
Cynotech Holdings Limited: Target Company Statement

The following information has been prepared by Cynotech Holdings Limited under Rule 46 of the Takeovers Code in response to a takeover offer from Cynotech Securities Group Limited.

1 Date

This target company statement is dated 16th February 2010.

2 Offer

The offer is a full takeover offer by Cynotech Securities Group Limited (*CSGL*) to purchase:

- (a) all of the fully paid ordinary shares;
- (b) all of the fully paid convertible preference shares; and
- (c) all of the warrants,

in Cynotech Holdings Limited (*CHL*) not already held or controlled by *CSGL* as at the date of the offer.

The terms of the offer are set out in the offer document sent to shareholders and warrant holders by *CSGL* on February 3rd 2010.

3 Target Company

The name of the target company is Cynotech Holdings Limited.

4 Directors of CHL

The names of the directors of *CHL* are:

- (a) Allan Robert Hawkins;
- (b) Paul James Hutchinson;
- (c) Kevin Patrick McDonald; and
- (d) Nigel Brett Tawse.

CHL's board has formed a sub-committee comprising directors other than Mr. Hawkins (the Directors Committee) to have primary responsibility for preparing this document and to deal with other matters relating to the offer.

Mr. Hawkins has had no part in the sub-committee recommendations as to whether shareholders should accept the offer, and he has had no part in discussions with the Independent Advisers, Campbell Macpherson nor the provision of information to them.

5 Ownership of equity securities of CHL

The table below sets out the number, designation, and the percentage of any class of equity securities of *CHL* held or controlled by:

- (a) each director or senior officer of *CHL* and their associates; and
- (b) any other person holding or controlling 5% or more of the class of equity securities of *CHL*, to the knowledge of *CHL*.

Name	Number of equity securities held or controlled	Designation of equity security	Percentage of total number of equity securities of class
Directors			
HAWKINS, Allan Robert "controlled"	12,800,964* 4,334,775	ordinary shares warrants	10.42% 15.42%
HUTCHINSON, Paul James	Nil	-	-
MCDONALD, Kevin Patrick "held"	1,617,748 267,270	ordinary shares warrants	1.32% 0.95%
TAWSE, Nigel Brett "controlled" (in conjunction with wife)	812,613 72,500	ordinary shares warrants	0.66% 0.26%
Senior officers			
GROZEV Steven Edwin "held"	168,311 15,000	ordinary shares warrants	0.14% 0.05%
HAWKINS, Wayne Robert "held"	96,653 48,360	ordinary shares warrants	0.08% 0.17%
Associates of directors			
CSGL (associated with Allan Hawkins) "controlled"	12,800,964* 4,334,775	ordinary shares warrants	10.42%* 15.42%
Cynotech Securities Limited (associated with Allan Hawkins) "held"	12,800,964* 4,334,775	ordinary shares warrants	10.42%* 15.42%
Laurel Hawkins (associated with Allan Hawkins) "held"	200,000	ordinary shares	0.168%
Glenn Hawkins (associated with Allan Hawkins) "held"	1,295,033 111,939	ordinary shares warrants	1.05% 0.40%
Glenn Hawkins and Sonja Hawkins (associated with Allan Hawkins) "held"	899,208 78,357	ordinary shares warrants	0.73% 0.28%
Newmarket Securities Limited (associated with Allan Hawkins and Paul Hutchison) "held"	13,043,097** 2,332,927	ordinary shares warrants	10.61% 8.30%
Rodney Paul Hutchinson (associated with Paul Hutchison) "held"	286,244 18,135	ordinary shares warrants	0.23% 0.07%

Name	Number of equity securities held or controlled	Designation of equity security	Percentage of total number of equity securities of class
Cathy Hutchinson (associated with Paul Hutchinson) "held"	36,244 18,135	ordinary shares warrants	0.03% 0.07%
Farquharson and Fraser (associated with Brett Tawse) "held"	812,613 72,500	ordinary shares warrants	0.66% 0.26%
Associates of senior officers			
N/A	-	-	-
Holders or controllers of more than 5% of any class of equity securities			
Andrew Ronald Bailey "held"	2,250,0000	warrants	8.00%
Philip Robert Briggs and Pamela Annette Briggs "held"	20,162,859 2,018,538	ordinary shares warrants	16.41% 7.18%
M.W. Daniel, N.G. Burton, M.M. Benjamin "held"	12,413,372	ordinary shares	10.10%
Alan Liddell "held"	250,000	convertible preference shares	7.57%
Newmarket Securities Limited (associated with Allan Hawkins and Paul Hutchinson**) "held"	13,043,097** 2,332,927	ordinary shares warrants	10.61% 8.30%

* Allan Hawkins is the sole director of Cynotech Securities Limited and its wholly owned subsidiary CSGL. Cynotech Securities Limited has agreed to accept the offer for all of its CHL equity securities.

** Paul Hutchinson does not hold any securities directly, but has a 13.04% holding in Newmarket Securities Limited.

Other than as set out in the table above, no other person of the kind referred to above holds or controls equity securities of CHL.

5A Equity securities of CHL issued to directors, or in respect of which directors have acquired a beneficial interest

The table below sets out the number and issue price of equity securities of CHL:

- (a) that have, during the two year period immediately preceding the date of this statement, been issued to the directors or senior officers of CHL or their associates; or
- (b) in which the directors or senior officers of CHL or their associates have, during the two year period immediately preceding the date of this statement, obtained a beneficial interest under any employee share scheme or other remuneration arrangement.

Name	Number of equity securities	Designation of equity security	Issue price per equity security	Date of issue
Directors				
Kevin McDonald	31,483	Ordinary shares from DRP scheme	\$0.14	11 Apr '08
	35,565	Ordinary shares from DRP scheme	\$0.1269	13 Aug '08
Senior officers				
Steven Grozev	1,555	Ordinary shares from DRP scheme	\$0.14	11 Apr '08
	1,756	Ordinary shares from DRP scheme	\$0.1269	13 Aug '08
Wayne Hawkins	2,200	Ordinary shares from DRP scheme	\$0.14	11 Apr '08
	2,485	Ordinary shares from DRP scheme	\$0.1269	13 Aug '08
Associates of directors				
Cynotech Securities Limited	500,000	Ordinary shares from Bonus Issue	1:10	18 Apr '08
Farquharson & Fraser Limited	15,113	Ordinary shares from DRP scheme	\$0.14	13 Aug '08
Associates of senior officers				
N/A				

6 Trading in CHL equity securities

Trading in equity securities by Directors and associates

No director or senior officer of CHL or their associates have traded in CHL equity securities during the 6 month period before 12th February 2010 (being the latest practicable date before the date of this statement) other than the pre-bid agreement between CSG and Cynotech Securities Limited where Cynotech Securities Limited (controlled by Mr. Hawkins) has agreed to accept the offer.

Trading in equity securities by people holding or controlling 5% or more of that class of equity security

The table below sets out the number and designation of equity securities of CHL acquired or disposed of by people holding or controlling 5% or more of that class of equity security, to the knowledge of CHL during the 6 month period before 12th February 2010 (being the latest practicable date before the date of this statement), including:

- (i) in the case of a single transaction in any week the number of securities, the consideration per security, and the week of the transaction; and
- (ii) in the case of multiple transactions in any week, the total number of securities acquired or disposed of in that week, in each class, and the weighted average consideration per security in each class.

Name	Number of equity securities	Designation of equity security	Acquisition or disposal	Consideration per equity security	Week starting
Holders or controllers of 5% or more of any class of equity security					
Philip Robert Briggs and Pamela Annette Briggs	60,000	ordinary shares	Disposal	0.14	9 Sept '09
	22,000	ordinary shares	Disposal	0.14	15 Sept '09
	51,000	ordinary shares	Disposal	0.14	21 Sept '09
	100,000	ordinary shares	Disposal	0.13	25 Sept '09
	42,000	ordinary shares	Disposal	0.125	29 Sept '09
	25,000	ordinary shares	Disposal	0.125	5 Oct '09
	37,950	ordinary shares	Disposal	0.125	9 Oct '09
	750,000	ordinary shares	Disposal	Off market transfer	16 Nov '09
	150,000	ordinary shares	Disposal	0.142	27 Nov '09
M.W. Daniel, N.G. Burton, M.M. Benjamin	100,000	ordinary shares	Acquisition	0.13	30 Nov '09
M.W. Daniel, N.G. Burton, M.M. Benjamin	146,000	ordinary shares	Acquisition	0.115	7 Dec '09
M.W. Daniel, N.G. Burton, M.M. Benjamin	200,000	ordinary shares	Acquisition	0.08	4 Feb '10
M.W. Daniel, N.G. Burton, M.M. Benjamin	40,000	ordinary shares	Acquisition	0.077	5 Feb '10
M.W. Daniel, N.G. Burton, M.M. Benjamin	100,000	ordinary shares	Acquisition	0.077	8 Feb '10
M.W. Daniel, N.G. Burton, M.M. Benjamin	60,000	ordinary shares	Acquisition	0.077	10 Feb '10

Name	Number of equity securities	Designation of equity security	Acquisition or disposal	Consideration per equity security	Week starting
Cynotech Securities Limited	12,800,964	ordinary shares	Agreement to dispose*	0.135	6 Dec '09

* Subject to the terms and conditions of the pre bid agreement between CSGL and Cynotech Securities Limited.

Other than as set out in the table above, no person who holds or controls 5% or more of any class of equity security in CHL has, to the knowledge of CHL acquired or disposed of any equity securities in the period referred to above.

7 Acceptance of offer

Brett Tawse, the Managing Director of CHL, advises that the company he is a Director of, Farquharson and Fraser Limited, intends to accept the offer in respect of all securities held by it for the following reasons:

- (a) The period in which Directors can trade on the market is limited, due to NZX rules governing insider trading provisions, and in these times the market may not be at a price suitable for buying or selling.
- (b) The volumes of trades for CHL shares on NZX is limited and to trade (buy or sell) large parcels of shares has the potential to materially affect the price, yet with a short window open to Directors this is what may be required thus presenting limited opportunities to realize the CHL investment, or buy further shares.
- (c) As Managing Director, to be seen to be selling shares on the open market could lead to some shareholders thinking the Managing Director does not have confidence in the company.
- (d) The current offer is a convenient mechanism to realize this investment.
- (e) The number of securities this acceptance applies to is:
 - a. Ordinary shares 812,613
 - b. Warrants 72,500

Kevin McDonald, Director of CHL, has advised he intends to accept the offer for the following reason:

While losing control to Mr. Hawkins, Mr. McDonald is prepared to forego his voting powers and the protection and controls provided by the NZX listing in the hope of getting more than the current market price.

- (a) The number of securities this acceptance applies to is:
 - a. Ordinary shares 1,617,748
 - b. Warrants 267,270

Steven Grozev, Company Secretary has advised he will accept the offer.

(a) The number of securities this acceptance applies to is:

- | | |
|--------------------|---------|
| a. Ordinary shares | 168,311 |
| b. Warrants | 15,000 |

Wayne Hawkins, General Manager of Cynotech Finance Group Limited, has advised he will accept the offer.

(a) The number of securities this acceptance applies to is:

- | | |
|--------------------|--------|
| a. Ordinary shares | 96,653 |
| b. Warrants | 48,360 |

Cynotech Securities Limited, controlled by Cynotech Securities Limited, has agreed to accept the offer in respect of all securities held by Cynotech Securities Limited.

(a) The number of securities this acceptance applies to is:

- | | |
|--------------------|------------|
| a. Ordinary shares | 12,800,964 |
|--------------------|------------|

The Directors Committee, having made enquiry, are not aware of whether any other person has decided to accept the offer.

8 Ownership of equity securities of CSGL

Cynotech Securities Limited holds or controls 200,000 ordinary shares of CSGL, being 100% of the CSGL shares on issue. The table below sets out the equity securities of CSGL which are held or controlled by Allan Hawkins, or an associate of Allan Hawkins.

Name	Number of equity securities	Designation of equity security
Directors of CHL (holding shares in the offeror, CSGL)		
Allan Robert Hawkins	200,000	ordinary shares

No other director, senior officer or their associates currently hold or control equity securities of CSGL.

9 Trading in equity securities of CSGL

Neither CHL, nor any director or senior officer of CHL or any of their associates, have acquired or disposed of any equity securities of CSGL during the 6 month period before 12th February 2010 (being the latest practicable date before the date of this statement).

Mr. Hawkins is the sole director of CSGL and 200,000 shares, being all the shares in CSGL) were issued to CSL on the formation of GSGL on 2nd November 2009 for a consideration of \$200,000.

10 Arrangements between CSGL and CHL

No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between CSGL (or any associates of CSGL) and CHL (or any related company of CHL) in connection with, in anticipation of, or in response to, the offer.

11 **Relationship between CSGL and directors and officers of CHL**

No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between CSGL (or any associates of CSGL) and any of the directors or senior officers of CHL (or any related company of CHL) in connection with, in anticipation of, or in response to, the offer.

None of the directors or senior officers of CHL are also directors or senior officers of CSGL, or any related company of CSGL other than Mr. Hawkins who is Chairman and CEO of CHL, and also is Sole Director and CEO of CSGL.

12 **Agreements between CHL and directors and officers**

No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between CHL (or any related company of CHL) and any of the directors or senior officers of CHL or any related company of CHL or their associates, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to the offer.

13 **Interests of directors and officers of CHL in contracts of CSGL or related company**

No director or senior officer of CHL or their associates have any interest in any contract to which CSGL, or any related company of CSGL, is a party to.

13A **Interests of CHL substantial security holders in material contracts of CSGL or related company**

No person who, to the knowledge of the directors or the senior officers of CHL holds or controls 5% or more of any class of equity securities of CHL, has an interest in any material contract to which CSGL is a party.

14 **Additional information**

The Directors of CHL are not of the opinion that the offer document is incorrect or misleading.

15 **Recommendation**

The Directors Committee members have determined that they are not able to make a recommendation as to whether shareholders should accept or reject this offer, and in Messrs McDonald's and Tawse's case despite their having advised they intend to accept the offer.

Reasons: This is because the offer, not being a firm cash offer, depends on an individual's willingness to accept risk in their investment, and on the shareholders own personal and financial situation.

The offer does provide for an alternative avenue for a potentially enhanced return in the future, compared to the current share price.

Offset against that is the loss of an open market with the controls that NZX Listing provides. However trading in CHL equities has been limited on NZX.

Additionally there is the loss of shareholder control, including loss of voting rights.

The Directors Committee are however conscious of the limited benefit a public NZX listing currently provides to CHL. It takes a significant amount of cost and effort to meet compliance requirements in a capital market that has been difficult to obtain funding. The benefits to shareholders are the requirement for the company to meet NZX compliance standards, including audit, which with legal costs combined come at a hefty cost (\$439,000 this past year, including one-off capital raising costs of \$140,000), and also the benefit of having a public market, which may not always be liquid, and has limited trades, at prices not necessarily reflecting underlying value.

In the Directors Committee view, the offer has limited appeal, and there is no compelling reason to accept the offer, aside perhaps from the opportunity of a potentially enhanced return in the future, under the terms of the offer. The Directors Committee do make it clear that CSGL by this offer is effectively intending to gain control of the company and privatize it. This control can be implemented by the decisions of a limited number of large shareholders accepting this offer.

Conversely, the reasons the Directors Committee could perceive merit in the offer are:

- a) CSGL has commented on the lack of benefit NZX listing is providing to the company. Not being publicly listed would save considerable compliance costs and staff time, and;
- b) The possibility of realizing, at some future point, a higher return from your investment than may be able to be achieved on the current public market.

Section 2 of the accompanying Campbell Macpherson Independent Advisers' report contains their discussion on the merits of the offer, including in section 2.7 a discussion of three key potential outcomes depending on the level of acceptance of the offer.

Mr. Hawkins as a Director of CHL and being the offeror, abstains from making a recommendation due to a conflict of interest as the sole director of the offeror.

16 **Actions of CHL**

There are no material agreements or arrangements (whether legally enforceable or not) of CHL and its related companies entered into as a consequence of, in response to, or in connection with, the offer other than:

- (a) A contract for services with lawyers, Chapman Tripp
- (b) A contract to prepare an Independent Advisers report with Campbell Macpherson

There are no negotiations underway as a consequence of, or in response to, or in connection with, the offer that relate to or could result in:

- (a) an extraordinary event such as a merger, amalgamation, or reorganisation involving CHL or any of its related companies other than:

- i) A decision to move the balance date from 31 December to 31 March, made after the initial take-over notice to allow accounts reporting to be sent to shareholders prior to the closing date of the offer.
- (b) the acquisition or disposal of material assets of CHL, or any related company of CHL; or
- (c) an acquisition of equity securities by, or of CHL or any related company of CHL; or
- (d) any material change in the equity securities on issue, or policy relating to distributions, of CHL.

17 **Equity securities of CHL**

CHL has 122,885,996 ordinary shares on issue. The rights of shareholders in respect of capital, distributions and voting are as follows:

- (a) the right to an equal share with other shareholders in dividends authorised by the board of CHL;
- (b) the right to an equal share with other shareholders in the distribution of surplus assets on liquidation of CHL; and
- (c) subject to the prohibitions contained in the NZSX and NZDX Listing Rules and CHL's constitution, the right to cast one vote on a show of hands or the right to cast one vote for each share held on a poll, in each case at a meeting of shareholders on any resolution, including a resolution to:
 - appoint or remove a director or auditor;
 - alter CHL's constitution;
 - approve a major transaction;
 - approve an amalgamation of CHL; and
 - put CHL into liquidation.

CHL also has 3,303,224 convertible preference shares on issue. The rights of shareholders in respect of capital, distributions and voting are as follows:

- (a) Cynotech Convertible Preference shares have a preferential right to an annual dividend paid quarterly at the rate of a multiple of 1.5 times the Official Cash Rate as detailed by the Reserve Bank of New Zealand.
- (b) Convertible Preference shares convert to Ordinary shares at the rate of 1:1.
- (c) Holders have the right to convert on giving the company 30 days prior notice.
- (d) The shares automatically convert to Ordinary shares after a 3 year term on 22nd December 2010.

CHL also has 28,140,489 warrants on issue. The rights of warrant holders in respect of capital, distributions and voting are as follows:

- (a) The right to acquire ordinary shares at a price of \$0.30 per share on 27th June 2010 and 2011, after which the right expires.

18 **Financial information**

- (1) Offerees are entitled to obtain from CHL a copy of CHL's most recent Annual Report (being the annual report for the period ended 31st December 2008).
- (2) A copy of the Mid Year Report (being the half yearly unaudited report for the period ended 30 June 2009) accompanies this document. The Annual Report and the Mid Year Report are also available from CHL's website at www.cynotech.co.nz.
- (3) A copy of the 2009 Year End report (unaudited) as required by NZX Listing Rules will also be sent to shareholders as soon as it is available, before the end of February 2010. It will also be posted on CHL's website at www.cynotech.co.nz.
- (4) Other than as set out above or as contained in the Independent Advisers Report, the following may be material changes in CHL since the last Annual Report:
 - (a) Late last calendar year the board of CHL commissioned Deloitte to advise on the possible realization of some of the company's investments and assets so that the Group could redirect further financial resources into the finance company sector. Several indicative bids have been received in respect of the satellite phone service operation within the Group, and due diligence is proceeding. One of the bidders for the satellite business is the CHL Managing Director Mr. N B Tawse, and he has made the necessary disclosure of interest to the CHL Board.
 - (b) As part of the Deloitte program, the future of the Snowdon Limited ice cream cone manufacturing business was reviewed. Partly, as a result of this process it is apparent that it will be necessary for the Group to provide for a substantial diminution of the investment value at which this subsidiary company is held in the Group. In addition, due to the upgrade of some plant at Snowdon Limited, we now have surplus machinery and, in view of its age, a write down of this plant will be necessary.
 - (c) The company has properties which are held for sale. Based on an updated registered valuation report received, a write down in the book value of these properties of \$327,000 will be necessary.
 - (d) Although not yet considered by the Directors of CHL it is possible that a provision will be required to reduce the value of the Groups 23% investment in Findata Limited.
 - (e) On 11th February, 2010, CHL advised NZX that it had "received notice that the Commerce Commission intends to proceed with an action against Budget Loans Ltd for alleged breaches against the Fair Trading Act in relation to non-disclosure of letter (administration)

fees, charging interest after re-possession of goods and applying goods to contracts as security after repossession. The matters raised affect 61 loans out of our total portfolio in excess of 5,000 loans. We will review the matters brought forward by the Commerce Commission with our legal advisors. Advice of this intended action has been sent to Cynotech Securities Group Ltd, who were aware of the Commerce Commission enquiry prior to their offer.”

Aside from these items there has been no other known material changes in the financial or trading position or prospects of CHL since the release of the 2008 Annual Report, and there is no other information about the assets, liabilities, profitability and financial affairs of CHL since the release of the Year End 2008 accounts and the subsequent interim unaudited accounts to June 2009 or as elsewhere detailed in this Target Company Statement, that could reasonably be expected to be material to the making of a decision by shareholders to accept or reject the offer.

19 Independent advice on merits of offer

Campbell Macpherson, as independent adviser, has prepared a report on the merits of the offer as required by Rule 21 of the Takeovers Code. A copy of Campbell Macpherson’s full report accompanies this statement.

19A Different classes of securities

Simmons Corporate Finance Limited has prepared a report on the fairness of the offer between the different classes of CHL equity securities. A copy of that report accompanies this statement.

20 Asset valuation

Information provided in this statement refers to the valuation of apartments held for sale at Mt. Maunganui.

The date of the QV Valuations registered valuers valuation is 12th January 2010.

A summary of the Valuation is

Land Value	\$205,000
Value of Improvements	\$209,000
Chattels	<u>\$ 6,000</u>
Current market Value	\$420,000 (including chattels)

In order to establish market value for the subject property QV in accordance with normal valuation practice considered and analysed a number of sales. The method of valuation used is usually referred to as the direct comparison approach. This approach involves analysis of sales and making comparisons with the subject property after the allowance for such differences as location, dwelling size, views, other buildings, layout, other improvements, building platform, land size, contour and special features.

A copy of the QV valuers report on the apartment at Mt. Maunganui can be inspected at CHL, 20 Kent St, Newmarket, Auckland, and a copy will be sent to any Offeree on request.

The revised value was obtained by extrapolating the percent reduction from the original valuation compared to the current one,

and applying that across the other two apartments in the same percentage discount.

The report provided by Campbell Macpherson refers to the valuation of certain assets of CHL. The basis of computation and key assumptions on which those valuations are based is set out in that report.

21 Prospective financial information

Neither this statement nor the Campbell Macpherson report refers to any prospective financial information of CHL.

The prospectus accompanying the offer refers to prospective financial information about CSGL and the assumptions on which that prospective financial information is based. The Directors Committee had no involvement in the preparation of that document or information therein.

22 Sales of unquoted equity securities under offer

This is not applicable as the ordinary shares, convertible preference shares and the warrants that are the subject of the offer are quoted on the NZSX.

23 Market prices of quoted equity securities under offer

The closing price on the NZSX of the ordinary shares, convertible preference shares and the warrants on:

- (1) 12th February 2010, being the latest practicable working day before the date on which this statement is sent to offerees, was:
 - (i) NZ\$0.075 per ordinary share;
 - (ii) NZ\$0.08 per convertible preference share; and
 - (iii) NZ\$0.01 per warrant;
- (2) 15th January 2010, being the last day on which the NZSX was open for business before the date on which CHL received CSGL's latest Take Over Notice, was:
 - (i) NZ\$0.085 per ordinary share; and
 - (ii) NZ\$0.08 per convertible preference share; and
 - (iii) NZ\$0.01 per warrant.

The highest and lowest closing market price of the ordinary shares, convertible preference shares and the warrants on the NZSX (and the relevant dates) during the 6 months before the date on which CHL received CSGL's latest Take Over Notice on 18th January 2009 were as follows:

- (a) highest closing market price was:
 - (i) NZ\$0.167 per ordinary share; (on 20th July 2009);
 - (ii) NZ\$0.16 per convertible preference share; (on 20th July 2009); and

- (iii) NZ\$0.02 per warrant; (on 20th July 2009);]
- (b) lowest closing market price was:
- (i) NZ\$0.079 per ordinary share; (on 30th December 2009);
- (ii) NZ\$0.08 per convertible preference share; (on 5th January 2010); and
- (iii) NZ\$0.006 per warrant; (on 31st August 2009);
- 3) During the 6 month period referred to above, CHL did not issue any equity securities or make any changes in the equity securities on issue which could have affected the market prices of the shares referred to above, other than:
- the issue of ordinary shares upon conversion of convertible preference shares, in accordance with the terms of the Company's Prospectus dated 21st November 2007; and
 - the issue of ordinary shares upon exercise of warrants, in accordance with the terms of the Company's Prospectus dated 20th May 2005.
- 4) For completeness, during the 6 month period referred to above, CHL also issued Cynotech Capital Securities pursuant to the terms of the Company's Prospectus dated 28th May 2009. These do not form part of the CSGL offer (The terms of the Cynotech Capital Securities remain unchanged).
- 5) During the last six month period the Directors announced on 5th August 2009 an interim dividend to be paid on 30th September 2009, and then on 25th September 2009 made a further announcement advising that the interim dividend would not be paid.
- 6) Following the announcement by CSGL on 16 November 2009 of the intention to make a takeover offer, the CHL share price rose. Following the delivery of the Takeover Notice on 18 December 2009 the share price fell significantly. That Notice was withdrawn on 21 December 2009 and a new Takeover Notice issued on 18 January 2010. The range of movement in the share price during the period 16 November 2009 to 12 February 2010 is set out below.

	13 th Nov, 2009 (Prior to 16 th Nov Announcement)	High/Date	Low/Date
CYT	\$0.11	\$0.17 (17 th Nov)	\$0.075 (12 th Feb 10)
CYTPA	\$0.10	\$0.10 (continuous)	\$0.08 (5 th Jan '10)
CTYWA	\$0.02	\$0.02 (continuous)	\$0.01 (5 th Jan '10)

24 Other information

In the opinion of the Directors' Committee, the following additional information could reasonably be expected to be material to the making of a decision by the offerees to accept or reject the offer.

- (a) In the view of the Directors' Committee, CHL can continue to operate in the short term as it is currently structured, with the existing management team, subject to continuance of its current funding arrangements. The full board of CHL continuously reviews the direction of the company, availability of opportunities, structure and capital raising options. The equity position of CHL is sound at around 40% of total assets.
- (b) Mr. Hawkins, through his companies, is a major shareholder in CHL, and is also the Chairman and CEO, and a significant depositor in the current structure. Shareholders should be aware that Mr. Hawkins, indirectly through Newmarket Securities Limited and Cynotech Securities Limited, holds or controls 21.03% of the voting equities in CHL.
- (c) The share trading in CHL equity securities has been limited, making it difficult for holders to realize underlying value from their holding. Large disposals on market have the potential to cause a drop in share value.
- (d) CSGL's Director has advised that "CSGL has been put in place as a way of achieving the objective of cashing up and privatizing the Cynotech Group." CSGL has stated in its offer document " ...it is not probable that the NZX listing will be any advantage to the Cynotech Group as a funding mechanism in the near future". An application may be made by CHL to NZX under certain circumstances and within NZX Listing rules to cease quotation of any particular class of CHL Equity Securities. NZX has given no indication as to whether such an application would be accepted, nor on what conditions a de-listing could be approved. There is a possibility that those CHL shareholders who do not accept the CSGL offer could be faced with the prospect of their CHL equities being removed from NZX.
- (e) CHL shareholders who accept the offer and receive CSGL preference shares will not have the same rights they have as equity security holders of CHL. The CSGL preference shares are non-voting shares, compared to the current publicly listed CHL ordinary shares. CSGL shareholders will not have the market regulation protections CHL shareholders currently have under the Securities Markets Act and listing rules.
- (e) The CSGL offer also does not guarantee a price that your current CHL shares will be redeemed at, once converted to CSGL preference shares, nor that you will receive a dividend. CSGL's offer states its ability to pay a dividend or redeem shares is dependent on CHL paying dividends and realizing assets the timing for which is unknown. It should be noted the current public market for CHL listed equities also does not guarantee any price for shares being traded. It is also noted that there has been a limited market for CYT, CYTPA and CYTWA holders to be able to realize shares or warrants.
- (f) CHL has \$11,684,898 funds held on deposit, of which approximately half is from one depositor. The Directors' Committee consider that a very high proportion of those depositors have deposited funds because of their relationship with Mr. Hawkins. In addition, Mr. Hawkins through Cynotech Securities Limited, has approximately

17% of the funds on deposit, or held as loans. It is most important to the company that these depositors/lenders continue to be confident about the management and operation of the group.

- (g) Mr Hawkins has separately advised the Board of Directors of CHL that he wishes to retire or significantly reduce his involvement in the operations of CHL when he reaches the age of 70, in two years from now. It is acknowledged that a significant number of shareholders and depositors have invested because of Mr. Hawkins involvement.

There is no additional information that is not already disclosed in this statement or in the Campbell Macpherson report that could reasonably be expected to be material to the making of a decision by the offerees to accept or reject the offer.

25 Approval of this statement

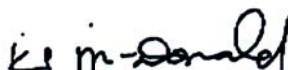
The contents of this statement have been approved by the Directors Committee of board of CHL.

26 Certificate

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise and includes all the information required to be disclosed by CHL under the Takeovers Code.



Paul Hutchinson
Director of Cynotech Holdings Limited



Kevin McDonald
Director of Cynotech Holdings Limited



N Brett Tawse
Director of
Cynotech Holdings Limited



Allan Hawkins
Chairman and Chief Executive of
Cynotech Holdings Limited*



Steven Grozev
Chief Financial Officer of
Cynotech Holdings Limited

* as noted above, Mr Hawkins is not a member of the Directors' Committee formed to consider aspects of the offer, and abstains from a recommendation on whether to accept the offer, given his conflict of interest. Mr Hawkins is signing this statement in his capacity as chief executive officer of CHL because he is required to do so by clause 26 of Schedule 2 of the Takeovers Code.