

**DISCLOSURE OF INFORMATION BY FINANCIAL  
INSTITUTION  
CYNOTECH HOLDINGS LIMITED  
Year Ended 31 December 2004**

**Accounting Policies**

**1. 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.

**2. 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.

**3. Impaired and Past Due Assets**

Impaired assets include non-accrual loans, restructured loans and assets acquired through the enforcement of security. Non-accrual 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 non-accrual 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-realizable values.

When the directors determine that a loan's recovery is doubtful, the principal amount and accrued interest are written down to estimated net realizable value and interest and charges are no longer included in the statement of financial performance while their payment is considered to be unlikely.

#### **4. Bad and Doubtful Debts**

A general provision is maintained to cover bad debts which are inherent in the loan portfolio but which are not yet identified. The level of the general provision is determined having regard to economic conditions, the level of security held, prior experience, and other general risk factors. In addition, a specific provision is made for doubtful debts identified on a customer by customer basis.

The amount necessary to bring the provisions to their assessed levels is charged / credited to the statement of financial performance. Provisions for doubtful debts are deducted from loans and advances in the statement of financial position.

#### **5. Management of Interest Rate Risk**

The Group is exposed to interest rate risk in respect of borrowings on advances 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.

### **Monetary Assets & Liabilities**

#### **6. Asset Quality**

There are no past due receivables, restructured assets, real estate assets acquired, no non-accrual on receivable and no specific doubtful debt provisions.

#### **7. Finance Receivables Owning by Six Largest Borrowers**

As at 31 December 2004, the amount owed in aggregate by the six largest loans and trade receivables was \$432,542.

## 8. Doubtful Debts

<b>General Provision for Doubtful Debts</b>	<b>Group</b>
	<b>\$</b>
Opening Balance	42,398
Addition to Provision	
- Finance Receivables	22,093
- Trade Receivables	6,602
<b>Closing Balance</b>	<b><u>\$71,093</u></b>

## 9. Concentration of Credit Risk

The Group operates solely within New Zealand.

The Group has three types of receivables which are exposed to credit risk.

	<b>Group</b>
▪ Satellite trade receivables	\$230,939
▪ Finance Receivables (Advances and Hire Purchase Contracts)	\$748,240
▪ Loan to Director	\$189,079

## 10. Credit Exposure

As at 31 December 2004, the number of individuals and groups of closely related counter parties to whom the Group has a credit exposure that equal or exceeds 10% of equity as follows

<b>10% Range</b>	<b>Number of Loans</b>	<b>No of Trade Receivables</b>
31,000 – 62,000	3	2
62,000 – 93,000	1	0
93,000 – 124,000	0	0
124,000 – 155,000	0	0
155,000 – 186,000	0	0
186,000 – 217,000	1	0

## 11. Management of Liquidity

The Group monitors its liquidity cash position on a continuous basis and plans its operating activities to ensure a balanced liquidity position.

## 12. 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.

## 13. Interest Rate Risk

The Group and Company are exposed to interest rate risks in respect of the convertible loan notes issued to James Urquhart and the Cleveland No 3 Trust as they have borrowed or invested for a fixed term at a fixed rate. All other assets and financial liabilities are floating.

## 14. Monetary Assets & Liability Maturity Profile & Interest Rate Risk – Repricing Analysis

<b>GROUP 2004</b>	<b>Effective Interest Rate</b>	<b>Total</b>	<b>Less than 6 mths</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Over 5 years</b>
<b>Financial assets</b>							
Cash balances (net)	1%	104,767	104,767				
Trade Debtors and Prepayments		194,355	194,355				
Finance Receivables	25.74%	748,240	190,682	259,590	154,215	143,753	
Loans to Directors	12%	189,079	60,000	129,079			
Total Assets		1,236,441	549,804	388,669	-	-	-
<b>Financial Liabilities</b>							
Deposits	13%	627,810	327,810		300,000		-
Total Liabilities		627,810	327,810	-	300,000	-	-
Re-pricing gap		608,631	221,994	388,669	(300,000)	-	-
<b>GROUP 2003</b>							
<b>Financial assets</b>							
Cash balances (net)	1%	39,692	39,692				
Trade Debtors and Prepayments		235,090	235,090				
Finance Receivables		-					
Loans to Directors		-					
Total Assets		274,782	274,782	-	-	-	-
<b>Financial Liabilities</b>							
Deposits							
Total Liabilities		-	-	-	-	-	-

Re-pricing gap		274,782	274,782	-	-	-	-
<b>COMPANY 2004</b>							
<b>Financial assets</b>							
Cash balances (net)	6.50%	16,622	16,622	-	-	-	-
Trade Debtors and Prepayments		1,500	1,500				
Total Assets		18,122	18,122	-	-	-	-
<b>Financial Liabilities</b>							
Deposits		-	-	-	-	-	-
Re-pricing gap		18,122	18,122	-	-	-	-
<b>COMPANY 2003</b>							
<b>Financial assets</b>							
Cash balances (net)	5.00%	19,737	19,737	-	-	-	-
Trade Debtors and Prepayments							
		2,760	2,760				
Total Assets		22,497	22,497	-	-	-	-
<b>Financial Liabilities</b>							
Deposits		-	-	-	-	-	-
Re-pricing gap		22,497	22,497	-	-	-	-

Convertible notes that convert to equity attract interest at an effective rate of 6.74% up until the date they convert (see note 7 to the financial statements for details)

## Funding

### 15. Credit Facilities

There are no unused credit facilities as at 31 December 2004.

### 16. Financial Liabilities

All liabilities are unsecured and rank equally with the exception of amounts totalling \$6,374 owing to the Inland Revenue Department.

### 17. Concentration of Funding

The Group is funded via equity convertible notes and unsecured deposits (see notes 7 and 12 to the financial statements for further details of these deposits).