

Independent Adviser's Report

Cynotech Holdings Limited

In Respect of the Proposed Allotment of Shares.

April 2005

Index

Section	Page
1. Introduction.....	1
2. Profile of Cynotech Holdings Limited.....	6
3. Evaluation of the Merits of the Two Allotments	11
4. Sources of Information, Reliance on Information, Disclaimer and Indemnity.....	20
5. Qualifications and Expertise, Independence, Declarations and Consents	22

Abbreviations and Definitions

Act	Companies Act 1993
CEO	chief executive officer
Cleveland Trust	The Cleveland No 3 Trust
CNs	unsecured non-voting convertible notes issued by Cynotech
Code	Takeovers Code
CSL	Cynotech Securities Limited
Cynotech	Cynotech Holdings Limited
Guy Allotment	the allotment of 1,812,121 fully paid ordinary shares to Cleveland Trust following the conversion of 173,333 CNs, the exercise of 866,666 rights (at \$0.05 per new share) and the issue of 78,789 shares as interest on the CNs
Guy Associates	Richard Guy and Cleveland Trust
Hawkins Allotment	the allotment of 15,950,572 fully paid ordinary shares to the Hawkins Associates following the conversion of 15,950,572 CNs
Hawkins Associates	the shareholders / CN holders in Cynotech associated with Alan Hawkins, being CSL and NSL
Merlin	Merlin Foods Limited
NCM	New Capital Market
Non-associated Shareholders	the shareholders in Cynotech not associated with the Hawkins Associates or the Guy Associates
NPAT	net profit after tax
NPBT	net profit before tax
NSL	Newmarket Securities Limited
NZAX	the alternative market operated by NZX
NZX	New Zealand Exchange Limited
Placement	the proposed placement of 15 million new shares at \$0.175 per share
ROCOM Wireless	ROCOM Wireless Limited
Two Allotments	the Hawkins Allotment and the Guy Allotment
VWAP	volume weighted average share price

1. Introduction

1.1 Background

Cynotech Holdings Limited (“Cynotech”) is a company listed on the alternative market (“NZAX”) operated by New Zealand Exchange Limited (“NZX”). It had a market capitalisation of approximately \$6.7 million as at 22 April 2005. Cynotech’s audited financial statements for the year to 31 December 2004 recorded total equity of approximately \$0.3 million (including approximately \$1.2 million of convertible notes (“CNs”)).

Hawkins Associates

Alan Hawkins is the Chairman and Chief Executive Officer (“CEO”) of Cynotech. In December 2004, companies associated with Mr Hawkins – Cynotech Securities Limited (“CSL”) and Newmarket Securities Limited (“NSL”) – provided a total of \$750,000 to Cynotech to fund the company’s working capital requirements and to capitalise Cynotech’s newly established finance business. In turn, Cynotech issued a total of 15 million \$0.05 unsecured non-voting CNs to CSL and NSL. The CNs convert into Cynotech shares on a one for one basis. We refer to Mr Hawkins, CSL and NSL collectively as the “Hawkins Associates” hereinafter.

Cynotech completed a rights issue in December 2004, raising approximately \$0.8 million. The Hawkins Associates underwrote the rights issue. Through this underwriting agreement, (which was approved by Cynotech’s shareholders on 15 October 2004), the Hawkins Associates were issued a further 950,572 CNs.

Accordingly, the Hawkins Associates currently hold 15,950,572 CNs which can be converted into 15,950,572 fully paid ordinary shares in Cynotech, subject to complying with the Takeovers Code (the “Code”).

Guy Associates

Richard Guy is a director of Cynotech. Mr Guy currently has a beneficial interest in 9,302,368 shares in the company, representing 30.5% of Cynotech’s issued capital. Mr Guy’s shareholding is held mainly through his family trust, The Cleveland No 3 Trust (“Cleveland Trust”), which currently holds 8,893,968 shares in Cynotech (29.2%). We refer to Mr Guy and Cleveland Trust as the “Guy Associates” hereinafter.

Cleveland Trust currently holds 173,333 \$0.75 CNs. These CNs were issued on 13 October 2003 and convert into Cynotech shares on a five shares for one CN basis on 31 March 2005, subject to complying with the Code. Under the terms of the CN Agreement, interest on the CNs accrues at the 90 day bank bill rate. The interest is payable on the date that the CNs are converted. The interest will be paid by Cynotech issuing new shares to Cleveland Trust at \$0.15 per share. This will result in Cleveland Trust being issued 78,789 fully paid ordinary shares.

As part of the rights issue completed in December 2004, Cleveland Trust was issued 866,666 rights attached to the 173,333 \$0.75 CNs. Each right entitles Cleveland Trust to subscribe for one ordinary share in Cynotech at a price of \$0.05 per share. The rights can only be exercised at the time that the CNs are converted into shares.

Based on the above, Cleveland Trust holds CNs and rights which can be converted/exercised into 1,812,121 new ordinary shares in the company on 31 March 2005, subject to complying with the Code.

Cleveland Trust CNs and Rights						
Date Issued	Security		Entitlement		Consideration Payable	
	Type	No.	No. of Shares Per Security	Total	Per Share (\$)	Total (\$000)
Oct 2003	CNs	173,333	5	866,666	n/a	n/a
Dec 2004	Rights	866,665	1	866,666	\$0.05	43
Mar 2005	Shares ¹	78,788	1	78,789	n/a	n/a
				<u>1,812,121</u>		
<i>1 Issued as payment of interest on CNs</i>						

Relationship Between Hawkins Associates and Guy Associates

We understand that the Hawkins Associates and the Guy Associates may possibly be deemed to be associated parties under the Code. In such circumstances, the Hawkins Associates and the Guy Associates’ interests in Cynotech are treated as a combined single interest.

1.2 Proposed Allotments

The Hawkins Associates wish to be in a position to convert some or all of their 15,590,572 CNs into fully paid ordinary shares. We refer to this conversion of CNs and allotment of new shares as the “Hawkins Allotment”.

Cleveland Trust wishes to convert its 173,333 CNs into fully paid ordinary shares and exercise its 866,666 rights into fully paid ordinary shares at \$0.05 per share. In conjunction with these transactions, Cynotech would allot a further 78,789 fully paid ordinary shares as payment of interest on the CNs. We refer to this proposed conversion of CNs, exercise of rights and allotment of new shares as the “Guy Allotment”.

1.3 Proposed Placement and Issue of Warrants

Cynotech announced on 13 April 2005 that it proposed to make equity placements to raise up to \$2,625,000. The equity placements will consist of:

- a share placement of 15 million new shares at an issue price of \$0.175 per share (the “Placement”). Cynotech’s Directors are reserving the right to accept oversubscriptions in the Placement up to a level of an additional 5 million shares. Every two new shares issued under the Placement will be issued with one warrant; and
- a bonus issue of warrants to all shareholders and CN holders registered on 27 May 2005 on the basis of one warrant for every two shares or CNs held.

Existing shareholders and CN holders will be given priority in the Placement up to a level of one new share for every two shares/CNs that they currently hold.

The warrants attached to the Placement shares and the bonus warrants can be converted into ordinary shares on payment of \$0.25 per share on either 27 May 2006 or 27 May 2007.

The Placement (and associated issue of warrants) is subject to shareholder approval.

Cynotech intends that the warrants will be listed on the NZAX, subject to it receiving the necessary approvals from NZX.

Proceeds from the equity placements will be used to pay for a portion of a recently announced acquisition of Merlin Foods Limited (“Merlin”) and to provide further funds for expansion of Cynotech’s finance activities.

The Hawkins Associates have advised Cynotech that they intend to participate in the Placement by applying for 600,000 shares.

1.4 Regulatory Requirements

Rule 6(1)(a) of the Code prohibits a shareholder who holds or controls less than 20% of the voting rights in a code company from increasing its shareholding above 20% of the voting rights unless it complies with exceptions to this fundamental rule.

One of the exceptions is set out in Rule 7(d) of the Code. This enables a shareholder to increase its shareholding beyond 20% of the voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Hawkins Allotment will result in up to 15,950,572 shares being held by the Hawkins Associates. Accordingly, the Hawkins Associates’ may hold more than 20% of the shares in Cynotech.

Rule 6(1)(b) of the Code prohibits a shareholder who holds 20% or more of the voting rights in a code company from increasing its shareholding unless it complies with exceptions to this fundamental rule.

The Guy Associates currently hold 9,302,368 shares in Cynotech (30.5%). The Guy Allotment will result in a further 1,812,121 shares being held by the Guy Associates.

Accordingly, Cynotech’s shareholders will be asked to vote at the company’s annual meeting of shareholders on resolutions in respect of:

- the Hawkins Allotment (resolution 6(a)); and
- the Guy Allotment (resolution 6(b)).

Shareholders will also be asked to vote on resolutions in respect of:

- adopting a new constitution (resolution 5(a));
- authorising the acquisition of Merlin from CSL (resolution 5(b));
- authorising Cynotech to borrow up to \$2.95 million for the purpose of funding the acquisition of Merlin (resolution 5(c)); and
- the Placement (resolution 6(c)).

Rule 16(h) of the Code requires that the notice of meeting in respect of an allotment of shares under Rule 7(d) must include or be accompanied by an Independent Adviser’s Report.

The Directors of Cynotech have requested Deloitte Corporate Finance to prepare an Independent Adviser's Report evaluating the merits of the Hawkins Allotment and the Guy Allotment (together the "Two Allotments"), having regard to the interests of the Cynotech shareholders not associated with the Hawkins Associates or the Guy Associates (the "Non-associated Shareholders") pursuant to Rule 18 of the Code.

Deloitte Corporate Finance has been approved by the Takeovers Panel to prepare the Independent Adviser's Report.

1.5 Purpose of the Report

Deloitte Corporate Finance issues this Independent Adviser's Report to the Cynotech Directors to assist them to make a recommendation to the Non-associated Shareholders under Rule 19 of the Code in respect of the Two Allotments.

The report is addressed to the Cynotech Directors and is for the benefit of the Non-associated Shareholders and no other party. It should not be used for any other purpose other than as an expression of our opinion as to the merits of the Two Allotments.

We are not required to undertake (and hence we have not undertaken) an evaluation of the merits of the Placement.

1.6 Basis of Evaluation

Pursuant to Rule 18 of the Code, the Independent Adviser's Report must report on the merits of the Two Allotments, having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term "merits" in New Zealand in either the Code or in any statute dealing with securities or commercial law. In the absence of an explicit definition of "merits", guidance can be taken from:

- the Takeovers Panel guidance note on the role of independent advisers dated July 2003;
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- overseas precedents; and
- the ordinary meaning of the term "merits".

The New Zealand regulations¹ and overseas regulations² focus primarily on fairness and reasonableness rather than "merits" and as such are of limited assistance.

The New Collins Concise Dictionary of the English Language defines the term "merit" as "the actual and intrinsic rights and wrongs of an issue, especially in a law case". Black's Law Dictionary defines merit as "the substance, elements or grounds of a cause of action or defence." These definitions imply that the essential elements of an issue should be considered as well as the issue itself, and an assessment is then made of the associated advantages and disadvantages of the issue in relation to the relevant party.

¹ NZSX Listing Rules and Guidance Note No. 10 issued by the Institute of Chartered Accountants of New Zealand ("Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders")

² Policy Statements 74 and 75 and Practice Note 43 issued by the Australian Securities and Investment Commission and Rule 3 of the City Code (City of London)

We are of the opinion that an assessment of the merits of a transaction is a broader test than “fair and reasonable” and encompasses a wider range of issues associated with the transaction. We have assessed the merits of the Two Allotments after taking into consideration the following factors:

- the rationale for the Two Allotments;
- the likely impact on the control of Cynotech if either or both of the Two Allotments are approved;
- the likely impact on Cynotech’s share price following the Two Allotments;
- other benefits and disadvantages to the Hawkins Associates and the Guy Associates of the Two Allotments;
- the benefits and disadvantages to the Non-associated Shareholders of the Two Allotments; and
- the implications if the resolutions in respect of the Two Allotments are not approved.

Our opinion on the merits of the Two Allotments should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

1.7 Acceptance or Rejection of the Resolutions

Voting for or against the resolution in respect of the Hawkins Allotment and the resolution in respect of the Guy Allotment is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, tax position and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

2. Profile of Cynotech Holdings Limited

2.1 Background

The company was established in 1989 by Richard Guy and Paul Van Dorp to meet demand for advanced telecommunications systems within New Zealand. Since then, Cynotech has undergone a variety of changes to its business structure. The main business focus of Cynotech is now satellite communication, satellite phone sales and rentals, finance lending and merchant banking fee based activities.

The table below summarises the main events in Cynotech’s history.

Cynotech’s History	
Date	Event
1989	The company was established by Richard Guy and Paul Van Dorp.
1999	The company decided to focus on wireless applications and re-launched as ROCOM Wireless Limited (“ROCOM Wireless”).
Aug 2000	ROCOM Wireless listed on the New Capital Market (“NCM”) operated by NZX and issued 1,200,000 shares, raising \$0.6 million.
Oct 2000	The company purchased Mission Control - a wireless computing company.
Jan 2001	Shareholders approved the acquisition of ROCOM Limited (the trading company) for \$4.4 million, the company’s NCM key transaction.
Jun 2002	The company disbanded its cellular division to more fully concentrate on its mobile and wireless businesses.
Nov 2003	The company moved from the NCM to the NZAX
Jun 2004	The company signed a Heads of Agreement with the Hawkins Associates. The agreement appointed Mr Hawkins as Chairman and CEO of the company and appointed the Hawkins Associates as underwriter for a proposed rights issue. An existing loan facility was assigned to the Hawkins Associates. The Heads of Agreement marked the start of restructuring and a change in direction for the company.
Oct 2004	Shareholders approved the underwriting arrangement for a 1:1 rights issue at \$0.05 per share and the issue of 15 million CNs at \$0.05 per CN to the Hawkins Associates at a special general meeting. The rights issue was completed in December 2004, raising approximately \$0.8 million. The proceeds were used to retire debt owed to the Hawkins Associates.
Oct 2004	The company announced the establishment of a finance business.
Nov 2004	The company announced the sale of loss making subsidiary World Business Services for \$400,000. Redundancies and other overhead cost savings were also announced.
Dec 2004	The company changed its name to Cynotech Holdings Limited.
Apr 2005	The company announced that it has reached an agreement to purchase Merlin (formerly know as Betta Foods NZ Limited), a Hamilton based food manufacturer, from CSL.

2.2 Financial Performance

A summary of Cynotech's recent historical financial performance is set out below.

Summary of Financial Performance				
	Year to 31 Dec 01 (Audited) \$000	Year to 31 Dec 02 (Audited) \$000	Year to 31 Dec 03 (Audited) \$000	Year to 31 Dec 04 (Audited) \$000
Revenue	8,189	6,693	3,132	2,617
NPBT	(4,070)	(262)	(1,668)	(1,250)
NPAT	(4,173)	(262)	(1,668)	(1,250)
<i>NPAT: Net Profit After Tax</i>				
<i>NPBT: Net Profit Before Tax</i>				
<i>Source: Cynotech annual reports</i>				

Key matters to consider when reviewing Cynotech's financial performance are:

- the 2001 NPBT included a charge of \$1.3 million in respect of the amortisation of goodwill and the 2002 and 2003 NPBT included a charge of approximately \$0.4 million each year. The goodwill related to the acquisition of ROCOM Limited on the 28 February 2001 for \$4.4 million. The remainder of the goodwill (approximately \$0.2 million) was written off in 2004;
- the 2002 result included a gain on sale of the cellular business of \$1.2 million; and
- the significant decrease in revenue in 2003 was a result of the sale of the cellular customer base during 2002.

2.3 Financial Position

A summary of Cynotech's recent financial position is set out below.

Summary of Financial Position				
	As at 31 Dec 01 (Audited) \$000	As at 31 Dec 02 (Audited) \$000	As at 31 Dec 03 (Audited) \$000	As at 31 Dec 04 (Audited) \$000
Current Assets	1,479	959	317	938
Non-current Assets	1,838	1,209	557	426
Total Assets	3,317	2,168	874	1,364
Current Liabilities	(1,981)	(734)	(817)	(745)
Non-current Liabilities	(136)	(95)	(52)	(310)
Convertible Loan Notes			(330)	(1,216)
Total Equity	1,200	1,339	(325)	(907)
<i>Source: Cynotech annual reports</i>				

Key matters to consider when reviewing Cynotech’s financial position are:

- the company raised approximately \$0.4 million of fresh equity in 2002;
- the reduction in total assets in 2003 was a result of the sale of the cellular business in 2002;
- the increase in total assets in 2004 was largely a result of the commencement of the finance business. Finance receivables amounted to approximately \$0.9 million as at 31 December 2004 with associated liabilities of approximately \$0.6 million of unsecured deposits;
- goodwill of approximately \$0.2 million relating to ROCOM Limited was written off in the 2004 year;
- approximately \$1.6 million of capital was raised in 2004 through the issue of CNs to CSL and NSL (approximately \$0.8 million) and the rights issue (approximately \$0.8 million); and
- the company had income tax losses of approximately \$4.1 million as at 31 December 2004.

2.4 Shareholders

Cynotech currently has 30,498,115 shares on issue. The name, number of shares and percentage holding of the ten largest shareholders as at 1 April 2005 are set out below.

Cynotech Ten Largest Shareholders		
Shareholder	No. of Shares Held	%
Richard Guy & Lynda Moore (Cleveland Trust)	8,893,968	29.2%
James Ian Urquhart	2,822,727	9.3%
Craig Foss & Kristal Foss & Lulin Griffin	1,440,000	4.7%
First NZ Capital Custodians Limited	609,483	2.0%
John McMillan & Brendan Lawler & Lois Lawler	600,000	2.0%
Norman Godden & Josephine Godden	521,626	1.7%
Hamish Robertson	500,000	1.6%
Richard Guy	408,400	1.3%
John Arbuckle	368,000	1.2%
Ace Finance Limited	271,428	0.9%
Sub total	16,435,632	53.9%
Others	14,062,483	46.1%
Total	30,498,115	100.0%

Source: Cynotech

Mr Guy is a trustee of Cleveland Trust. The combined holding of the Guy Associates is 9,302,368 shares, representing 30.5% of Cynotech’s shares on issue.

2.5 Convertible Notes

Cynotech currently has approximately 16.1 million CNs outstanding. Approximately 15.95 million CNs convert into shares on a one share for one CN basis and the balance convert on a five shares for one CN basis.

Details of the CNs outstanding as at 1 April 2005 are set out below.

Convertible Notes as at 1 April 2005							
CN Holder	Date Issued	No. of CNs	Face Value		Conversion Terms		
			Per CN (\$)	Total (\$000)	No. of Shares Per CN	Earliest Date	Latest Date
Cleveland Trust	13 Oct 03	173,333	\$0.75	130	5	31 Mar 05	31 Mar 05
CSL	8 Dec 04	7,500,000	\$0.05	375	1	8 Dec 04	31 Oct 09
NSL	8 Dec 04	7,500,000	\$0.05	375	1	8 Dec 04	31 Oct 09
CSL	20 Dec 04	475,286	\$0.05	24	1	20 Dec 04	31 Oct 09
NSL	20 Dec 04	475,286	\$0.05	24	1	20 Dec 04	31 Oct 09
		<u>16,123,905</u>					

Source: Cynotech CN Agreements

270,000 CNs were issued to James Urquhart on 13 October 2003 at \$0.75 per CN for a total consideration of \$202,500. These CNs were converted into ordinary shares on 31 March 2005 on a 5:1 basis.

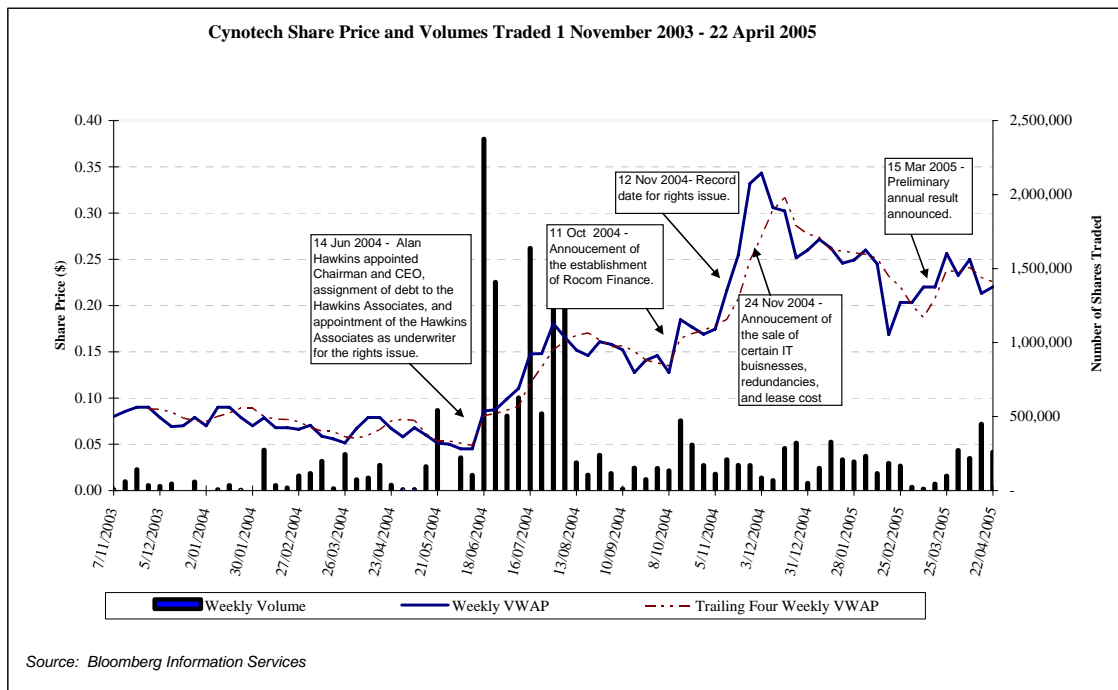
2.6 Share Price History

Set out below is a summary of Cynotech's share price history from 1 November 2003 to 22 April 2005 and a graph of the volume weighted average share price ("VWAP") on a weekly basis, VWAP on a four weekly basis and the weekly volumes of units traded.

Cynotech Share Price Movements			
Month	Low (cents)	High (cents)	Monthly Volume (000)
November 2003	8.0	9.0	247
December	6.8	7.9	136
January 2004	7.9	9.0	48
February	5.6	7.9	429
March	4.5	7.9	644
April	5.6	7.9	311
May	4.5	6.8	715
June	4.5	10.1	4,526
July	9.0	19.1	4,123
August	14.6	19.1	1,877
September	11.3	15.8	408
October	12.4	20.3	1,178
November	16.9	36.0	717
December	24.0	34.0	762
January 2005	24.0	28.0	887
February	20.0	26.0	704
March	20.0	26.0	336
April ¹	20.0	26.0	1,044

¹ To 22 April 2005

Source: Bloomberg Information Services



Cynotech’s shares have traded between 4.5 cents and 36 cents since 1 November 2003. They closed at 22 cents on 22 April 2005. The upward trend in the share price over the past ten months reflects a combination of the following factors:

- the announcement on 14 June 2004 of Mr Hawkins’ involvement with Cynotech including his appointment as Chairman and CEO and the assignment of Cynotech debt to the Hawkins Associates;
- the announcement in October 2004 of the establishment of the finance business;
- a 1:1 rights issue at \$0.05 per share with a record date of 12 November 2004 underwritten by the Hawkins Associates;
- the sale of loss making subsidiary World Business Services for \$400,000, staff redundancies and other overhead cost savings announced on 24 November 2004; and
- the issue of 15 million CNs to CSL and NSL at \$0.05 per CN on 8 December 2004.

The average volume of shares traded each month since November 2003 represented approximately 6.7% of the shares on issue. Trading volumes increased significantly following the announcement of Mr Hawkins’ involvement in the company and the associated restructuring of Cynotech’s operations. The average volume of shares traded each month between June 2004 and November 2004 represented approximately 14.9 % of the shares on issue compared with an average of 2.5% in the seven months prior to the restructure. However, trading volumes have averaged approximately 2.6% of the shares on issue in the five months since November 2004.

3. Evaluation of the Merits of the Two Allotments

3.1 Basis of Evaluation

We have assessed the merits of the Hawkins Allotment and the Guy Allotment after taking into consideration the following factors:

- the background to the issue of the CNs to the Hawkins Associates and hence the rationale for the Hawkins Allotment;
- the background to the issue of the CNs and the rights to the Guy Associates and hence the rationale for the Guy Allotment;
- the likely impact on the control of Cynotech if the Hawkins Allotment and/or the Guy Allotment is approved, focussing on:
 - shareholder voting
 - the composition of the board of directors
 - the relationship between Cynotech's major shareholders;
- the potential impact on Cynotech's share price following the Two Allotments;
- other benefits and disadvantages to the Hawkins' Associates of the Hawkins Allotment;
- other benefits and disadvantages to the Guy Associates of the Guy Allotment;
- the benefits and disadvantages to the Non-associated Shareholders of the Hawkins Allotment and the Guy Allotment;
- the implications if the resolution in respect of the Hawkins Allotment is not approved; and
- the implications if the resolution in respect of the Guy Allotment is not approved.

Our evaluation of the merits of the Two Allotments should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the evaluation.

3.2 Rationale for the Hawkins Allotment

As explained in section 1.1, the Hawkins Allotment arises from the conversion of CNs that were issued to the Hawkins Associates in 2004 to raise capital for Cynotech.

The terms of the underwriting agreement and the issue of the CNs to the Hawkins Associates were approved by the Non-associated Shareholders at a special meeting of shareholders on 15 October 2004.

We are of the view that the rationale for the Hawkins Allotment is sound. The Non-associated Shareholders were aware of the terms of the CNs (including the issue price and conversion terms) at the time that they approved the issue.

3.3 Rationale for the Guy Allotment

As explained in section 1.1, the Guy Allotment arises from the conversion of CNs and the exercise of rights that were issued to the Guy Associates in 2003 and 2004 to raise capital for Cynotech.

We are of the view that the rationale for the Guy Allotment is sound. The Guy Associates have been the cornerstone shareholder in Cynotech and have fully supported the company’s capital raising initiatives during periods in which Cynotech has experienced financial difficulty.

3.4 Voting Control Issues

Potential Shareholding Levels

The table below shows the potential shareholding levels in Cynotech depending upon the outcome of voting on the Hawkins Allotment, the Guy Allotment and the Placement.

Potential Levels of Shareholdings					
Scenarios	Shares on Issue (000)	Hawkins Associates	Guy Associates	Hawkins & Guy Combined	Non-associated Shareholders
Current	30,498	0.0%	30.5%	30.5%	69.5%
Pre Placement					
Only Hawkins Allotment Approved	46,449	34.3%	20.0%	54.3%	45.7%
Only Guy Allotment Approved	32,310	0.0%	34.4%	34.4%	65.6%
Both Hawkins Allotment and Guy Allotment Approved	48,261	33.1%	23.0%	56.1%	43.9%
Post Placement ¹					
Only Hawkins Allotment Approved	61,449	26.9%	15.1%	42.0%	58.0%
Only Guy Allotment Approved	47,310	1.3%	23.5%	24.8%	75.2%
Both Hawkins Allotment and Guy Allotment Approved	63,261	26.2%	17.6%	43.8%	56.2%
<small>¹ Assumes that the Hawkins Associates will apply for 600,000 Placement shares</small>					

Depending on the outcome of the voting on the various resolutions, the Hawkins Associates’ shareholding may vary from its current level of 0% up to 34.3% (if the Hawkins Allotment is approved but the Guy Allotment and the Placement are not approved).

The Guy Associates’ shareholding may vary from its current level of 30.5% to a maximum of 34.4% (if only the Guy Allotment is approved) or reduce to 15.1% (if only the Hawkins Allotment and the Placement are approved).

If the Hawkins Allotment is approved, then irrespective of the voting on the Guy Allotment and the Placement, the Hawkins Associates will hold more than 25% of the voting rights in Cynotech.

Levels of Voting Control

There are three critical levels of voting control in a company:

- 25%;
- 50%; and
- 90%.

A shareholding in excess of 25% is sufficient to stop the passing of a special resolution (ie a resolution that requires the approval of 75% of the shareholders). Section 106 of the Companies Act (the “Act”) states that special resolutions are required to:

- adopt, alter or revoke a company’s constitution;
- approve a major transaction;
- approve an amalgamation; or
- put the company into liquidation.

A shareholding of greater than 50% enables the holder to pass ordinary resolutions including the appointment of directors. As such it gives a significant level of control including the ability to:

- select and decide on levels of compensation for directors, officers and employees;
- decide with whom to do business and enter into binding contracts, including contracts with related parties;
- decide whether to pay dividends and, if so, how much;
- repurchase outstanding shares or issue new shares;
- make acquisitions or divest subsidiaries or divisions;
- determine capital expenditures;
- change the capital structure;
- determine policy, including changing the direction of the business; and
- block any of the above.

A shareholding of greater than 90% enables a shareholder to compulsorily acquire the shares of the remaining shareholders.

The ability for shareholders to influence the above may be reduced by external factors such as the company’s constitution, the Act and the NZAX Listing Rules.

We note that in a listed company where there is a large number of shareholders, a shareholding of 25% to 35% is generally considered to provide a significant level of control. However, the level of control is potentially negated to some degree if there are two or more shareholdings of this size. Alternatively, the level of control is heightened if the shareholdings independently act in a similar manner.

Special Resolutions

The Guy Associates currently have effective shareholder voting control of Cynotech as they hold 30.5% of the voting rights. However, they cannot currently approve special resolutions without the support of approximately two thirds of the remaining shareholders, assuming all shareholders eligible to vote do in fact vote. The Guy Associates can however currently single-handedly block the passing of a special resolution.

If the Hawkins Allotment is approved, the Hawkins Associates will control a minimum of 26.2% of the voting rights and accordingly will be able to single-handedly block a special resolution.

Irrespective of the voting on the Two Allotments and the Placement:

- either the Hawkins Associates or the Guy Associates will be able to block special resolutions; and
- neither the Hawkins Associates nor the Guy Associates single-handedly, nor acting together, will have sufficient voting control to pass special resolutions without the support of some of the Non-associated Shareholders.

Accordingly, the absolute ability of a single party to block or approve special resolutions will not change under the Two Allotments. However, the relative ability of the Hawkins Associates and/or the Guy Associates to pass special resolutions will increase as the level of voting control held by the Non-associated Shareholders will decrease in all scenarios except in the case where the Guy Allotment and the Placement are approved but the Hawkins Allotment is not approved.

Ordinary Resolutions

At present no shareholder can single-handedly control the outcome of an ordinary resolution. If the Hawkins Allotment is approved, neither the Hawkins Associates or the Guy Associates will be able to single-handedly control ordinary resolutions but they will be able to do so collectively, assuming all shareholders entitled to vote do actually vote.

However, as previously stated, in a listed company where there are a large number of shareholders, a shareholding of 25% to 35% is generally considered to provide a significant level of effective control. Therefore the relative ability of the Hawkins Associates and/or the Guy Associates to pass ordinary resolutions will increase as the level of voting control held by the Non-associated Shareholders will decrease in all scenarios except in the case where the Guy Allotment and the Placement are approved but the Hawkins Allotment is not approved.

In accordance with Rule 16(g) of the Code, Cynotech has been advised by the Hawkins Associates and the Guy Associates that, other than in respect of monies loaned by CSL to the Guy Associates to finance the acquisition of CNs and rights, no agreements or arrangements have been or are intended to be entered into between the Hawkins Associates and the Guy Associates and any other person relating to:

- the allotment, holding or control of the ordinary shares to be allotted to the Hawkins Associates or the Guy Associates; or
- the exercise of voting rights in Cynotech.

Although the Hawkins Associates and the Guy Associates have declared that they will not operate in concert with each other, they may independently reach the same decision, in which case their combined shareholdings will have significant control over the operations of Cynotech. The combined shareholding of the Hawkins Associates and the Guy Associates will amount to between 24.8% and 56.1% depending on the voting on the Two Allotments and the Placement.

Conclusion

The Hawkins Associates and the Guy Associates currently collectively hold 30.5% of the votes in Cynotech and as such already hold significant influence over the shareholder voting control of Cynotech. We are of the view that the Two Allotments will increase the potential level of influence that the Hawkins Associates and/or the Guy Associates could have over shareholder voting control. If the Two Allotments are approved, their collective voting levels will increase to 56.1% (if the Placement is not approved) or 43.8% (if the Placement is approved).

3.5 Board Control

Cynotech’s current board of directors is set out below.

Board of Directors		
Name	Role	Shareholders Represented
Alan Hawkins	Chair	Hawkins Associates
Richard Guy	Director	Guy Associates
Paul Hutchinson	Director	Hawkins Associates
Kevin McDonald	Director	Independent

We have discussed with Mr Hawkins his intentions regarding the Cynotech board. The Hawkins Associates currently have two board members (Mr Hawkins and Mr Hutchinson) and the Guy Associates one (Mr Guy). Mr Hawkins has indicated that neither the Hawkins Associates nor the Guy Associates intend to seek any increase in their board representation nor are there any plans at present to change the composition of the board. Accordingly, we are of the view that the Two Allotments will have no impact on the board control of Cynotech.

We note that the appointment and removal of directors is effected by the passing of an ordinary resolution. Given the commentary noted in section 3.4, the Hawkins Associates and Guy Associates will have increased ability to pass ordinary resolutions if the Two Allotments are approved.

3.6 Operations Control

Mr Hawkins is currently the Chairman and CEO of Cynotech and the Hawkins Associates and the Guy Associates hold three out of four board seats. Arguably the Hawkins Associates and the Guy Associates already have significant control over the operations of the company. We are of the view that there is unlikely to be any significant increase in their control over the operations of Cynotech if the Two Allotments are approved.

Furthermore, Mr Hawkins has advised us that he does not envisage any significant changes to the nature of Cynotech’s operations if the Two Allotments are approved.

3.7 Implications for Cynotech's Share Price

Impact on Liquidity

The number of shares on issue will increase as a result of the Two Allotments and the Placement from 30.5 million shares at present to 63.6 million shares (assuming all three resolutions are approved).

The number of shares held by the Non-associated Shareholders will increase if the Placement is approved or remain the same if the Placement is not approved.

Mr Hawkins has advised us that, in the event that the Hawkins Allotment is approved, the Hawkins Associates are long term holders of the shares and have no intention of selling any shares. In such circumstances, the Hawkins Allotment will have no impact (either positive or negative) on the liquidity of Cynotech's shares.

We note that if the Placement is approved and 15 million shares are issued, then this will significantly increase the number of shares held by Non-associated Shareholders. This in turn should increase the liquidity of the Cynotech shares.

Impact on Share Price

The current market share price reflects information in the market regarding the company as at a current point in time. The Two Allotments do not represent 'new' information in the market. The market has been aware of the CNs and rights (and their terms and conditions) since they were issued. The Two Allotments are therefore (in theory) unlikely to have a significant impact on Cynotech's price.

However, given the relatively thin trading in Cynotech shares and limited broker coverage (as is the case for most shares listed on the NZAX), it is possible that the doubling of the number of shares on issue (through the Two Allotments and the Placement) will lead to downward pressure on Cynotech's share price due to the Two Allotments raising no further capital (ie the CNs are converted into ordinary shares for no further payment) and the Placement price being at a discount to the current share price.

Furthermore, given the significant increase in the number of shares arising from the Placement, if the on-market demand for these shares is lower than the number of shares offered for sale following the Placement, then this may place downward pressure on Cynotech's share price. We note however that this is a potential outcome arising from the Placement rather than the Two Allotments.

3.8 Other Benefits to the Hawkins Associates and the Guy Associates

We have not identified any further significant benefits of the Two Allotments to the Hawkins Associates and the Guy Associates beyond the increase in voting control.

We do not believe that the issue price of the CNs or the exercise price of the rights are relevant factors in evaluating the merits of the Two Allotments. The issue/exercise prices relate to previous transactions that were either approved by the Non-associated Shareholders (in the case of the Hawkins Associates' CNs) or by the Cynotech Directors (in respect of the Guy Associates' CNs and rights).

3.9 Disadvantages to the Hawkins Associates and the Guy Associates

We have not identified any significant disadvantages of the Two Allotments to the Hawkins Associates and the Guy Associates. However, we note that as their ownership levels in Cynotech increase, so do their exposure to the key risks faced by Cynotech.

Furthermore, in the event that Cynotech seeks further capital in the future by way of some form of pro-rata capital raising mechanism, then the quantum of future financial commitments for the Hawkins Associates and the Guy Associates will increase.

3.10 Benefits to the Non-Associated Shareholders

Consolidation of Shareholder Base

A key benefit to the Non-associated Shareholders of the Two Allotments is that it will consolidate the respective shareholdings of Cynotech's cornerstone shareholder and its Chairman and CEO.

The Guy Associates have been the cornerstone shareholder in Cynotech. It has provided much needed capital to the company in 2003 and 2004 during a period when Cynotech required significant injections of capital to fund its operating losses. The Guy Allotment will result in the Guy Associates increasing the number of shares it holds in Cynotech and thus consolidate its role as a cornerstone shareholder in the company.

The Hawkins Associates currently do not directly hold any shares in Cynotech. Its investment in Cynotech is currently in the form of CNs. The Hawkins Allotment will result in the nature of the Hawkins Associates' investment transforming from quasi-equity CNs to shares, thus changing the Hawkins Associates' investor role to that of a cornerstone shareholder in Cynotech.

Following the Hawkins Allotment, the Hawkins Associates will be the largest shareholder in Cynotech. This will consolidate the Hawkins Associates' position in the company and provide a strong signal to the Non-associated Shareholders and the market in general of Mr Hawkins' commitment to the company. Mr Hawkins is the Chairman and CEO of Cynotech, the Hawkins Associates hold two out of four positions on the board and the Hawkins Associates have provided approximately \$0.8 million of capital to Cynotech in 2004.

Cynotech's share price has improved dramatically since the announcement of Mr Hawkins' involvement in the company. It has risen from \$0.045 immediately prior to the announcement in June 2004 of Mr Hawkins' involvement to a current price of \$0.22.

Shareholder Approval is Required

The Non-associated Shareholders will vote on the two resolutions in respect of the Hawkins Allotment and the Guy Allotment. Neither of the Two Allotments will proceed unless the Non-associated Shareholders approve the respective resolutions.

3.11 Disadvantages to the Non-associated Shareholders

Non-associated Shareholders will be Diluted

Approval of the Two Allotments will see the level of the Non-associated Shareholders' shareholding in Cynotech diluted. As the table in section 3.4 shows, the Non-associated Shareholders currently collectively hold 69.5% of the shares in Cynotech. Assuming the Two Allotments are approved, the Non-associated Shareholders collective interest will reduce to 43.9% (prior to the Placement). On the basis that the Placement is to shareholders other than the Guy Associates and the Hawkins Associates (save for 600,000 shares to the Hawkins Associates), the Non-associated Shareholders will collectively hold 56.2% of the shares on issue following the Placement.

Impact on Possibility of Takeover Offers

A consequence for the Non-associated Shareholders of the combined Hawkins Associates and Guy Associates shareholding increasing to up to 56.1% is that it reduces the prospect of the Hawkins Associates or the Guy Associates or a third party making a takeover offer for Cynotech in accordance with Rules 7(a) or 7(b) of the Code.

By increasing its level of shareholder voting control, the Hawkins Associates and the Guy Associates are less likely to mount a partial or full takeover offer for Cynotech. Furthermore, no external takeover bid is likely to be made unless it has the support of the Hawkins Associates and the Guy Associates.

In our view, the impact of the reduction in the likelihood of a partial or full takeover offer arising from the Two Allotments is not significant as the Guy Associates already hold 30.5% of the company and the Hawkins Associates exert significant control over the affairs of the company. Accordingly the likelihood of a takeover offer is already much lower than that for a company whose shares are widely held.

Tax Losses

Cynotech currently has approximately \$4.1 million of tax losses. In order to carry these tax losses forward, Cynotech must maintain 49% shareholder continuity from the year the loss was incurred to the year of utilisation. Shareholders holding interests of less than 10% each are treated as a single shareholder.

Cynotech has taken professional advice as to the levels of shareholder continuity it must keep in order to preserve the tax losses. This advice shows that the Hawkins Associates will not be able to convert all of its CNs at once if the tax losses are to be preserved. It will only be able to convert approximately 6.5 million CNs immediately following the approval of the Hawkins Allotment in order to maintain the requisite shareholder continuity level.

We are advised that the Hawkins Associates are well aware of the levels of CNs that it may convert into ordinary shares so as to preserve the tax losses, and that it has agreed to only convert such number of CNs to maintain the required level of shareholder continuity. On this basis, the approval of the Two Allotments will not result in a negative financial impact on Cynotech's tax position.

3.12 Implications if the Two Allotments are not Approved

Non-associated Shareholders have the option to vote for or against the Hawkins Allotment and the Guy Allotment. The resolutions are not inter-dependent. In other words, shareholders may vote for one resolution and against the other if they so choose.

Hawkins Allotment

If the Hawkins Allotment is not approved then the Hawkins Associates would continue to hold 15,950,572 CNs in Cynotech. The Hawkins Associates would be faced with the decision of holding onto the CNs or selling some or all of them.

The decision to hold onto the CNs will be influenced by the Hawkins Associates' views on:

- the income stream it will receive from its investment in the CNs;
- the ability to convert the CNs into shares at some future date; and
- its intentions regarding its long term involvement in Cynotech.

The interest on the CNs is directly linked to the dividends paid on Cynotech's shares. Given the company's current financial position, we consider it unlikely that it will pay any dividends in the near future. Therefore, it is unlikely that the CNs will generate any interest income in the near future.

If the Hawkins Allotment is not approved, then this may cause doubt for the Hawkins Associates as to whether the CNs may be able to be converted in the future (assuming the provisions of the Code still apply).

We are advised by Mr Hawkins that in line with the Hawkins Associates' intentions to be long term holders of Cynotech shares, it also intends to hold on to the CNs if the Hawkins Allotment is not approved.

Notwithstanding the Hawkins Associates' intentions to remain long term investors in Cynotech, we are of the view that there is a possibility that the Hawkins Associates may look to sell all or some of the CNs at some stage if they are unable to convert them. Any party acquiring the CNs will be able to convert the CNs into ordinary shares without shareholder approval, providing the shareholding of the party acquiring and converting the CNs is less than 20% following the conversion of the CNs.

Guy Allotment

If the Guy Allotment is not approved then the Guy Associates would continue to hold CNs and rights entitling it to 1,812,121 ordinary shares in Cynotech. The alternatives available to the Guy Associates are the same as those available to the Hawkins Associates.

4. Sources of Information, Reliance on Information, Disclaimer and Indemnity

4.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the Cynotech financial statements for the years ended 31 December, 2001 to 2004;
- the Cynotech Notice of Special Meeting of Shareholders held on 15 October 2004;
- the Cynotech prospectus and investment statement dated 10 November 2004;
- the CN Agreements between Cynotech and:
 - Cleveland Trust dated 13 October 2003
 - James Ian Urquhart dated 13 October 2003
 - CSL dated 8 December 2004
 - NSL dated 8 December 2004
 - CSL dated 20 December 2004;
- the draft Cynotech Notice of Annual Meeting of Shareholders;
- various Cynotech market announcements released to NZX; and
- information from Bloomberg Information Services and Investment Research Group.

During the course of preparing this report, we have had discussions with and/or received information from the Directors of Cynotech and their legal advisers.

The Directors of Cynotech have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Two Allotments that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe necessary for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable Cynotech's Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Two Allotments.

4.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Cynotech and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Cynotech. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

4.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any projections or forecasts of future profits, cash flows or financial position of Cynotech will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Cynotech and the directors and management of Cynotech. Actual results will vary from the projections and forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in the preparation of the Notice of Annual Meeting of Shareholders issued by Cynotech and have not verified or approved the contents of the Notice of Annual Meeting of Shareholders. We do not accept any responsibility for the contents of the Notice of Annual Meeting of Shareholders except for this report.

4.4 Indemnity

Cynotech has agreed that to the extent permitted by law, it will indemnify Deloitte and its partners, employees and consultants in respect of any liability suffered or incurred as a result of or directly in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Cynotech has also agreed to indemnify Deloitte and its partners, employees and consultants for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Deloitte or its partners, employees and consultants are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Deloitte shall reimburse such costs.

5. Qualifications and Expertise, Independence, Declarations and Consents

5.1 Qualifications and Expertise

Deloitte is one of the world's leading professional services firms. Deloitte Corporate Finance is the corporate finance practice of Deloitte, providing corporate advisory, mergers and acquisitions, valuations and transaction support services.

The persons in the firm responsible for issuing this report are Peter Simmons, B.Com, DipBus (Finance), CA(PP) and John Hagen M.Com (Hons), MBA, FCA, FAMINZ, FIOD.

Deloitte Corporate Finance, Mr Simmons and Mr Hagen have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

5.2 Independence

Deloitte is not the auditor of Cynotech.

Deloitte Corporate Finance has not had any part in the formulation of the Two Allotments or any aspects thereof. Our sole involvement has been the preparation of this report.

Deloitte Corporate Finance will receive a fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Two Allotments. We will receive no other benefit from the preparation of this report. We do not have any conflict of interest that could affect our ability to provide an unbiased report.

5.3 Declarations

An advance draft of this report was provided to Cynotech's Directors. Certain changes were made to the drafting of the report as a result of the circulation of the draft. However, there was no material alteration to any part of the substance of this report, including the methodology or conclusions as a result of issuing the draft.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

5.4 Consents

Deloitte Corporate Finance consents to the issuing of this report in the form and context in which it is to be included in the Notice of Annual Meeting of Shareholders to be sent to Cynotech's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.