIEW

### Financial results

Cynotech Holdings Ltd and its subsidiary companies have produced an excellent result for the year to 31st December 2006.

After a slow start to the year we have substantially lifted the performance levels in the Group, particularly in the Cynotech Finance Group to produce an acceptable Group consolidated result for the year.

Net surplus after tax for the year ended December 2006 was \$1,508,221. This compares to the profit of \$724,370 for the 2005 reporting year, an increase of 108%.

The results and comparatives are reported on the basis of the IFRS accounting format following the Group's decision to convert to IFRS for the last financial year, thus achieving the transition one year ahead of the requirement in terms of the accounting standards.

#### Key positive performance indicators for the group this year include:

	Dec-06 \$	Dec-05 \$
* Group net surplus increased by 108%	1,508,221	724,370
* Total assets increased by 139%	20,126,747	8,405,898
* Finance receivables increased by 344%	11,395,756	2,568,638
* Shareholders funds increased by 63%	7,242,334	4,435,094

### Dividend

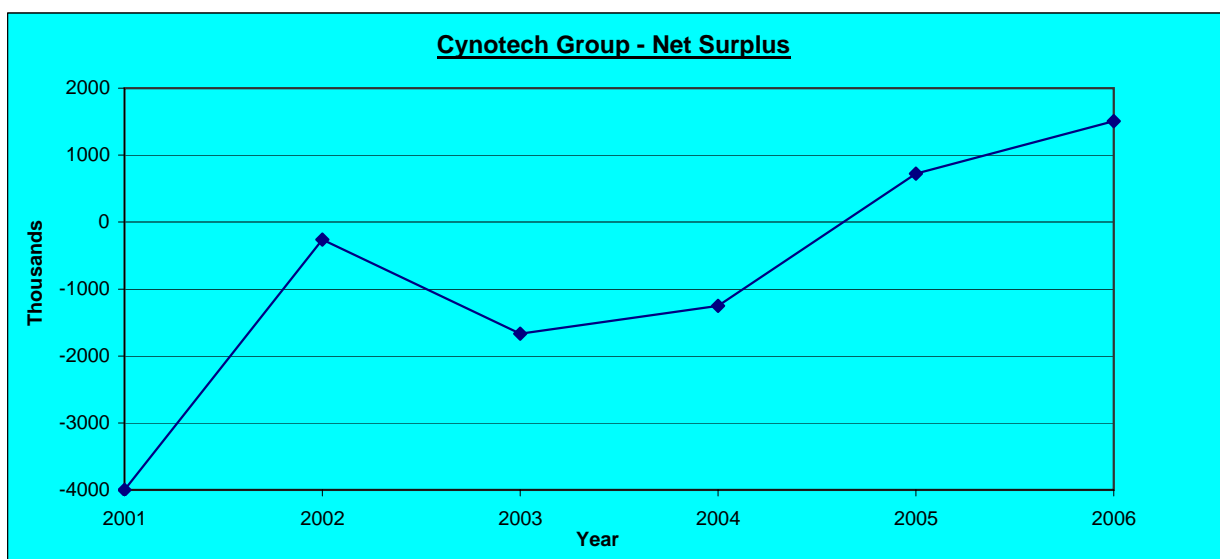
Your Directors have recommended the payment of a dividend of .5 cents per share to shareholders. A maiden dividend of .5 cents per share was paid in respect of the 2005 year.

The dividend at the rate of .5 cents (1/2 of a cent) per share will be paid to those shareholders on the register at 5pm on 20th April 2007. Shareholders will be able to take new shares in the Company at a discount to market in lieu of a cash dividend if they so wish.

### Group equity

A number of warrant holders took the opportunity on 27th June 2006 to pay up the shares attaching to the warrants. 15,264,137 new shares were issued and capital increased by \$1,526,414.

Cynotech now has 79,488,084 shares and 5,000,000 convertible notes on issue and 18,866,239 warrants.



## DIRECTORS' REVIEW

### Earnings yields

Earning rate on average total equity	25.83%
Earning rate on average total assets	10.57%
Total proposed dividend payment	\$422,440

### Manufacturing operations

The Hamilton manufacturing operations had a difficult year. January 2006 sales were well under budget due to seasonal factors. This was followed in the next few months with a downturn in sales to the supermarket sector with changes in the ownership of one of the major supermarket chains and labour problems at the same chain adversely affecting both volumes and margins. This change in ownership also led to a change in trading terms with the other major supermarket group.

We put in place a major cost cutting program and unfortunately had some redundancies. The manufacturing operation has now settled down and even though its results in 2006 were unsatisfactory we are particularly confident of much improved sales and profits as we progress through 2007.

### Satellite

The management of Satellite Phone operations has contributed to profit for the year.

### Finance Group operations

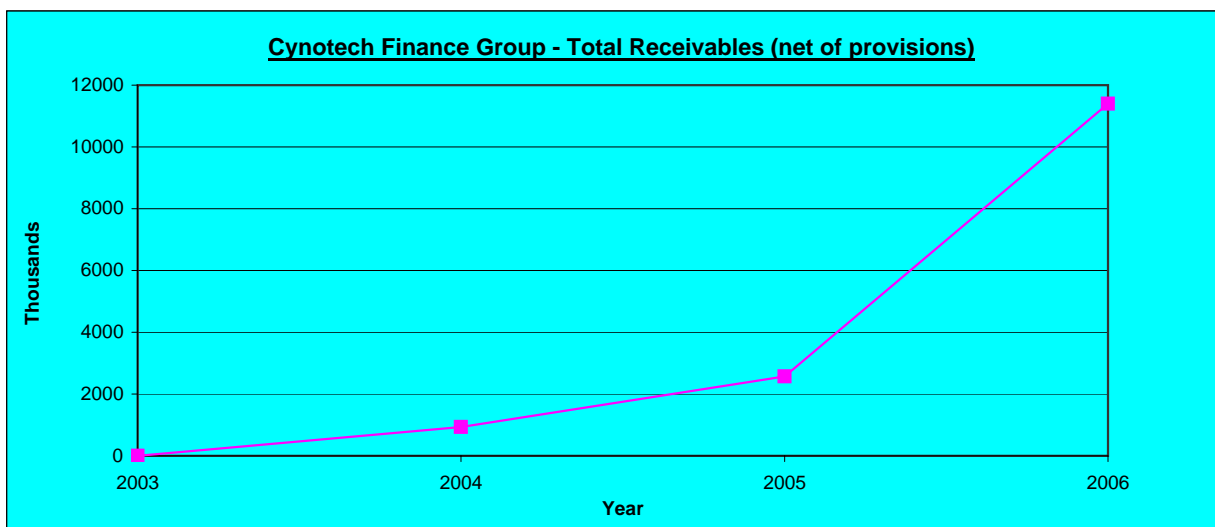
The finance group had a particularly satisfying year and performed strongly in terms of total receivables and profitability. The finance group includes Budget Loans Ltd, Cynotech Finance Group Ltd and the National Finance division.

The acquisition of the receivables book of National Finance 2000 Ltd (In receivership) has been a successful move and our experienced credit and debt collection team has had a very positive effect in terms of the collection of National Finance Loans.

The value of total finance receivables carried in the balance sheet increased to \$11.396 million but the face value of finance receivables under credit management is \$27 million.

The finance group is conservatively funded with a high level of equity. There have not been any adverse effects for us from the three highly publicised receiverships in the finance sector during 2006. Indeed we purchased receivables out of one of the receiverships so there has been a net benefit to us.

We will continue to take a cautious approach to this sector in 2007. We will however have to increase our borrowing levels as we proceed through the year in order to have the necessary funds available to fulfill our planned receivable increases in the current financial year.



## DIRECTORS' REVIEW

### Our people

The staff in the manufacturing operations had a hard year and the level of redundancies we were forced to make put added pressure on others. We now have a dedicated and hardworking group of management and staff.

Management and staff in the finance companies have worked particularly hard and we have been totally impressed at the way the team have handled the pressures arising from the natural increase in receivables this year and in the way they have handled the workload from the National Finance acquisition.

### Directors

Mr Kevin McDonald retires by rotation and offers himself for re-election at the Annual General Meeting. Mr Brett Tawse was appointed to the position of Managing Director during the year.

### Shareholders

The number of shareholders has again reduced during the year as larger shareholders consolidated and added to their holdings. The largest shareholders have been very supportive.

### Forward outlook

We have confidence in the ability of the Cynotech Group to perform well going forward.

To achieve our growth objectives in the finance sector it will be necessary for us to source deposits and other external funding but we do intend to keep the overall debt to equity ratios at conservative levels.

The growth strategies that we have in place include

- \* performing to the highest levels with our current businesses and staying focussed on improved performance
- \* strategically developing our manufacturing alignments
- \* being prepared to look at alternative businesses which are undervalued, underperforming, or showing good growth potential

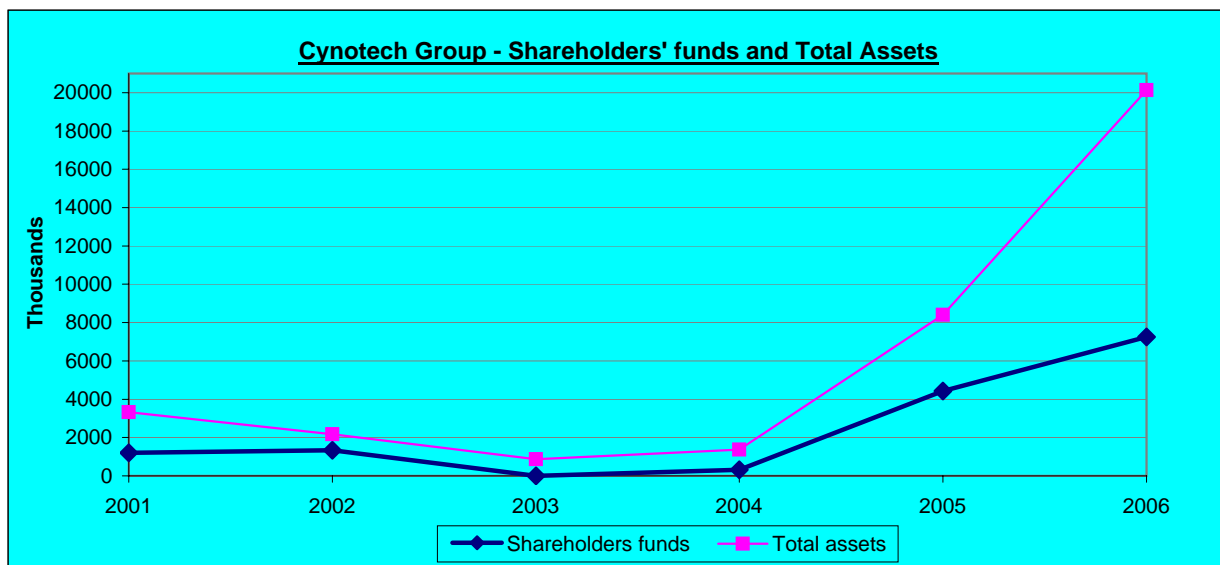
The results that have been achieved this year show that the Group is in good shape and ready to take on new challenges and to put in place increases in volumes and profitability that will lead to continued performance.



Allan Hawkins - Chairman



Brett Tawse - Managing Director





**AUDIT REPORT  
TO THE SHAREHOLDERS OF  
CYNOTECH HOLDINGS LIMITED**

We have audited the financial report on pages 5 to 23. The financial report provides information about the past financial performance of the Company and Group and their financial position as at 31 December 2006. This information is stated in accordance with the accounting policies described in Note 1 to the financial report.

**Board of Director's Responsibilities**

The Board of Directors' are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Company and Group as at 31 December 2006 and of the results of operations and cash flows for the year ended on that date.

**Auditors' Responsibilities**

It is our responsibility to express an independent opinion on the financial report presented by the Directors and report our opinion to you.

**Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial report, and
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditor we have no relationship with or interests in the Company or any of its subsidiaries.

**Unqualified Opinion**

We have obtained all of the information and explanations we have required.

In our opinion;

- Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- The financial report on pages 5 to 23;
  - complies with generally accepted accounting practices;
  - gives a true and fair view of the financial position of the Company and Group as at 31 December 2006 and the results of operations and cash flows for the year ended on that date.

Our audit was completed on 15th March 2007 and our unqualified opinion is expressed as at that date.

**BDO SPICERS**  
**CHARTERED ACCOUNTANTS**  
**AUCKLAND NZ**

# INCOME STATEMENT

for the year ended 31st December 2006

	NOTES	GROUP		COMPANY	
		2006	2005	2006	2005
<b>Revenue</b>		\$	\$	\$	\$
Fees received		690,913	547,465	-	-
Gain on sale of assets		436,915	416,357	-	-
Gain on recovery of loan receivables acquired		1,605,216	-	-	-
Interest received	Loan receivables	1,001,471	352,250	-	-
	Bank interest	48,194	28,750	44,579	28,477
Management fee and Group levy		24,000	-	666,000	238,551
Net foreign exchange gain		-	878	-	-
Sales of goods		4,817,210	3,963,696	-	-
Sales of services		291,224	629,868	-	-
<b>Total operating revenue</b>		<b>8,915,143</b>	<b>5,939,264</b>	<b>710,579</b>	<b>267,028</b>
<b>Operating expenses</b>					
Audit fees		69,000	51,000	69,000	39,362
Cost of goods sold		1,951,650	1,642,674	-	-
Cost of services sold		190,191	405,237	-	-
Depreciation	13	200,710	166,614	39,535	-
Directors fees		13,000	11,000	13,000	11,000
Distribution costs		775,390	484,858	-	-
Employee remuneration		2,004,600	1,202,169	490,910	158,436
Fixed assets impairment	13	10,782	43,129	10,782	-
Impairment/(subsequent reversal) of investments in subsidiaries	3	-	-	(325,988)	1,045,916
Impairment/(subsequent reversal) of intercompany receivables	4	-	-	(1,129,685)	568,745
Interest	Unsecured deposits	376,836	99,920	-	-
	Interest bearing loans and borrowings	183,857	139,560	11,399	19,975
Manufacturing costs		244,576	126,139	-	-
Office and administration		638,659	508,041	164,624	76,741
Other expenses		177,251	97,052	38,000	44,380
Receivables impairment loss		188,907	14,666	-	-
Rental and operating lease costs	32	381,513	222,835	200,752	168,672
<b>Total operating expenses</b>		<b>7,406,922</b>	<b>5,214,894</b>	<b>(417,671)</b>	<b>2,133,227</b>
<b>Operating surplus/(deficit) before taxation</b>		<b>1,508,221</b>	<b>724,370</b>	<b>1,128,250</b>	<b>(1,866,199)</b>
Income tax expense	30	-	-	-	-
<b>Net surplus/(deficit) for the year</b>		<b>1,508,221</b>	<b>724,370</b>	<b>1,128,250</b>	<b>(1,866,199)</b>
<b>Total recognised income and expense for the period</b>		<b>1,508,221</b>	<b>724,370</b>	<b>1,128,250</b>	<b>(1,866,199)</b>
Basic earnings per share (cents)	21	2.15	1.56		
Diluted earnings per share (cents)	21	1.97	1.21		

## BALANCE SHEET

as at 31st December 2006

	NOTES	GROUP		COMPANY	
		2006	2005	2006	2005
<b>Current assets</b>		\$	\$	\$	\$
Cash and cash equivalents		1,381,242	548,820	551,666	89,744
Trade and other receivables	8	1,340,945	1,125,708	15,700	8,280
Finance receivables	9	5,624,062	1,184,356	-	-
Loan receivables acquired - at fair value	10	577,129	-	-	-
Inventories	11	378,110	419,780	-	-
Property held for resale	14	1,617,692	-	-	-
Intercompany receivables		-	-	715,343	622,251
<b>Total current assets</b>		10,919,180	3,278,664	1,282,709	720,275
<b>Non current assets</b>					
Finance receivables	9	4,489,338	1,384,282	-	-
Loan receivables acquired - at fair value	10	705,227	-	-	-
Investment in subsidiaries	12	-	-	8,020,072	4,144,084
Goodwill	5	1,531,758	1,531,758	-	-
Fixed assets	13	2,481,244	2,211,194	135,226	-
<b>Total non current assets</b>		9,207,567	5,127,234	8,155,298	4,144,084
<b>Total assets</b>		<b>20,126,747</b>	<b>8,405,898</b>	<b>9,438,007</b>	<b>4,864,359</b>
<b>Current liabilities</b>					
Deposits	15	1,921,594	686,164	-	-
Interest bearing loans and borrowings	16	3,201,624	1,575,754	-	-
Trade and other payables	17	1,552,304	1,213,275	134,571	39,985
Provisions	18	-	27,693	-	-
Intercompany payables		-	-	2,104,719	52,926
<b>Total current liabilities</b>		6,675,522	3,502,886	2,239,290	92,911
<b>Non current liabilities</b>					
Deposits	15	6,037,420	251,030	-	-
Interest bearing loans and borrowings	16	171,471	216,888	-	-
Trade and other payables	17	-	-	-	-
Intercompany loan owed to subsidiaries		-	-	2,140,000	2,140,000
<b>Total term liabilities</b>		6,208,891	467,918	2,140,000	2,140,000
<b>Total liabilities</b>		<b>12,884,413</b>	<b>3,970,804</b>	<b>4,379,290</b>	<b>2,232,911</b>
<b>Equity</b>					
Issued capital	22	12,963,949	11,073,626	12,963,949	11,073,626
Convertible notes	22	250,000	500,000	250,000	500,000
Retained earnings	22	(5,971,615)	(7,138,532)	(8,155,232)	(8,942,178)
<b>Total equity</b>		<b>7,242,334</b>	<b>4,435,094</b>	<b>5,058,717</b>	<b>2,631,448</b>
<b>Total equity and liabilities</b>		<b>20,126,747</b>	<b>8,405,898</b>	<b>9,438,007</b>	<b>4,864,359</b>

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2006

	NOTES	GROUP		COMPANY	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>Net surplus deficit for the year</b>		1,508,221	724,370	1,128,250	(1,866,199)
<b>Total recognised revenues and expenses</b>		1,508,221	724,370	1,128,250	(1,866,199)
<b>Contributions from owners</b>					
Shares issued	22	1,903,570	4,271,090	1,903,570	4,271,090
Share issue cost	22	(13,247)	(118,212)	(13,247)	(118,212)
Convertible notes issued	22	(250,000)	(716,586)	(250,000)	(716,586)
<b>Total contributions from owners</b>		1,640,323	3,436,292	1,640,323	3,436,292
<b>Distributions to owners</b>					
Dividends Paid	22	(341,304)	-	(341,304)	-
<b>Total distribution to owners</b>		(341,304)	-	(341,304)	-
Movements in equity for the period		2,807,240	4,160,662	2,427,269	1,570,092
Equity at beginning of year		4,435,094	274,432	2,631,448	1,061,355
<b>Equity at end of the year</b>	22	<b>7,242,334</b>	<b>4,435,094</b>	<b>5,058,717</b>	<b>2,631,448</b>

On behalf of the Directors 12th March 2007



Director



Director

# STATEMENT OF CASH FLOWS

for the year ended 31st December 2006

	NOTES	GROUP		COMPANY	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>Net cash from/(used in) operating activities</b>					
Cash was provided from:					
Receipts from customers		5,764,181	3,923,046	3,927	-
Fees received		714,913	589,165	150,000	-
Interest income received		1,049,310	381,000	16,725	19,350
Cash was applied to:					
Payments to suppliers and employees		(6,568,352)	(4,534,225)	(903,828)	(550,388)
Payments to related parties		-	-	(57,336)	(381,964)
Interest expense paid		(560,693)	(239,480)	(11,399)	(19,975)
<b>Net cash flows used in operating activities</b>	23	399,359	119,506	(801,911)	(932,977)
<b>Cash flows from/(used in) investing activities</b>					
Cash was provided from:					
Sale of assets		488,633	1,621,554	-	-
Cash was applied to:					
Net increase in finance receivables		(7,137,813)	(1,469,869)	-	-
Net increase in other receivables		(600,000)	-	-	-
Net increase in loans by related parties		(84,398)	40,007	-	-
Payments to related parties		-	(238,896)	-	(633,347)
Acquisition of subsidiary net of cash acquired		-	(3,882,342)	-	(3,882,342)
Purchase of fixed assets and property		(2,150,643)	(238,726)	(35,186)	-
<b>Net cash flows used in investing activities</b>		(9,484,221)	(4,168,272)	(35,186)	(4,515,689)
<b>Cash flows from/(used in) financing activities</b>					
Cash was provided from:					
Proceeds from deposits		7,021,820	309,383	-	-
Group management fees		-	-	-	-
Proceeds from issue of shares		1,653,579	3,500,000	1,653,579	3,500,000
Proceeds from convertible notes		-	-	-	-
Group loans and advances		-	-	-	2,140,000
Interest bearing loans		1,804,569	2,140,000	-	-
Cash was applied to:					
Equity raising costs		(13,256)	(118,212)	(13,256)	(118,212)
Dividend paid		(341,304)	-	(341,304)	-
Loan facilities		(208,124)	(1,338,352)	-	-
<b>Net cash flows from financing activities</b>		9,917,284	4,492,819	1,299,019	5,521,788
<b>Net increase in cash</b>		832,422	444,053	461,922	73,122
Cash balances at beginning of the year		548,820	104,767	89,744	16,622
<b>Cash and cash equivalents at 31 December 2006</b>		1,381,242	548,820	551,666	89,744

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

## 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 Stock Exchange. Cynotech Holdings Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The Company is a profit-oriented entity.

Financial statements for the Company and consolidated financial statements are presented. The consolidated financial statements comprise the Company, its subsidiaries (together referred to as the Group) and the Group's interest in associates and partnerships.

The financial statements comprise statements of the following: Income statement; Statement of changes in equity; Balance sheet; Cash flow statement; and Notes to the financial statements.

### Statement of compliance

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

### Basis of preparation

The reporting currency used in the preparation of these financial statements is New Zealand dollars rounded to the nearest dollar. They are prepared on the historical cost basis except where assets and liabilities are stated at their fair value. The preparation of financial statements in conformity with NZ IFRS requires directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgements 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 next year are discussed in note 25.

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 judgements 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 consolidated financial statements. The accounting policies have been applied consistently by Group entities.

### Basis of preparing consolidated financial statements

#### *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company 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 the control commences until the date that control ceases.

#### *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

#### *Goodwill*

All business combinations are accounted for applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous NZ GAAP.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised but is tested annually for impairment.

### Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement. Monetary assets and liabilities at balance date are translated at the exchange rates ruling at balance date.

### Goods and services tax

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

## Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for 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: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that effect neither accounting nor taxable profit, and differences relating to investments in subsidiaries 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 enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets 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.

## Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

## Finance receivables

Finance receivables comprise advances and hire purchase contracts, and represents the gross outstanding balances owed less unearned interest and provisions for doubtful debts and suspended interest.

When the directors determine that a loan is impaired, the principal amount and accrued interest are written down to estimated net realisable value and interest and charges are no longer included in the income statement until payment is received.

## Loan receivables acquired - at fair value

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

The directors have attributed a value to this category of receivables based on a multiple of the regular payments related to each individual loan account. Loans where a regular payment is not being received are included at nil value.

## Financial instruments

Financial instruments include cash balances, receivables and payables. The Group does not use financial instruments with off balance sheet risks.

## Property, plant and equipment

### *Owned assets*

All owned items of property, plant and equipment are initially recorded at cost and depreciated. 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.

### *Disposal of property, plant and equipment*

Where an item of property, plant or equipment is disposed of, the gain or loss recognised in the statement of financial performance is calculated as the difference between the net sale price 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 useful lives as follows;

Computer equipment and software	40%
Furniture and fittings	20%-25%
Leasehold improvements	3%-25%
Motor vehicles	26%
Factory plant and equipment	10%-20%

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### Investments

#### *Non current investments*

Non current investments are stated at cost less impairment losses.

### Intra-group amalgamation

Where an intra group reconstruction occurs through a subsidiary amalgamating into the Company or another subsidiary, the assets and liabilities of the amalgamating subsidiaries are recognised in the financial statements of the Company at their previously recorded carrying amounts. The Company's investment in the subsidiary is reduced to zero. Any excess of the carrying amount of the net assets, over the Company's investment in the subsidiary is recognised in the statement of movements in equity. The results of the amalgamated subsidiary are recognised in the net surplus of the amalgamator from the date of the amalgamation.

### Convertible notes

The convertible notes' presentation is determined at the time that the note is issued and is disclosed as either debt, equity or a compound financial instrument depending upon the convertible notes' specific terms and conditions. The liability component of the convertible notes is determined by discounting the future interest and principal payments at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the statement of financial performance is calculated using the effective interest rate method. The balance of the amount raised from the issue of the convertible notes is recognised as equity.

### Trade and other payables

Trade and other payables are stated at cost.

### Operating leases

Payments made under operating leases are recognised in the income statement on a basis representative of the pattern of benefits expected to be derived from the leased asset. Lease incentives received are recognised as an integral part of the total lease payments made.

### Discontinued operations

Discontinued operations are clearly distinguishable activities of the Group's business that have been sold or terminated before the earlier of three months after balance date and the date that the financial statements are approved. In order for the activities to be classified as discontinued, they must have a material effect on the nature and focus of the business, and represent a material reduction in either operating facilities or turnover.

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash comprises cash balances (net of bank overdrafts) and demand deposits.

### Impairment

The carrying amounts of the Group's assets, other than inventories are reviewed at each balance 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 the income statement.

### 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.

### Borrowing and borrowing costs

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

### Segment Information

A segment is a distinguishable component of the group that is engaged in providing either products or services within a particular economic environment, which is subject to risks and rewards that are different from those other segments.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### Revenue

#### *Fee income*

Fees derived from new loans are a reimbursement for the costs incurred in assessing and establishing the loan and are brought into the income statement at the time of the loan advance.

#### *Goods sold and services rendered*

Revenue from the sale of goods is recognised in the income statement 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.

#### *Gain on recovery of loan receivables acquired*

Gains are recognised in the income statement when loans with no or partial fair value start to show a history of regular payments. The gain recognised in the income statement is limited to a maximum of a multiple of 3 years of the regular loan payments calculated for each individual loan.

#### *Interest income*

Interest income is recognised in the income statement on an actuarial basis to bring income to account by applying the actual interest rate for each loan to the balance of the loan outstanding at each measurement point from the loan's inception up to the end of the current reporting period.

#### *Advisory and management fees.*

Income is recognised in the income statement when the advisory and management services are performed and when the client is invoiced.

### Provisions

A provision is recognised when the Company has a present legal 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.

### Recognition of financial revenue

The basis of the recognition of interest revenue on advances is that where interest is charged to the client on a daily basis, income is brought to account as charged. Advisory and management fees are recognised in accordance with the terms of the loan contracts. Such fees are negotiated on a case by case basis.

### Recognition of financial expenses

Interest expense and other costs associated with borrowing are recognised as incurred. Borrowing costs such as origination fees and brokerage are recognised in the period to which they relate.

### Impaired and past due assets

Impaired assets include non accrual loans, restructured loans and assets acquired through the enforcement of security. Nonaccrual loans are those loans where the accrual of interest has ceased due to doubt as to full recovery of all amounts owing. Restructured loans are any loans which are not nonaccrual loans and are loans where the original terms of the contract have been modified to grant the counterparty concessional terms.

Past due assets are any loans that have not been operated by the counterparty within its key terms for at least 90 days and which are not impaired assets.

Impaired Assets and Past Due Assets are valued at their net realisable values. When the directors determine that a loan is impaired, the principal amount and accrued interest are written down to estimated net realisable value and interest and charges are no longer included in the statement of financial performance while their payment is considered to be unlikely.

### Management of Interest Rate Risk

The Group is exposed to interest rate risk in respect of advances and loans to customers. Interest rates are set by the board and are subject to market influences.

It is the policy of management to monitor constantly the finance portfolio in order to ensure that the maturity profile of finance borrowings match those of finance receivables and that interest rate margins are maintained. The finance portfolio is further reviewed by the board of directors at regular intervals.

### Expenses

#### *Operating lease payments*

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

#### *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.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 2. Asset Quality

Where there are past due trade receivables, finance receivables or loan receivables acquired - at fair value, they are treated as impaired as disclosed (note 8, 9 and 10).

### 3. Impairment of Intercompany Investments

	Group		Company	
	2006	2005	2006	2005
Cynotech Finance Group Ltd			(450,000)	-
Cynotech Systems Ltd	-	-	(22,946)	300,000
Snowdon Limited (formerly Merlin Foods Ltd)	-	-	146,958	745,916
Total impairment (recovery)loss	-	-	(325,988)	1,045,916

An impairment loss of \$146,958 was recognised by the Company during the current year because of the reduction in net assets held by a subsidiary. An impairment recovery of intercompany investments of \$472,946 was recognised by the Company during the current year in subsidiaries based on their net assets held. This was a recovery in impairment losses written off in the Company in 2005 \$22,946 and prior to 2005 \$450,000.

### 4. Impairment of Subsidiary Intercompany Receivables

	Group		Company	
	2006	2005	2006	2005
Cynotech Finance Group Ltd	-	-	(1,129,685)	226,640
Cynotech Systems Ltd	-	-	-	342,105
Total impairment (recovery)loss	-	-	(1,129,685)	568,745

An impairment recovery of Parent company intercompany accounts of \$1,129,685 (2005 impairment loss \$586,745) was recognised by the Company during the current year. This was a recovery in impairment losses written off in the Company in 2005 and prior years.

### 5. Goodwill

Acquisitions have had the following effect on the Company's assets and liabilities:

Cost	NOTE	Goodwill	
		Group	Company
Balance at 1 January 2005		4,430,031	-
Acquisitions through business combinations		1,531,758	-
Balance at 31 December 2005		5,961,789	-
Acquisitions through business combinations		-	-
Balance at 31 December 2006		5,961,789	-
<b>Amortisation and impairment losses</b>			
Balance at 1 January 2005		(4,430,031)	-
Impairment charge		-	-
Balance at 31 December 2005		(4,430,031)	-
Impairment charge		-	-
Balance at 31 December 2006		(4,430,031)	-
<b>Carrying amounts</b>			
At 1 January 2005		-	-
At 31 December 2005		1,531,758	-
At 1 January 2006		1,531,758	-
At 31 December 2006		1,531,758	-
<b>Impairment test for cash generating amounts of goodwill</b>			
The following units have significant carrying amounts of goodwill:		<b>2006</b>	<b>2005</b>
Snowdon Limited (formerly Merlin Foods Ltd)		1,531,758	1,531,758

Snowdon Limited impairment test is based on fair value less costs to sell. The sale prices for this unit have been used to derive a price/earnings ratio which has been applied to the earnings of the unit to determine the recoverable amount. This recoverable amount exceeds the carrying amount of the unit including goodwill.

The price earnings ratio used in the assessment of the sale price of the unit has been applied to an earnings figure which is based on an averaging of historical, current and planned 2007 earnings. A pre tax discount rate of 22% has been used in discounting the projected cashflow. A Growth rate of 9% has been applied for 2007 and 0% growth rate has been applied from then on for 6 years.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 6. Segment Information

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter segment pricing is determined on an arm's length 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.

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 business segments of the Group are as follows:

Business segments	Products and Services
Finance	Lending to consumers and businesses for motor vehicle and property finance.
Satellite	Selling and rental of satellite phones and providing airtime connections.
Fees	Merchant bank, finance and mortgage broking and deal driven advisory work.
Manufacturing	Manufactures and distributes cone, waffle and confectionary products.

	GROUP						Consolidated 2006
	Manufacturing 2006	Finance 2006	Satellite 2006	Fees 2006	Other 2006	Eliminations 2006	
<b>Business segments</b>							
Sales to customers outside Group	4,647,279	3,131,373	178,309	166,248	-	-	8,123,209
Services to customers outside Group	-	-	291,224	-	-	-	291,224
Intersegmental revenue	-	-	-	-	642,000	(642,000)	-
Unallocated revenue	-	-	432,131	-	68,579	-	500,710
Total revenue	4,647,279	3,131,373	901,664	166,248	710,579	(642,000)	8,915,143
<b>Segment result</b>	(23,729)	1,564,808	490,864	(141,291)	450,059	-	2,340,711
Unallocated expenses							832,490
<b>Total net surplus</b>							1,508,221
<b>Segment assets</b>	3,893,485	11,557,853	679,260	1,761,799	702,592	1,531,758	20,126,747
<b>Segment liabilities</b>	2,666,758	8,479,334	-	1,600,994	137,327	-	12,884,413

	GROUP						Consolidated 2005
	Manufacturing 2005	Finance 2005	Satellite 2005	Fees 2005	Other 2005	Eliminations 2005	
<b>Business segments</b>							
Sales to customers outside Group	3,664,738	554,268	299,222	345,812	-	-	4,864,040
Services to customers outside Group	-	-	629,867	-	-	-	629,867
Intersegmental revenue	-	-	-	41,700	239,000	(280,700)	-
Unallocated revenue	416,357	-	1,000	-	28,000	-	445,357
Total revenue	4,081,095	554,268	930,089	387,512	267,000	(280,700)	5,939,264
<b>Segment result</b>	950,214	156,073	86,917	(59,661)	74,060	(50,000)	1,157,604
Unallocated expenses							433,236
<b>Total net surplus</b>							724,368
<b>Segment assets</b>	5,316,690	2,671,072	164,913	155,199	98,024	-	8,405,898
<b>Segment liabilities</b>	2,835,537	1,498,079	54,661	54,548	2,179,985	(2,652,006)	3,970,804

### 7. Concentration of Funding

The Group is funded via equity convertible notes and unsecured deposits (see notes 15 and 22 to the financial statements for further details of these deposits), and secured bank loans (see note 16).

### 8. Trade and Other Receivables

	Group		Company	
	2006	2005	2006	2005
Trade debtors	695,770	1,058,937	4,727	-
Less impairment losses	(10,000)	(10,000)	-	-
Other Receivables	600,000	-	-	-
Prepayments	55,174	76,771	10,973	8,280
Total trade and other receivables	1,340,944	1,125,708	15,700	8,280

As at 31 December 2006, the amount owed in aggregate by the six largest trade debtors was \$593,478 (2005 \$588,869).

Other receivables are the carrying value of a debt being a deferred payment arrangement granted to a third party in relation to the sale of assets from the satellite operations of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 9. Finance Receivables

	Group		Company	
	2006	2005	2006	2005
Loans to previous director (related party) R. Guy, 12% pa int.	472,366	387,968	-	-
Other gross finance receivables	9,967,207	2,276,625	-	-
Less deferred interest	(5,132)	(36,423)	-	-
Less impairment losses	(321,041)	(59,532)	-	-
Total net receivables	10,113,400	2,568,638	-	-
Repayment terms				
Current less than 12 months	5,624,062	1,184,356	-	-
Non current over 12 months	4,489,338	1,384,282	-	-
Total net receivables	10,113,400	2,568,638	-	-

As at 31 December 2006, the amount owed in aggregate by the six largest loans was \$1,045,255 (2005 \$966,229).

The loan to previous director R Guy has been repaid during January 2007.

As at 31 December 2006, the aggregate amount of finance receivables where the credit risk and funding amount was shared with Cynotech Securities Ltd (a company associated with A.R. Hawkins) was \$697,773 (Budget Loans Ltd receivable amount) (2005 \$387,968).

### 10. Loan receivables acquired - at fair value

	Group		Company	
	2006	2005	2006	2005
Total loan receivables acquired - at fair value	1,282,356	-	-	-
Repayment terms				
Current less than 12 months	577,129	-	-	-
Non current over 12 months	705,227	-	-	-
Total loan receivables acquired - at fair value	1,282,356	-	-	-

As at 31 December 2006, the amount owed in aggregate by the six largest loans was \$134,139 (2005 nil).

Loan receivables acquired at fair value represents the value attributed to the loan receivables acquired from the Receivers of National Finance 2000 Ltd (In receivership).

Loans acquired which were current loans have been included in Finance Receivables.

Loans which were overdue and are subject to various stages of credit and collection action have been included at an attributed value calculated on the basis of the actual payments being received on a regular basis accumulated up to a level equivalent to 3 years payments limited to the actual outstanding at 31 December 2006.

Loans where regular payments are not being received and which require more substantial follow up have been included at nil value.

### 11. Inventories

	Group		Company	
	2006	2005	2006	2005
Raw materials - manufacturing	153,989	229,812	-	-
Finished goods - manufacturing	176,004	123,763	-	-
Finished goods - satellite	-	16,194	-	-
Work in progress - manufacturing	48,117	50,011	-	-
	378,110	419,780	-	-

### 12. Investment in Subsidiaries

The group has the following investments in subsidiaries:

Subsidiaries	Place of Incorporation	Ownership Owned		Balance Date
		2006	2005	
Cynotech Corporation Ltd Principal activity - Fee based activities and advisory work.	NZ	100%	100%	31 Dec.
Cynotech Systems Limited Principal activity - Management of the sale and rental of satellite phones and providing airtime connections	NZ	100%	100%	31 Dec.
Cynotech Finance Group Ltd Principal activity - Finance group holding company.	NZ	100%	100%	31 Dec.
Budget Loans Limited Principal activity - Lending to consumers & businesses for motor vehicle and property finance	NZ	100%	100%	31 Dec.
Snowdon Limited (formerly known as Merlin Foods Ltd) Principal activity - Manufactures and distributes cone, waffle and confectionary products	NZ	100%	100%	31 Dec.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 13. Fixed Assets

	Group						Total
	Land & buildings	Factory plant and equipment	Leasehold improvements	Furniture and fittings	Computer equipment & software	Motor vehicles	
<b>Cost</b>							
Balance at 1 January 2005	-	-	568,738	175,496	33,822	-	778,056
Acquisitions through business combinations	1,100,000	2,021,576	48,428	28,264	-	41,260	3,239,528
Other acquisitions	-	78,912	41,853	-	57,204	10,655	188,624
Impairment losses	-	-	(43,129)	-	-	-	(43,129)
Disposals	(1,100,000)	-	-	-	-	(19,000)	(1,119,000)
Balance at 31 December 2005	-	2,100,488	615,890	203,760	91,026	32,915	3,044,079
Balance at 1 January 2006	-	2,100,488	615,890	203,760	91,026	32,915	3,044,079
Acquisitions through business combinations	-	-	-	-	-	-	-
Other acquisitions	-	474,110	-	-	45,968	-	520,078
Impairment losses	-	-	(10,782)	-	-	-	(10,782)
Disposals	-	(22,537)	-	-	-	(16,000)	(38,537)
Balance at 31 December 2006	-	2,552,061	605,108	203,760	136,994	16,915	3,514,838
<b>Depreciation and impairment losses</b>							
Balance at 1 January 2005	-	-	488,111	155,214	22,946	-	666,271
Depreciation charge for the year	-	148,157	4,619	1,959	8,916	2,963	166,614
Disposals	-	-	-	-	-	-	-
Balance at 31 December 2005	-	148,157	492,730	157,173	31,862	2,963	832,885
Balance at 1 January 2006	-	148,157	492,730	157,173	31,862	2,963	832,885
Depreciation charge for the year	-	145,626	16,128	10,706	19,890	8,360	200,710
Disposals	-	-	-	-	-	-	-
Balance at 31 December 2006	-	293,783	508,858	167,879	51,752	11,323	1,033,595
<b>Carrying amounts</b>							
At 1 January 2005	-	-	80,627	20,282	10,876	-	111,785
At 31 December 2005	-	1,952,331	123,160	46,587	59,164	29,952	2,211,194
At 1 January 2006	-	1,952,331	123,160	46,587	59,164	29,952	2,211,194
At 31 December 2006	-	2,258,278	96,250	35,881	85,242	5,592	2,481,243
	Company						Total
	Land & buildings	Factory plant and equipment	Leasehold improvements	Furniture and fittings	Computer equipment & software	Motor vehicles	
<b>Cost</b>							
Balance at 31 December 2005	-	-	-	-	-	-	-
Balance at 1 January 2006	-	-	-	-	-	-	-
Acquisitions through business combinations	-	-	62,331	37,146	26,146	29,952	155,575
Other acquisitions	-	-	-	-	45,968	-	45,968
Impairment losses	-	-	(10,782)	-	-	-	(10,782)
Disposals	-	-	-	-	-	(16,000)	(16,000)
Balance at 31 December 2006	-	-	51,549	37,146	72,114	13,952	174,761
<b>Depreciation and impairment losses</b>							
Balance at 31 December 2005	-	-	-	-	-	-	-
Balance at 1 January 2006	-	-	-	-	-	-	-
Depreciation charge for the year	-	-	12,646	5,042	13,487	8,360	39,535
Disposals	-	-	-	-	-	-	-
Balance at 31 December 2006	-	-	12,646	5,042	13,487	8,360	39,535
<b>Carrying amounts</b>							
At 31 December 2005	-	-	-	-	-	-	-
At 1 January 2006	-	-	-	-	-	-	-
At 31 December 2006	-	-	38,903	32,104	58,627	5,592	135,226

The Company had no fixed assets as at 31 December 2005.

### 14. Property held for resale

	Group		Company	
	2006	2005	2006	2005
Rental Properties	1,617,692	-	-	-

Rental properties is the investment (at independent registered valuation) in three residential apartments which have been acquired by subsidiary company Cynotech Corporation Ltd and which are held for resale.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 15. Secured and Unsecured Deposits

		Interest rates	Group		Company	
			2006	2005	2006	2005
Deposits due within 12 months	Unsecured		1,921,594	686,164	-	-
Term deposits	Unsecured		37,420	251,030	-	-
Term deposits	Secured		6,000,000	-	-	-
Total deposits			7,959,014	937,194	-	-
Interest rates on deposits:		8.50%	124,142	195,163		
		10.00%	50,845	-	-	-
		11.00%	47,739	43,291	-	-
		12.00%	1,221,713	661,584	-	-
		13.00%	6,041,199	37,156	-	-
		13.50%	473,376	-	-	-
Total deposits			7,959,014	937,194	-	-
Related party deposits:						
	Cynotech Securities Ltd	12.00%	37,420	251,030	-	-
	P.J. Hutchinson	13.50%	263,013	-	-	-
	K.P.McDonald	13.50%	210,363	-	-	-
			510,796	251,030	-	-

The Company has guaranteed the Secured Deposit entered into by its subsidiary for \$6,000,000 (2005 \$nil).

### 16. 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 note 25

	Group		Company	
	2006	2005	2006	2005
<b>Non-current liabilities</b>				
Secured loans	31,113	179,570	-	-
Finance lease liabilities	140,358	37,318	-	-
	171,471	216,888	-	-
<b>Current liabilities</b>				
Secured loans	3,179,041	1,559,761	-	-
Finance lease liabilities	22,583	15,993	-	-
	3,201,624	1,575,754	-	-

#### The secured loans are secured as follows

Guarantee	A Hawkins	1,000,000
Guarantee	K P McDonald	400,000
Guarantee	P J Hutchinson	400,000
Chattels security over Haas TRO 140G cone machine		
Guarantee	Snowdon Limited	700,000
Mortgage Security over Property held for resale		1,526,000

#### Finance lease liabilities

	Minimum lease payment outstanding	Interest outstanding	Principal outstanding
Finance lease liabilities are payable as follows:			
Less than one year	-	-	11,328
Between one and five years	-	-	23,990
Later than five years	-	-	-
	-	-	35,318

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

The Company has guaranteed the Interest Bearing Loans and Borrowings entered into by its subsidiary for \$2,645,118 (2005 \$1,739,331)

### 17. Trade and Other Payables

	Group		Company	
	2006	2005	2006	2005
Current:				
Trade payables	635,827	893,083	14,089	25,115
Non trade payables and accrued expenses	916,477	320,192	120,483	14,870
	1,552,304	1,213,275	134,571	39,985
Term:				
Trade payables	-	-	-	-
Total trade and other payables	1,552,304	1,213,275	134,571	39,985

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 18. Provisions

	Group		Company	
	2006	2005	2006	2005
<b>Lease reinstatement</b>				
Balance 1 January 2006	27,693	18,462	-	-
Provisions made during the year	(27,693)	9,231	-	-
Balance 31 December 2006	-	27,693	-	-

Reinstatement of the lease for 12 Viaduct Harbour Ave. This transaction has been completed as at 31st December 2006.

### 19. Contingent Liabilities

	Group		Company	
	2006	2005	2006	2005
The Group has no contingent liabilities as at 31 December 2006 (2005 nil)				
The Company has guaranteed the obligations entered into by the subsidiaries:				
Secured Deposits	-	-	6,000,000	-
Interest Bearing Loans and Borrowings	-	-	2,645,118	1,739,331
	-	-	8,645,118	1,739,331

### 20. Credit Facilities

There are no unused credit facilities as at 31 December 2006.

### 21. Earnings per share

	Group	
	2006	2005
<b>Basic earnings per share</b>		
The calculation of basic earnings per share based on:		
Net surplus attributable to ordinary shareholders	1,508,221	724,370

#### Weighted average number of ordinary shares

	Number	Number
Issued Ordinary Shares at 1 January	58,260,808	27,675,388
Effect of new Placement of Shares in June 2005	-	11,671,233
Effect of Convertible notes converted in April and May 2005	-	7,103,343
Effect of Convertible notes converted in April 2006	3,506,849	-
Effect of shares in lieu of dividend May 2006	643,852	-
Effect of warrants exercise in June 2006	7,820,256	-
Weighted average number of ordinary shares at 31 December	70,231,765	46,449,964
<b>Basic earnings per share (cents)</b>	2.15	1.56

#### Diluted earnings per share

	Group	
	2006	2005
The calculation is based on diluted earnings per share:		
Net surplus attributable to ordinary shareholders	1,508,221	724,370
Interest on convertible notes	-	-
	1,508,221	724,370

#### Diluted weighted average number of ordinary shares

	Number	Number
Weighted average number of ordinary shares at 31 December	70,231,765	46,449,964
Convertible notes on issue at 1 January	10,000,000	20,383,904
Effect of conversion of convertible notes in April 2006	(3,506,849)	(6,960,366)
	76,724,916	59,873,502
<b>Diluted earnings per share (cents)</b>	1.97	1.21

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

## 22. Equity

### Reconciliation of movement in capital and reserves

	Group				
	Share capital	Convertible notes	Warrants	Retained earnings	Total equity
Balance at 1 January 2005	6,920,748	1,216,586	-	(7,862,902)	274,432
Total recognised income and expenses	-	-	-	724,370	724,370
Shares issued	4,271,090	-	-	-	4,271,090
Share issue costs	(118,212)	-	-	-	(118,212)
Convertible notes converted	-	(716,586)	-	-	(716,586)
Balance at 31st December 2005	<b>11,073,626</b>	<b>500,000</b>	-	<b>(7,138,532)</b>	<b>4,435,094</b>
Balance at 1 January 2006	11,073,626	500,000	-	(7,138,532)	4,435,094
Total recognised income and expenses	-	-	-	1,508,221	1,508,221
Share issue costs	(13,247)	-	-	-	(13,247)
Convertible notes converted	250,000	(250,000)	-	-	-
Exercise of warrants	1,526,414	-	-	-	1,526,414
Dividend Paid	127,156	-	-	(341,304)	(214,148)
Balance at 31st December 2006	<b>12,963,949</b>	<b>250,000</b>	-	<b>(5,971,615)</b>	<b>7,242,334</b>

	Company				
	Share capital	Convertible notes	Warrants	Retained earnings	Total equity
Balance at 1 January 2005	6,920,748	1,216,586	-	(7,075,979)	1,061,355
Total recognised income and expenses	-	-	-	(1,866,199)	(1,866,199)
Shares issued	4,271,090	-	-	-	4,271,090
Share issue costs	(118,212)	-	-	-	(118,212)
Convertible notes converted	-	(716,586)	-	-	(716,586)
Balance at 31st December 2005	<b>11,073,626</b>	<b>500,000</b>	-	<b>(8,942,178)</b>	<b>2,631,448</b>
Balance at 1 January 2006	11,073,626	500,000	-	(8,942,178)	2,631,448
Total recognised income and expenses	-	-	-	1,128,250	1,128,250
Share issue costs	(13,247)	-	-	-	(13,247)
Convertible notes converted	250,000	(250,000)	-	-	-
Exercise of warrants	1,526,414	-	-	-	1,526,414
Dividend Paid	127,156	-	-	(341,304)	(214,148)
Balance at 31st December 2006	<b>12,963,949</b>	<b>250,000</b>	-	<b>(8,155,232)</b>	<b>5,058,717</b>

### Number on Issue

	Share capital	Convertible notes	Warrants
Balance at 1 January 2005	27,675,388	18,610,572	-
Shares issued April to June 2005	30,585,420	-	-
Convertible notes converted April to May 2005	-	(8,610,572)	-
New warrants issued May/June 2005	-	-	34,130,404
Balance at 31st December 2005	<b>58,260,808</b>	<b>10,000,000</b>	<b>34,130,404</b>
Balance at 1 January 2006	58,260,808	10,000,000	34,130,404
Shares issued in lieu of dividend	963,139	-	-
Convertible notes converted April 2006	5,000,000	(5,000,000)	-
Warrants exercised June 2006	15,264,137	-	(15,264,137)
Balance at 31st December 2006	<b>79,488,084</b>	<b>5,000,000</b>	<b>18,866,267</b>

### Share capital

All ordinary shares have equal voting rights and share equally in dividends on winding up.

5,000,000 shares were issued in April 2006 in exchange for convertible notes at a price of 5 cents per share.

963,139 shares were issued in May 2006 in lieu of dividend.

15,264,137 shares were issued in June 2006 to warrant holders who exercised their warrants at a price of 10 cents per share.

### Warrants

15,264,137 warrants were exercised at 27 June 2006 at an exercise price of 10 cents per warrant.

The terms of the warrants give holders a right to subscribe for new ordinary shares at an exercise price of 20 cents per share on 27 June 2007 or 30 cents per share on 27 June 2008.

### Convertible notes

5,000,000 were converted to new ordinary shares in April 2006 at a conversion price of 5 cents per share.

### Noteholders - related parties

	Group			
	2006 Number	2006 \$	2005 Number	2005 \$
Cynotech Securities Ltd	5,000,000	250,000	5,000,000	250,000
Newmarket Securities Ltd	-	-	5,000,000	250,000
Total convertible notes	<b>5,000,000</b>	<b>250,000</b>	<b>10,000,000</b>	<b>500,000</b>

### Noteholders - related parties

	Company			
	2006 Number	2005 \$	2005 Number	2005 \$
Cynotech Securities Ltd	5,000,000	250,000	5,000,000	250,000
Newmarket Securities Ltd	-	-	5,000,000	250,000
Total convertible notes	<b>5,000,000</b>	<b>250,000</b>	<b>10,000,000</b>	<b>500,000</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 23. Reconciliation of Operating Cashflows

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

	Group		Company	
	2006	2005	2006	2005
<b>Net surplus/(deficit)</b>	1,508,221	724,370	1,128,250	(1,866,199)
<b>Non cash items and other add backs</b>				
Depreciation	200,710	166,614	39,535	-
Goodwill impairment loss	-	-	-	-
Write down of leasehold improvements	10,782	43,129	-	-
Intercompany receivable impairment loss	-	-	(1,129,685)	568,745
Inter company investment impairment loss	-	-	(325,988)	1,045,916
Inter company group levy	-	-	(492,000)	(188,551)
Receivables impairment loss	188,907	14,666	-	-
Lease reinstatement	(10,000)	9,231	-	-
Intercompany management fee	-	41,700	-	-
Management Fee	-	-	(51,854)	-
Gain on Loans	(1,605,216)	-	-	-
(Gain)/loss on sale of assets	(426,132)	(416,357)	-	-
	<u>(1,640,949)</u>	<u>(141,017)</u>	<u>(1,959,992)</u>	<u>1,426,110</u>
<b>Movement in working capital</b>				
Decrease/(increase) in trade and other receivables	384,764	(893,912)	(7,420)	(6,780)
Decrease/(increase) in inventory	41,670	(419,780)	-	-
Decrease/(increase) in intercompany receivables	-	-	1,819,127	(463,614)
Increase/(decrease) in intercompany payables	-	-	(1,876,462)	52,925
Increase/(decrease) in trade creditors other payables & provisions	105,653	849,845	94,586	(75,419)
	<u>532,087</u>	<u>(463,847)</u>	<u>29,831</u>	<u>(492,888)</u>
Net cash inflows/(outflows) from operating activities	<u>399,359</u>	<u>119,506</u>	<u>(801,911)</u>	<u>(932,977)</u>

Cash receipts and payments for finance receivables have been combined to present a net cashflow from finance receivables. A net cashflow from finance receivables has been presented as part of net increase in finance receivables.

### 24. Related Parties

#### Identity of related parties:

All of the directors listed in the directory are related parties to the Group.  
 Allan Hawkins is the common director and shareholder of the Group and Cynotech Securities Limited.  
 Allan Hawkins is the common director of the Group and Newmarket Securities Limited.  
 Maree Hawkins, Mark Hawkins, Wayne Hawkins and Glenn Hawkins are shareholders and related to Allan Hawkins.  
 Laurel Hawkins, wife of Allan Hawkins is a director and shareholder in Cynotech Securities Ltd.  
 Paul Hutchinson and Cynotech Securities Limited are major shareholders of Newmarket Securities Limited.  
 Wayne Hawkins and Michelle Mitchell are key management personnel and shareholders of the Group.  
 Paul Hutchinson is a common director of the Group, Personal Finance Ltd and Bridging Finance Ltd.  
 Other than the above, there are no additional related parties with whom material transactions have taken place.

#### Material related party transactions are as follows:

Cash issue of shares - refer note 22.  
 Convertible notes investment by related parties - refer note 22.  
 Loans and advances to related parties - refer note 9.  
 Interest received on loans to related parties - refer note 9.  
 Deposits from related parties - refer note 15.  
 Interest paid on deposits from related parties - refer note 15.  
 The sale of \$1,230,748 loan receivables from Budget Loans Ltd to Personal Finance Ltd.  
 The sale of \$251,102 loan receivables from Budget Loans Ltd to Bridging Finance Ltd.  
 Budget Loans Ltd provides loan management services to Personal Finance Ltd and Bridging Finance Ltd.  
 The management service arrangement is related to the sale of receivables by Budget Loans and no fees are charged.  
 Cynotech Securities Ltd loan to Cynotech Corporation Ltd for \$129,766 for 0%.  
 Cynotech Securities Ltd sold fixed assets with a book value of \$27,164 to Cynotech Holdings Ltd.  
 The annual compensation of the key management personnel who are related parties totals \$186,404 for the year ended 31 Dec 2006 (2005 \$267,500).  
 The Group paid management fees of \$175,000 to Cynotech Securities Ltd for the year ended 2006 (2005 \$100,000).  
 Receivables where the credit risk and funding is shared with Cynotech Securities Ltd - refer note 9.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

## 25. Financial Risk Management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by policies approved by the Board of Directors. These policies identify, evaluate financial risks in close co operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate, credit risks and investing excess liquidity.

### (a) 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 and is exposed to foreign exchange risk arising from currency exposures to the US dollar.

US dollar receipts are held as US dollars and payments for US dollar supplies are paid out of these funds. Surplus US dollars are periodically converted to NZ dollars at the market rate of exchange.

#### (ii) Price risk

The Group is exposed to commodity price risk through its manufacturing operations.

### (b) Credit risk

The Group has no significant concentrations of credit risk at balance date. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any one financial institution. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

### (d) Cash flow and fair value interest rate risk

Refer to note 26 on financial instruments.

## 26. Financial Instruments

### Credit risk

Financial instruments which potentially subject the company to credit risk principally consist of cash, trade and other receivables and finance receivables.

The group has a credit policy, which is used to manage this exposure to credit risk as explained in note 25.

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

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

Maximum exposures to credit risk at balance date are:	Group		Company	
	2006	2005	2006	2005
Cash and cash equivalents	1,381,242	548,820	551,666	89,744
Trade and other receivables	740,944	1,125,708	15,700	8,280
Finance receivables	10,113,400	2,568,638	-	-
Loan receivables acquired - at fair value	1,282,356	-	-	-

### Credit exposure

As at 31 December 2006 there were no individuals or groups of closely related counter parties to whom the Group has a credit exposure that equals or exceeds 10% of equity.

### Concentrations of credit risk

The Group incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 26. Financial Instruments (continued)

#### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows;

	Note	Company			
		Carrying amount		Fair value	
		2006	2005	2006	2005
Trade and other receivables	8	740,944	1,125,708	740,944	1,125,708
Deposits	14	7,959,014	937,194	7,959,014	937,194
Interest bearing loans and borrowings	15	3,373,095	1,792,642	3,373,095	1,792,642
Convertible notes	21	250,000	500,000	250,000	500,000
Cash and cash equivalents		1,381,242	548,820	1,381,242	548,820
Trade and other payables	16	1,552,304	1,213,275	1,552,304	1,213,275
Finance receivables	9	10,113,400	2,568,638	10,113,400	2,568,638
Loan receivables acquired - at fair value	10	1,282,356	-	1,282,356	-

#### Foreign currency risk

The Group does not have material exposure to foreign exchange risk from transactions denominated in foreign currencies, arising from normal trading activities.

#### Interest rate risk

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.

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

GROUP 2006	Effective Rate	Total	Less than 6 mths	6-12 months	1-2 years	2-5 years	Over 5 years
<b>Financial assets</b>							
Cash balances (net)	6.00%	1,381,242	1,381,242	-	-	-	-
Finance receivables	24.00%	10,113,400	3,556,883	2,067,179	2,412,046	2,077,292	-
Loan receivables acquired - at fair value	24.00%	1,282,356	146,234	296,486	563,912	275,724	-
Loans to former Director, R. Guy	12.00%	472,366	472,366	-	-	-	-
Total assets		13,249,364	5,556,725	2,363,665	2,975,958	2,353,016	-
<b>Financial liabilities</b>							
Deposits	12.50%	7,959,014	1,921,594	-	37,420	6,000,000	-
Interest bearing loans	9.50%	3,373,095	1,885,959	375,814	31,113	140,358	939,850
Total liabilities		11,332,109	3,807,553	375,814	68,533	6,140,358	939,850
Re-pricing gap		1,917,255	1,749,173	1,987,850	2,907,425	(3,787,342)	(939,850)
<b>GROUP 2005</b>							
<b>Financial assets</b>							
Cash balances (net)	6.00%	548,820	548,820	-	-	-	-
Finance receivables	24.59%	2,180,670	788,237	8,151	566,070	818,212	-
Loan receivables acquired - at fair value	0.00%	-	-	-	-	-	-
Loans to former Director, R. Guy	12.00%	387,968	-	387,968	-	-	-
Total assets		3,117,458	1,337,057	396,119	566,070	818,212	-
<b>Financial liabilities</b>							
Deposits	11.00%	937,194	686,164	-	251,030	-	-
Interest bearing loans	8.00%	1,792,642	-	1,575,754	-	216,888	-
Total liabilities		2,729,836	686,164	1,575,754	251,030	216,888	-
Re-pricing gap		387,622	650,893	(1,179,635)	315,040	601,324	-

Included in the finance receivables are loans purchased from the receivers of National Finance 2000 Ltd (In Receivership)

These loans have been included in the ageing of Loan receivables acquired - at fair value as follows:

A value is attributed based on actual regular instalments being received and due to be received, spread over a maximum term of 3 years. After the 3 year repayment period the loan does not have an attributed value in the financial accounts. These accounts are aged on the basis of the instalment amounts being received or in arrears.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 26. Financial Instruments (continued)

COMPANY 2006	Effective Rate	Total	Less than 6 mths	6-12 months	1-2 years	2-5 years
<b>Financial assets</b>						
Cash balances (net)	6%	551,666	551,666	-	-	-
<b>Financial liabilities</b>						
Total liabilities		-	-	-	-	-
Re-pricing gap		551,666	551,666	-	-	-
<b>COMPANY 2005</b>						
<b>Financial assets</b>						
Cash balances (net)	6%	89,744	89,744	-	-	-
<b>Financial liabilities</b>						
Total liabilities		-	-	-	-	-
Re-pricing gap		89,744	89,744	-	-	-

### 27. Acquisitions of Finance assets

On 7 December 2006, the Group acquired receivables from the Receivers of National Finance 2000 Ltd (In Receivership) for \$7,700,000, satisfied in cash. The acquisition had the following effect on the Group's assets and liabilities.

Net assets at the acquisition date	Recognised values	Fair value adjustments	Carrying amounts
Finance receivables	7,700,000	-	7,700,000
Legal costs of acquisition	26,370		
Goodwill on acquisition	-		
Consideration paid, satisfied in cash	7,726,370		
Cash acquired	(337,644)		
Net cash outflow	7,388,726		
The face value of receivables acquired was	23,486,769		

### 28. Critical Accounting Estimates and Judgements

The key sources of estimation uncertainty are in relation to the assumptions and their risk factors relating to goodwill and intangibles as detailed in note 5 and fixed assets impairment as detailed in note 13. There were no critical accounting judgements in applying the Group's accounting policy.

### 29. Subsequent Events

Since balance date the Company has announced a dividend to holders of ordinary shares at the rate of .50 cents per share payable on 4 May 2007 to those shareholders on the register at 5pm on 20 April 2007.

Since balance date the Group traded three residential apartments and a receivable in exchange for the property held for resale. The properties on both sides of the transaction were traded on the basis of independent valuations.

### 30. Taxation Benefit

	Group		Company	
	2006	2005	2006	2005
<b>Income tax expense</b>				
Operating Profit before taxation	1,508,221	724,370	1,128,250	(1,866,199)
Prima facie income tax @ 33%	497,713	239,042	372,322	(615,846)
Permanent differences:				
Write off leasehold improvements	3,558	14,233	3,558	-
Non-taxable gain on sale of assets	(142,036)	(137,398)		
Other	730,110	(1,746)	1,430	4,630
Tax losses recognised	(1,157,267)	(134,940)	(381,598)	611,216
Timing differences:				
Provisions and accruals	92,087	26,771	4,288	-
Depreciation	(24,165)	(5,962)	-	-
Actual income tax/(tax loss for year)	-	-	-	-

#### Unrecognised tax losses available for set off against future assessable income

Opening tax losses at 1 January	3,472,789	4,075,919	2,453,227	601,057
Tax losses recognised	(3,506,870)	(408,909)	(1,156,359)	1,852,170
Adjustments for prior years	225,485	(194,221)	11,066	-
Closing Tax losses at 31 December	191,404	3,472,789	1,307,934	2,453,227
Tax saving thereon	63,163	1,146,020	431,618	809,565

The ability to use these tax losses depends on the generation of sufficient assessable income in the respective tax jurisdictions and on the required level of shareholder continuity.

#### Unrecognised deferred tax asset

Deferred tax asset	320,511	114,687	-	-
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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2006

### 31. Discontinued Operations

	Group		Group	
	discontinued operations		continuing operations	
	2006	2005	2006	2005
<b>Income statement</b>				
Revenue	901,664	-	8,013,459	5,939,264
Operating surplus	490,864	-	1,017,357	724,370
<b>Balance sheet</b>				
Total assets	679,260	-	19,447,487	8,405,898
Total liabilities	656,314	-	12,228,099	3,970,804

### 32. Commitments

	Group		Company	
	2006	2005	2006	2005
Capital commitments	-	-	-	-
Lease commitments under non cancellable operating leases				
Less than one year	409,325	416,768	213,228	222,608
Between one and two years	363,339	351,388	187,109	157,228
Between two and five years	465,451	727,624	137,575	297,411
Greater than five years	-	62,000	-	-
Total operating lease commitments	1,238,115	1,557,780	537,912	677,247

The Group leases a number of buildings, factory and warehouse facilities under operating leases. The building leases range from 1 to 4 years. The factory lease runs for a period of 5 years with an option to renew the lease after that date.

#### Rental and operating lease expense:

Some of the building lease has been sublet by the Group. During the years ended 31 December 2005 and 31 December 2006 the rental expense in the income statement was offset by sublease revenue.

	Group		Company	
	2006	2005	2006	2005
Total rental expense	474,441	567,630	283,680	480,638
Lease reinstatement	(10,000)	9,231	-	-
Sublease rental revenue	(102,928)	(311,966)	(102,928)	(311,966)
Lease inducement	20,000	(42,060)	20,000	-
Rental and operating lease costs	381,513	222,835	200,752	168,672

## SHAREHOLDER & ADDITIONAL STATUTORY INFORMATION

### Stock Exchange Listing

The Company's shares are listed on the New Zealand Alternative Exchange (NZAX) under the ticker code CYT.

### Principal Security Holders as at 31 December 2006

This table lists the names and holdings of the 20 largest holdings of equity securities and convertible notes issued by the Company.

	Ordinary shares		Convertible notes (ord. Shares equiv.)		Total diluted	
	No.	%	No.	%	No.	%
Newmarket Securities Ltd	9,314,447	11.72			9,314,447	11.02
New Zealand Guardian Trust Company Ltd	9,124,489	11.48			9,124,489	10.80
Philip Robert & Pamela Annette Briggs	4,759,786	5.99			4,759,786	5.63
Cynotech Securities Limited	4,180,226	5.26	5,000,000	100	9,180,226	10.87
Darren Peder Corfield	2,456,561	3.09			2,456,561	2.91
M.W. Daniel, N.G. Burton, M.M. Benjamin	2,250,000	2.83			2,250,000	2.66
Craig Raymond & Kristal Anne Foss, L.R. Griffin	2,160,000	2.72			2,160,000	2.56
Augusta Group Ltd	1,600,000	2.01			1,600,000	1.89
Glenn & Sonja Hawkins	1,555,886	1.96			1,555,886	1.84
Allan Michael & Lynne Nobilo	1,535,486	1.93			1,535,486	1.82
Brian D. Mackenzie & G.P. Newlove	1,403,693	1.77			1,403,693	1.66
John K. McMillan, Brendan J. Lawler, Lois E. Lawler	1,372,840	1.73			1,372,840	1.62
Kevin Patrick McDonald	1,152,596	1.45			1,152,596	1.36
Polar Blast Ltd	1,144,034	1.44			1,144,034	1.35
Richard Dale Agnew	1,067,353	1.34			1,067,353	1.26
Wairahi Holdings Limited	1,055,000	1.33			1,055,000	1.25
Norman Louis & Josephine Godden	961,211	1.21			961,211	1.14
Malamute Investments Ltd	915,227	1.15			915,227	1.08
Ace Finance Ltd	771,135	0.97			771,135	0.91
John Jeffers Harrison	769,034	0.97			769,034	0.91
<b>Total large holders</b>	<b>49,549,004</b>	<b>62.34</b>	<b>5,000,000</b>	<b>100</b>	<b>54,549,004</b>	<b>64.56</b>
<b>Total securities on issue</b>	<b>79,488,084</b>		<b>5,000,000</b>		<b>84,488,084</b>	

The convertible notes above are listed as the ordinary share equivalents for each convertible note taking account of the ordinary share entitlement on conversion of each convertible note at maturity or earlier conversion date.

### Spread of Voting Security Holders

The following table shows the spread of voting security holders by number of holders and number of securities held.

Size of holding	shares		holders	
	No.	%	No.	%
1-1000	81,611	0.10	95	10.61
1001-5000	621,200	0.78	229	25.59
5001-10000	1,049,973	1.32	139	15.53
10001-100000	11,710,695	14.73	343	38.32
Over 100000	66,024,605	83.07	89	9.95
<b>Totals</b>	<b>79,488,084</b>	<b>100.00</b>	<b>895</b>	<b>100.00</b>

### Directors share dealings to 31 December 2006

- Kevin Patrick McDonald exercised warrants and was issued 200,000 shares on 27 June 2006. Kevin Patrick McDonald purchased 200,000 shares on 9 October 2006.
- Cynotech Securities Ltd ( a company associated with Mr AR Hawkins) was allocated 204,940 shares by way of shares in lieu of dividend on 2 May 2006.
- Newmarket Securities Ltd (a company associated with Mr A.R. Hawkins and Mr P.J. Hutchinson) converted 5,000,000 convertible notes during April 2006 in exchange for 5,000,000 ordinary shares at a price of 5 cents per share.
- Newmarket Securities Ltd (a company associated with Mr A.R. Hawkins and Mr P.J. Hutchinson) was allocated 202,403 shares in lieu of dividend on 2 May 2006.
- Newmarket Securities Ltd (a company associated with Mr A.R. Hawkins and Mr P.J. Hutchinson) exercised warrants and was issued 2,080,338 shares at a price of 10 cents per share on 27 June 2006.
- Newmarket Securities Ltd (a company associated with Mr A.R. Hawkins and Mr P.J. Hutchinson) sold 943,580 shares on 27 June 2006.

### Substantial security holders

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

The following are registered by the Company as at 31st December 2006 as substantial security holders in the Company, having declared a relevant interest in voting securities under section 25 of the Securities Markets Act 1988.

Newmarket Securities Ltd  
 New Zealand Guardian Trust Company Ltd  
 Philip Robert & Pamela Annette Briggs  
 Cynotech Securities Ltd

## SHAREHOLDER & ADDITIONAL STATUTORY INFORMATION

### Stock Exchange Listing

The Company's warrant are listed on the New Zealand Alternative Exchange (NZAX) under the ticker code CYTWA.

### Principal Warrants Holders as at 31 December 2006

This table lists the names and holdings of the 23 largest holdings of warrants issued by the Company.

	Warrants	
	No	%
Cynotech Securities Ltd	4,172,643	22.12
Andrew Ronald Bailey	3,000,000	15.90
Newmarket Securities Ltd	1,447,192	7.67
Oxbow Holdings Ltd	1,011,222	5.36
John Jeffers Harrison	625,000	3.31
Augusta Group Ltd	500,000	2.65
Norman Louis & Josephine Godden	485,813	2.58
FNZ Custodians Ltd	456,937	2.42
Macquarie Equities Custodians Ltd	439,162	2.33
Royden James Dykes, John Graham Turroll, Vivienne Hartley Dykes	300,000	1.59
John Arbuckle	276,000	1.46
Richard Hugh Cleveland Guy	204,200	1.08
Anthony Edward Falkenstein	200,500	1.06
Kelvin Robert Green	160,000	0.85
Malcolm Frederick Chambers	152,360	0.81
Francesse Kaye Middleton	150,000	0.80
William Treuren	150,000	0.80
Kevin Patrick McDonald	126,298	0.67
Renton Maxwell & Margaret Mary Sutherland, Michael Raymond Shue	125,000	0.66
Gregory Walter Daniel	100,000	0.53
Richard Selwyn Hamblett	100,000	0.53
Hercules Nominees Ltd	100,000	0.53
Jonathan Mark Westoby	100,000	0.53

### Total large holders

**14,382,327 76.23**

### Total warrants on issue

**18,866,239**

### Spread of Warrant Holders as at 31 December 2006

The following table shows the spread of warrants holders by number of holders and number of warrants.

Size of holding		No. of warrants		No. of holders	
			%		%
1-1000		118,590	0.63	182	33.57
1001-5000		459,208	2.43	164	30.26
5001-10000		533,404	2.83	69	12.73
10001-100000		3,772,710	20.00	108	19.93
Over 100000		13,982,327	74.11	19	3.51
<b>Totals</b>		<b>18,866,239</b>	<b>100.00</b>	<b>542</b>	<b>100.00</b>

### Directors warrants dealings to 31 December 2006

- Kevin Patrick McDonald exercised 200,000 warrants on 27 June 2006 in exchange for ordinary shares.
- Cynotech Securities Ltd (a company associated with Mr AR Hawkins) exercised 900,000 warrants on 27 June 2006 in exchange for ordinary shares.
- Cynotech Securities Ltd (a company associated with Mr AR Hawkins) purchased 100,000 warrants on 6 October 2006.
- Newmarket Securities Ltd (a company associated with Mr A.R. Hawkins and Mr P.J. Hutchinson) exercised 2,080,338 warrants on 27 June 2006 in exchange for ordinary shares.

## SHAREHOLDER & ADDITIONAL STATUTORY INFORMATION

### Directors holding office during the year

<b>Group and Parent</b>	A.R. Hawkins	B.Com	Chairman & Chief Executive Officer
	P.J. Hutchinson		
	K.P. McDonald	LLB	
	N.B. Tawse	B.Ag.Sci	Managing Director (Appointed 5th December 2006)

### Remuneration of Directors

		Group		Company	
		2006	2005	2006	2005
<b>Directors fees</b>	A.R. Hawkins	-	-	-	-
	P.J. Hutchinson	6,500	4,500	6,500	4,500
	K.P. McDonald	6,500	4,000	6,500	4,000
	N.B. Tawse	-	-	-	-
		<u>13,000</u>	<u>8,500</u>	<u>13,000</u>	<u>8,500</u>
<b>Other fees</b>	AR Hawkins	175,000	100,000	175,000	100,000
	PJ Hutchinson	-	-	-	-
	KP McDonald	-	-	-	-
	NB Tawse	-	-	-	-
		<u>175,000</u>	<u>100,000</u>	<u>175,000</u>	<u>100,000</u>

AR Hawkins' interests have been paid an amount of \$175,000 (2005 \$100,000) during the year being remuneration for Mr Hawkins' involvement as Chairman and Chief Executive.

### Remuneration of employees

There were two employees whose remuneration were between \$110,000 and \$119,999

There was one employee whose remuneration was between \$160,000 and \$169,999

### Entries in the interest register

AR Hawkins declared interests in respect of:

Unsecured deposit funds advanced to Cynotech Finance Group Ltd.

Unsecured deposit funds advanced to Cynotech Corporation Ltd.

Convertible note investments made by Cynotech Securities Ltd in Cynotech Holdings Ltd.

Convertible note investments made by Newmarket Securities Ltd in Cynotech Holdings Ltd.

Receivables written by the Finance Group where the credit risk and funding is shared equally with Cynotech Securities Ltd

KP McDonald declared interests in respect of:

Unsecured deposit funds advanced to Cynotech Finance Group Ltd

PJ Hutchinson declared interests in respect of:

Unsecured deposit funds advanced to Cynotech Finance Group Ltd

### Dividend Reinvestment Plan

Cynotech offers a dividend reinvestment plan which allows eligible shareholders to reinvest their dividends in additional shares without incurring brokerage costs. The dividend reinvestment plan is currently offered at a 12.5% discount to the market price. To participate or amend participation in the dividend reinvestment plan, the relevant election notice must be received prior to 20th April 2007.

A notice will be mailed to shareholders on 23rd March 2007. Shareholders who have previously returned a dividend election notice in year 2006 are not required to file another dividend election notice unless they wish to change their

# SNOWDON LTD



- Snowdon Ltd was the manufacturing business formerly known as Merlin Foods Ltd
- The name has changed for Licensing, TradeMark and Branding reasons, consolidating the previous Betta and Merlin Brands
- The business manufactures ice-cream cones, and supplies soft-serve and toppings to the retail sector, as well as distributing confectionary
- The business employs upto 40 staff seasonally, and works multiple shifts
- The clientele is
  - The Supermarket trade
  - Industrial Markets and Institutions – who further use the cones
  - The Route trade – who ultimately sell to Corner Dairy's and the like
  - Franchised outlets
  - Consumer outlets

*“ Look for the Snowdon Brand in Supermarkets during 2007 and support your Company”*

# BUDGET LOANS LTD

Straight Talking Finance



- Budget Loans is a lender within two principle sectors
  - The Consumer sector
  - The Commercial sector (property, business, bridging finance)
- The keys to Budget Loans success are
  - Being flexible in meeting customers needs
  - Speed of Loan approval
  - Maintaining appropriate security and creditworthiness criteria
  - A stringent collections policy
- Consumer lending target markets are
  - Personal Finance
  - Debt Consolidation
  - House Renovation
  - Event financing (Weddings, funerals)
  - Vehicle financing
- Commercial lending is directed to
  - Property development deals
  - Bridging Finance
  - Business loans
  - Residential Mortgages
  - Second Mortgages

*All Loans are secured*

**CYNOTECH HOLDINGS GROUP  
GROUP COMPANY ORGANISATION CHART**

