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**CYNOTECH HOLDINGS LIMITED**

**INDEPENDENT ADVISERS REPORT**

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**In respect of the Merits of the Takeover Offer from  
Cynotech Securities Group Limited**

**Prepared by**

**CAMPBELL MACPHERSON** 

CORPORATE ADVISORS

**February 2010**

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## 1. OVERVIEW

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### 1.1 Introduction

Cynotech Holdings Limited (**CHL**, the **Company**) is a public company listed on the main board of the equity securities market operated by NZX Ltd (**NZSX**). CHL is the holding company for the Cynotech group of companies (**CHL Group**), comprising wholly owned subsidiaries operating in the finance sector, ice cream cone manufacturing and satellite phone sales and rentals. CHL also holds minority interests in a web-based financial data services company and a temporary event seating company. A profile on CHL is provided in Section 4.

CHL listed securities on the NZSX comprise ordinary shares (**Shares**) (NZSX code CYT), convertible preference shares (**CPS**) (NZSX code CYTPA) and warrants (**Warrants**) (NZSX code CYTWA). In addition the Company has listed debt securities traded on the debt security market (**NZDX**) under the code CYTHA (referred to herein as the **Capital Securities**).

On 16 November 2009 CHL announced that it had received a letter from Cynotech Securities Group Limited (**CSGL**, the **Offeror**) of its intent to make a full takeover offer for CHL (**Letter of Intent**). CSGL is currently a private investment company controlled by CHL Chairman Allan Hawkins.

On 18 December 2009 CSGL issued a Takeover Notice advising of a full takeover offer for all of the Shares, CPS and Warrants issued by CHL. However, this offer was formally withdrawn on 22 December 2009 due to the Takeovers Panel's concern with the documentation accompanying the Takeover Notice.

On 18 January 2010 a revised Takeover Notice was issued including the Takeover Offer and a Combined Investment Statement and Prospectus in respect of the issue of Preference Shares in CSGL was lodged. (collectively referred to herein as the **Offer**). The Offer was sent to CHL equity security holders on 2 February 2010. We note that there was no material change to the terms of the revised Offer compared to that in the original offer withdrawn on 22 December 2009.

CSGL was incorporated on 2 November 2009. CSGL is a wholly owned subsidiary of Cynotech Securities Limited (**CSL**), a private investment company controlled by interests associated with current CHL Chairman & CEO Allan Hawkins. CSGL does not trade and has no fixed assets or debt. CSGL was established by CSL solely for the purpose of making the Offer. A profile of CSGL is provided in Section 6.

### 1.2 The Takeover Offer

The Offer by CSGL is a full offer to purchase all of the equity securities in Cynotech (collectively referred to as the **CHL Equity Securities**) comprising CHL Shares, CPS and Warrants. The Offer does not extend to holders of CHL Capital Securities.

#### **Consideration**

The consideration for CHL Equity Securities under the Offer comprises fully paid preference shares in CSGL (**CSGL Preference Shares**). The CSGL Preference Shares will be allotted to CHL Equity Security holders on the following basis;

- 1 Preference Share for each Share held
- 1 Preference Share for each CPS held
- 1 Preference Share for each 33.75 Warrants held

Key terms of the CSGL Preference Shares are outlined below.

- Issue price of \$0.135 per Preference Share.
- Maximum offer amount \$17,147,978 (i.e. 127,022,060 CSGL Preference Shares).
- CSGL Preference Shares are only redeemable at the discretion of CSGL (not the holder).
- CSGL Preference Shares are non-voting, other than in relation to a proposal to amend the terms of their issue.
- The CSGL Preference Shares have the right to a dividend of up to 8.00% per annum calculated from 1 April 2010 and payable quarterly (i.e. first payment date is 30 June 2010). However this is subject to CSGL receiving sufficient revenue dividends from CHL to pay the required dividend.
- Dividend payments by CSGL to Preference Share holders will rank in priority to any distributions to ordinary equity holders.
- Any dividends will not carry any imputation credits.
- The CSGL Preference Shares are for an indefinite term but CSGL intends to redeem or repurchase the CSGL Preference Shares over time.
- The CSGL Preference Shares will not be listed.
- In the event of liquidation CSGL Preference Shares will rank ahead of claims of holders of ordinary shares of CSGL but behind claims of all secured and unsecured creditors of CSGL.

CSGL considers that the Offer places a value of \$0.135 on each Preference Share (and therefore, by implication, a value of \$0.135 on each Share and each CPS, and a value of \$0.004 on each Warrant).

The Offer states that CSGL has been established as a way of achieving the objective of cashing up CHL and returning investment funds to shareholders. CSGL intends that the assets of CHL will be progressively realised to repay borrowings and then for the purpose of realising sufficient funds to provide for the eventual repayment or redemption of the CSGL Preference Shares (subject to availability of those funds).

#### ***Offer Timing***

The Offer opened on 2 February 2010 and closes on 19 March 2010 (unless otherwise extended in accordance with the provisions of the Takeovers Code).

#### ***Key Conditions***

The Offer is conditional upon acceptances for more than 50% of the aggregate CHL Equity Securities including more than 50% of the total CHL voting securities. CSGL will not take up any of the CHL Equity Securities unless the minimum threshold condition above is fulfilled.

Other conditions of the Offer include that during the period from 18 January 2010 until 26 March 2010;

- CHL does not declare, pay or make any dividends, bonuses or distributions of any kind.
- No further shares, convertible notes, voting securities, options, stock, debentures or other securities or loan capital of CHL or any of its subsidiaries is issued or agreed to be issued.
- No proceedings (other than any already disclosed) are existing, notified or commenced against CHL or any of its subsidiaries involving a claim, or claims together, totalling in excess of \$200,000.

- No resolution is passed for any amalgamation or liquidation of CHL or any of its subsidiaries, and none of them is involved in any merger, share buyback or scheme of arrangement.
- No event having occurred or having failed to occur that would prevent CSGL from issuing the CSGL Preference Shares, other than where this is a direct result of an act or omission solely by the power, or under the control of, CSGL, or an associate of CSGL.
- No event having occurred, change or condition that has, or could reasonably be expected to have, a material adverse effect on the CHL Group taken as a whole.
- No board resolution or shareholder's resolution is passed to do or authorise the doing of any act or matter referred to in any of the other conditions above.

#### ***Pre-bid Agreement***

CSL has entered into a pre-bid agreement with CSGL dated 8 December 2009, where CSL has agreed to accept the Offer in respect of the CHL Equity Securities it holds. CSL currently holds 13,043,097 Shares representing 10.41% of the ordinary shares on issue by CHL. CSL also holds 2,332,927 Warrants.

#### ***Possible De-listing of CHL Equity Securities***

The Offer indicates an intention to de-list CHL from the NZSX if the offer is successful. However, CHL has been advised by Chapman Tripp lawyers that NZX has discretion on whether it will de-list CHL, and if so, on what conditions. If the Offer is only partly successful, de-listing of CHL equity securities may not necessarily occur.

### **1.3 Takeovers Code Requirements**

CHL is a code company for the purposes of the Takeovers Code (the **Code**). The Code requires independent advisers' reports to be prepared at the request of the target company for the offerees in all takeover offers made under the Code. In every case a report requested by the directors of the target company under rule 21 of the Code is required to accompany the target company statement.

In its "Guidance Note about the Role of Independent Advisers for the purposes of the Takeovers Code, Third Edition – August 2007" (the **Guidance Note**) the Panel recommends that;

"advisers do not describe offers as "fair" or "unfair". A comparison of the offer price with the adviser's valuation should probably be made, but this is only one of a number of issues that the adviser may usefully discuss in its report on the merits of the offer.

One exception to this recommendation is where the primary purpose of the report is to provide guidance to shareholders who are certain to, or at least very likely to, have their shares taken under compulsory acquisition as the result of an offer. In such cases it may be appropriate for the adviser to express a view on the "fairness" of the offer price."

The Independent Adviser's Report is required to be included in the Target Company Statement (**Target Company Statement**) that is required to be sent to the Offeror pursuant to rule 46 and Schedule 2 of the Code.

#### 1.4 Purpose and Issue of this Report

CHL has engaged Campbell MacPherson Limited (**Campbell MacPherson**) to prepare an Independent Adviser's Report (the **Report**) on the merits of the Offer in accordance with Rule 21 of the Code.

Campbell MacPherson was approved by the Takeover Panel on 4 December 2009 to prepare the Report.

We are advised by CHL that the Board has formed a directors committee (the **Directors Committee**) comprising three directors, Kevin McDonald, Brett Tawse and Paul Hutchinson, for the purposes of considering the Offer.

We note that Paul Hutchinson has a minority shareholding in Newmarket Securities Limited, a company controlled by Mr Hawkins, which holds 10.61% of the ordinary shares of CHL. We understand he has had no involvement in formulation of the Offer and he has no shareholding in Cynotech Securities Ltd or the Offeror. We also note that Brett Tawse holds an executive role with CHL as it's full-time Managing Director.

Campbell MacPherson issues this Report to equity security holders of CHL that are not associated with CSL or Mr Hawkins to assist them in forming their own opinion on whether or not to accept the Offer.

We note that each equity security holder's circumstances and objectives are unique. Accordingly it is not possible to report on the merits of the Offer in relation to each individual security holder. This Report is therefore necessarily general in nature.

This Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

## 2. EVALUATION OF THE MERITS OF THE OFFER

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The role of an independent adviser under the Takeovers Code is to form an opinion as to the merits of the Offer and in doing so take into account a range of issues other than just valuation. In this Section we summarise the basis of our evaluation and the results of our analysis.

### 2.1 Basis of Evaluation

Rule 21 of the Code requires an evaluation of the merits of the Offer. 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 Takeover 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”.

We are of the view that an assessment of the merits of the Offer should focus on:-

- The rationale for the offer;
- The value of CHL Equity Securities;
- The value of the consideration being offered for CHL Equity Securities;
- The likelihood of alternative offers or alternative transactions;
- Other benefits and disadvantages to CHL Equity Security holders of the Offer
- Implications for CHL Equity Security holders of not accepting the Offer.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analysis together could create a misleading view of the rationale underlying the opinion.

### 2.2 Rationale for the Offer

The acquirer CSGL believes that the Takeover Offer provides the “most effective and timely method” for CHL equity security holders to receive back their invested funds in CHL.

CSGL’s rationale for its Offer includes:-

- a) CHL directors have stated publicly that they believe the small finance company sector will not start to improve for at least two years;
- b) Due to the current adverse public perception of the finance sector it is not probable that the NZX listing of CHL’s securities will be of any advantage to CHL as a funding mechanism in the near future.
- c) A view that CHL cannot see the immediate path to growth in its main business sector (financial services/consumer lending); and
- d) Because CHL has a small shareholder base (circa 900) there is little trading and liquidity in any of CHL’s listed equity securities.
- e) CSGL believes that the Offer represents the most effective and timely way to achieve the objective of cashing up the CHL assets and returning investment funds to shareholders. We note that in the covering letter to the Takeover Notice dated 18 January 2010 the director of CSGL also states that CSGL has been put in place as a way of privatising the CHL Group.

- f) CSGL and its sole director believe that the shareholders of CHL may be in a position to invest their own funds in a more personally oriented and profitable way in the future period rather than having their funds invested in CHL.

Following our discussions with the Directors Committee, we have the following comments in respect of items a) through f) above;

- a) Whilst the finance sector is challenging at present, there are attractive new lending opportunities to non-bank customers. CHL's key challenge is its difficulty in currently raising external funding to apply to new lending and other growth opportunities. CHL has also been required to provide internal funding for certain under-performing subsidiaries and associates that has caused a drain on available funds that could otherwise have been re-invested in the finance/lending operations;
- b) CHL has struggled to raise additional capital to fund growth of its lending operations (a case in point being the failure of the offer of Capital Securities in 2009 to raise any significant capital). In our view this has been a function of the poor general market conditions and the relatively unattractive terms of that particular offer in terms of its redemption and underlying security.

We are advised by the Directors Committee that CHL has given consideration as to how the Company's assets could be redeployed to generate additional funds to grow the core finance/consumer lending business. We are advised that no decisions have been made on this issue as yet.

- c) As discussed in a) there do appear to be growth opportunities for CHL provided that capital is available to fund additional lending. We also note that ongoing issues faced by other non-bank lenders and changes in the Crown deposit guarantee scheme from October 2010 may result in additional opportunities for CHL to acquire further distressed loan books at attractive prices subject to funding sources being available.
- d) CHL Shares have relatively limited liquidity and many small market cap companies listed on the NZX have similar issues. There are a number of ways to overcome these challenges including regular briefings for the financial community and media, sharebroker research, investor roadshows, minimal related party transactions and adoption of best practice standards of corporate governance. An effective way to attract investor interest for a listed company is to have a clear vision and deliver superior (and consistent) shareholder returns. We consider that CHL's Equity Securities still have a number of benefits over the CSGL Preference Shares being offered as consideration. These are outlined further in Sections 2.8, 2.9 and 2.12.
- e) Our view on the merits of the Offer is outlined in further detail in this Report.
- f) As noted in Section 1.4 it is our view that each equity security holder's circumstances and objectives are unique.

CHL has spent considerable time and effort liquidating the distressed loan books purchased from National Finance and others. The Company has generally borrowed to purchase these loan books. The CSGL Offer states that "it is intended that the assets of CHL be progressively realised to repay borrowings and then for the purpose of realising sufficient resources to provide for the eventual repayment or redemption" of the CSGL Preference Shares. This strategy may appeal to those Equity Security holders of CHL who also have funds invested in CHL by way of deposits and/or loans to the Company and/or its subsidiaries and associates.

### **2.3 Industry and CHL Fundamentals**

CHL does not rely on retail debenture funding and has survived the downturn in the New Zealand non-bank finance sector relatively unscathed. In our view the Company is well positioned to benefit over the next few years from the expected recovery in the financial services sector.

The Company's core financial services are the management and recovery of distressed finance loan books and new personal lending for vehicles and other durable goods. As financial markets improve it is likely that opportunities to acquire distressed loan books will gradually reduce and be replaced by growth in new lending.

The challenges for CHL to overcome have been the poor performance of certain subsidiaries and associated companies (see Section 4) and the issue of how to raise the required external capital to fund new lending and other growth/acquisition opportunities.

## 2.4 Valuation of CHL Equity Securities

Campbell MacPherson has assessed the fair market value of 100% of the CHL Equity Securities using two fundamental approaches that we consider appropriate to CHL and/or its subsidiary entities.

- Value based on Market Capitalisation (adjusted for a premium for control as required).
- Value based on a divisional analysis using Price to Earnings (**P/E**) and Price to Book (**P/B**) multiples and/or net asset value assessments for the various subsidiaries and minority interests of CHL.

**Having given due regard to the inputs and results of this analysis including the recent price and liquidity of CHL shares and other relevant issues we consider that the fair market value for CHL Shares is \$0.073 to \$0.103 per Share, the fair market value of CHL CPS is \$0.073 to \$0.103 per CPS, and the fair market value of CHL Warrants \$0.0009 to \$0.0034 per Warrant which equates to a ratio (warrants to shares) of 30.37 to 82.09.**

Further information on our assessed valuation of CHL Equity Securities is contained in Section 5.

## 2.5 Evaluation of the Consideration

The Offer by CHL involves an all scrip offer (i.e. no cash component) of new CSGL Preference Shares in consideration for acquiring CHL Equity Securities. CSGL Preference Shares are being offered on a one for one basis for every CHL ordinary share and CHL CPS and on a one for every 33.75 basis for each CHL Warrant.

We note that, in the event the Offer is successful, the only material assets of CSGL will be its securities in CHL. Therefore we do not consider there is any material difference between the value of CSGL Preference Shares and our assessed fair market value of CHL Shares and CPS i.e. in the range of **\$0.073 to \$0.103** per CSGL Preference Share.

The Offer has been structured to cap the CSGL Preference Shareholders capital return at \$0.135. There is no certainty that CSGL Preference Shareholders will receive this amount. They could ultimately receive less than \$0.135. In the event that realisation of the assets of the CHL Group creates more than \$0.135 per share then the value component above this amount would accrue to CSGL. **However, given our valuation range for CSGL Preference Shares is well below the \$0.135 issue price we consider that CHL shareholders are unlikely to be disadvantaged from a valuation perspective if they accept the Offer.**

## 2.6 Potential for Alternative Transactions

The directors of CHL have not received any other approaches from third parties to acquire the Company and, given that significant time has elapsed since the first Takeover Notice was announced, they believe that it is unlikely that any alternative offer will be forthcoming.

The Directors Committee advise that they have not engaged an external corporate advisor to seek out any alternative offers for the Company

## 2.7 Potential Outcomes

There are three key potential outcomes to the Offer as outlined below. We note that the Offer does not apply to CHL Capital Securities.

### **a) Offer achieves 90% or more acceptance**

If the Offer achieves acceptances from CHL Equity Security holders representing 90% or more of the voting securities of the Company then the Offer will be unconditional and CSGL will be able to proceed to compulsorily acquire the remaining equity securities of CHL as provided for under the Takeovers Code.

Under this scenario CHL would no longer meet the NZX size and spread requirements for listing and CSGL has indicated that it will apply to de-list the applicable equity securities. It is therefore likely that CSGL would be able to achieve one of its stated objectives which is to privatise the CHL Group.

Ordinary shares in CHL would be purchased for the current offer consideration. If less than 50% of the other classes of equity securities accept the Offer, the Directors Committee advise that these holders would have to be paid a cash sum that has been certified as fair and reasonable by an independent advisor.

### **b) Offer achieves more than 50% but less than 90% acceptance**

The Takeover Offer is conditional on acceptances from more than 50% of CHL equity security holders (including more than 50% of the total CHL voting securities). Therefore while the Offer contemplates a full bid for 100% of CHL Equity Securities, a partially successful bid could leave the acquirer holding a stake of between 50.01% and 90% of CHL.

Under this scenario it is not possible to predict whether an application would be made by CSGL to de-list the applicable securities and, if an application were made to the NZX, whether it would be successful or what conditions (e.g. minority shareholder approval) might apply. It is therefore possible that CSGL may not be able to achieve one of its stated objectives which is to privatise the CHL Group.

We note that if CSGL acquired more than 50% of the voting securities under the Offer then it could "creep" its stake by 5% per annum (but not before 12 months after the offer becomes unconditional) as permitted under the Takeover Code until it reached the 90% threshold. If this occurred to the point CSGL owned 90% of the shares, the remaining shares could be compulsorily acquired as per the third paragraph in option a) above.

### **c) Offer does not achieve more than 50% acceptance**

In the event that not more than 50% of CHL Equity Security holders accept the Offer then the Offer will be unsuccessful and will lapse. CHL Equity Securities would continue to exist in their current form and would remain listed on the NZSX.

In the event that the Offer is unsuccessful CSGL would be entitled to make another separate offer in the future. However there is no guarantee that it would do so nor what the terms of any subsequent offer might be.

## 2.8 Other Advantages to CHL Equity Security Holders

The Offer may provide CHL equity holders with an opportunity to share in the savings (if any) that may accrue in the event that CHL equity securities are de-listed from the NZX and the acquirer CSGL operates as a private company with a sole director, Mr Allan Hawkins.

We note that Mr Hawkins has advised the Board of directors of CHL that he wishes to retire or significantly reduce his involvement in the operations of CHL in two years time. In our view this raises succession planning issues for the governance and management of CHL in the future.

We are advised that CHL incurred professional costs including advisory, audit, legal and NZX fees totalling \$439,000 in the year to 31 December 2009, inclusive of one off costs of \$140,000 in respect of the issue of Capital Securities.

Given there is no guarantee that any of the CHL equity securities will be de-listed nor any indication as to what cost savings can definitely be achieved by the Offeror we do not consider that there is any certainty that any of the costs outlined above (excluding the Capital Securities issue costs) can be saved in the future regardless of whether the Offer is successful or otherwise.

The Offer proposes paying an annual gross dividend of up to 8%. However it could be less or not paid at all. There is no guarantee an annual dividend will be paid.

Acceptance of the Offer may result in a faster return of invested capital to CSGL Preference Shareholders than they would otherwise receive if the Offer is unsuccessful. However, we note that the Company is already actively and vigorously pursuing its collection policy on its outstanding loan books and we are advised by the Directors Committee that the assets earmarked for sale by CSGL in its prospective cash flow statements (namely the CHL apartment properties and Snowdon surplus plant) are already available for sale by the Company should an appropriate offer be made.

Furthermore we are advised that, in late 2009, the directors of CHL commissioned Deloitte to advise on the possible realisation of certain investments and assets of the CHL Group. The timing and extent of the realisation of any of these assets is inherently uncertain.

## **2.9 Other Disadvantages to CHL Equity Security Holders**

In our view the Offer presents some risks and a significant loss of shareholder rights for CHL Equity Security holders who accept the Offer to convert to CSGL Preference Shares.

These include:-

- Likely reduction in liquidity and limited ability to trade their securities.
- Loss of voting rights and minority protection currently afforded CHL voting security holders.
- Uncertain dividend yield.
- Change in corporate governance (Allan Hawkins as sole director of CSGL).
- Uncertain timing of any partial or full redemption of CSGL Preference Shares (if at all).
- CSGL obtains majority or full control of CHL.

The CSGL Preference Shares that will be issued under the Offer will be issued for an indefinite period (i.e. no fixed redemption date). Investors will not be able to plan their finances for when a return of their capital might occur. The CSGL Preference Shares will not be listed which will make it very difficult for holders to sell their shares. There is also unlikely to be any market transparency within which to set CSGL Preference Share prices.

The Offer indicates that CSGL Preference Share holders will receive up to 8% p.a. dividend yield. However, the payment of a dividend is uncertain and would be dependent on the dividends received by CSGL from its shareholding in CHL. We note that on 25 September 2009 CHL suspended its most recent previously announced interim dividend of \$0.005 (i.e. 0.5 cents)

per ordinary share and the directors of CHL have not yet indicated when or if dividend payments to ordinary shareholders will resume.

CHL Equity Security holders are being asked to swap their current CHL equity securities which are listed on the NZX for non-voting securities in a private company. There is no legal obligation on CSGL to pay a dividend and the payment of any dividend is at the sole discretion of CSGL subject to availability of funds from dividends received from CHL. There is also no legal obligation on CSGL to redeem or repurchase the CSGL Preference Shares (although this is the stated intention of the Offeror).

CHL is a public company listed on the NZSX. The Company's activities and director responsibilities are covered by a range of legislation including the Companies Act, Takeover Code, NZX Listing rules, etc. This legislative framework provides protection for minority shareholders and also places obligations on directors and company officers. In the event that the Offer is successful current CHL Equity Security holders who accept the offer will acquire an investment in CSGL a private company not governed by NZX Rules or the Takeovers Code.

CSGL may obtain acceptances for more than 50% but less than 90% of the shares on issue. This would position CSGL in control of the Company and its future direction but there would still be CHL Shares, CPS and Warrants held by parties other than CSGL. Depending on the number of ordinary shareholders remaining in the Company it may still need to comply with the Takeover Code (and if its equity securities remain listed, the NZX rules in respect of those equity securities).

#### **2.10 Implications of Non-Acceptance of the Offer**

If the Offer is not accepted by CHL Equity Security holders (i.e. acceptances do not reach a minimum of 50.1%) then the Offer will lapse.

The Directors Committee have indicated to Campbell MacPherson that the Company would continue to operate in its current form and the Board would continue to review the operations of the Company to maximise the return on assets employed.

We note that the strategy envisaged by the Offeror could be pursued by the Company regardless of the outcome of the Offer should the Board and shareholders of CHL wish to do this in the future.

#### **2.11 Acceptance or Rejection of the CSGL Offer**

The decision to accept or reject the CSGL Offer is a matter for each individual shareholder to decide based on their own unique set of circumstances. These unique circumstances include their own views as to value, risk profile, future share market conditions, finance sector prospects, desire for liquidity, tax considerations, etc.

Each CHL shareholder must fully consider their own specific situation, possible consequences, and consult their own professional advisor as appropriate.

#### **2.12 Conclusion**

The Company has found it difficult to raise external capital in recent years due to its status as a small listed entity with limited liquidity in its equity securities and negative investor perception around the financial sector in general. CHL has expanded its business portfolio to include a number of subsidiary companies and associates beyond its core financial services operations. A number of these new subsidiaries and associates have performed below expectations and some have required additional working capital from the parent company.

From a valuation perspective, given the recent share price, CHL Equity Securities holders may be attracted to the \$0.135 headline offer for CSGL Preference Shares. However, CSGL is essentially a shell company at present so in the event that the Offer is successful, the only assets underpinning the value of the CSGL Preference Shares will be the CHL securities held by CSGL in CHL. We note that there is no guarantee that CSGL Preference Share holders will eventually receive the full \$0.135 payment from CSGL, nor that the proposed dividend stream of up to 8.00% p.a. will be paid out by CSGL.

CSGL's only assets would be those that it acquires through owning shares in CHL. **Our valuation of CHL is in the range of \$0.073 to \$0.103 per ordinary share (assuming all CPS are converted) and we consider that the value of CHL and the value of the Offer consideration are not materially different.**

We note that CSGL Preference Share holders would have their returns capped at a maximum \$0.135 per CSGL Preference Share plus any dividends received. However, as this figure considerably exceeds our assessed value for CHL we consider that it is unlikely that the capped nature of the return would become a significant issue unless the fortunes of CHL improve considerably in the future.

Given our neutral view on valuation issues, we believe that other merits of the Offer should be of primary consideration to CHL Equity Security holders. In particular we consider that there may be **significant negative implications of acceptance of the Offer in terms of shareholder control, minority rights and disclosure.** If the Offer is successful then;

- CHL Equity Security holders who accept the offer will forego significant shareholder rights including rights to receive CHL operating and financial information, attendance and voting at CSGL annual general meetings, ability to appoint and dismiss directors, and other shareholder rights afforded to voting securities under New Zealand corporate law. We note that CSGL has stated that it will provide CSGL Preference Share holders with audited annual CSGL financial statements.
- In the event that the Offer results in CHL no longer having a sufficient number of shareholders to meet the requirements of a Code company under the Takeovers Code then CHL will no longer be subject to the provisions of the Code and the protections that this affords, including the ability to vote on major transactions and other matters pursuant to the Code.
- In the event that CHL equity securities are delisted as a result of the Offer then equity security holders in the Company will no longer be subject to the NZX Listing Rules including continuous disclosure requirements, appointment of directors and other protections that the listing rules currently afford holders of these securities.

In effect CHL ordinary shareholders (and other security holders who have the right to convert those securities to ordinary shares) are being asked to exchange their direct voting interest in CHL for an indirect non-voting interest in CHL via an issue of new securities in CSGL and to relinquish effective voting control of the Company to Mr Allan Hawkins.

**Weighing up all of the factors involved in the Offer we believe the potential negative features of the Offer outweigh the positive features and Campbell MacPherson can see no compelling merit in CHL shareholders accepting the Offer.**

### 3. OVERVIEW OF THE FINANCE SECTOR

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CHL's principal operations relate to its activities in the consumer/commercial finance sector through its subsidiaries including Cynotech Finance Group Ltd, Budget Loans Ltd and Evolution Finance Ltd.

This Section backgrounds the non-bank finance industry in New Zealand and summarises the issues and challenges that face industry participants such as CHL.

#### 3.1 Industry Structure/Background

KPMG<sup>1</sup> noted in their 2008 financial institutions survey that the non-bank finance sector had grown in total asset terms to NZ\$17.3 billion by 2006 funded largely by a strong retail investment appetite for high yielding debentures.

At the peak of the market finance companies were operating in the NZ domestic market place providing both general consumer finance and more significantly property investment and development loans at levels of risk the primary banking sector was not prepared to take.

The huge growth in property development activity in New Zealand in the period 2000 to 2008 can largely be attributed to the ready access to funds through the non-bank finance sector who in many cases were providing second mortgage and mezzanine funding subordinated to prime lenders thus negating the need for equity or risk capital.

As a result of the inevitable change in economic conditions coupled with high private sector debt levels, tighter monetary policy and poor investor sentiment/reinvestment rates, the market conditions for finance companies began to change dramatically in the latter part of 2006.

A market contagion effect began with National Finance and Provincial Finance in 2006 and since this time over 50 New Zealand finance companies have been liquidated, placed in receivership or are now subject to moratoria with the potential loss of an estimated \$6 billion of retail investor money.

The primary cause of this systemic collapse in the finance sector does to a certain extent relate to high risk lending but more particularly to a market mismatch of lending to deposits with many finance companies relying on short term deposits to fund much longer term speculative property developments. As market sentiment changed exacerbated by the global financial crisis in 2008, the vast majority of finance companies were left with little or no liquidity as they had limited debenture funds flowing in and were unable to liquidate their loans in order to repay investors. Strongly capitalised and well run finance companies have not been immune to market sentiment although those with limited exposure to property development and with less reliance on retail debentures from the public have fared better than others and in some cases remain in business today.

Of note those non-bank finance companies that are still operating successfully are typically those with secure wholesale funding coupled with exposure to short term consumer lending and first mortgage housing loans where each loan represents a very small percentage of the overall book and where the finance company is receiving regular principal and interest repayments.

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<sup>1</sup> KPMG FIP Survey 2008

### **3.2 Regulatory Environment**

In order to provide stability to the financial markets the Crown introduced a Deposit Guarantee Scheme (DGS) in October 2008. This DGS effectively provides a government guarantee for 2 years for all retail deposits of participating New Zealand –registered banks and retail deposits by New Zealand residents in Non-Bank Deposit Taking (NBDT) institutions. This guarantee has since been extended for a further 1 year but after October 2010 will only be available to NBDT institutions with a credit rating of BB or higher which will exclude many of those institutions currently within the DGS unless they can obtain a BB rating prior to October 2010.

To further strengthen the finance company sector and reduce likelihood of further finance company collapses a new prudential regime for NBDT's was introduced in November 2008 by virtue of the Reserve Bank of New Zealand Amendment Act 2008. This legislation brings NBDT within the jurisdiction of the Reserve Bank and defines criteria which Trustees must monitor.

The focus of this legislation was to strengthen governance and limit related party lending, tighten capital adequacy rules around the amount of Tier 1 capital that a finance company must hold, require NBDT institutions with liabilities greater than NZ\$20m to hold a credit rating and to impose tighter liquidity regulations. The requirements of these new rules are being progressively brought into effect by the Government and the Reserve Bank, which will increasingly impact on the future of many finance companies, and the structure of the industry itself going forward.

### **3.3 Industry Outlook**

Further principal and interest repayment defaults and the subsequent demise and/or restructuring of many finance companies is expected to continue in 2010 and 2011 as tight capital markets, limited funding availability and increased regulatory hurdles continue to impact on the viability of non-bank lenders. Considerable consolidation in the sector is likely to continue such as the recent acquisition by Allied Farmers Ltd of the loan book of Hanover Finance Ltd.

Those finance companies that cannot achieve a BB or better credit rating by the end of October 2010 will not be covered for a further year under the Crown guarantee scheme and will likely not survive if they are reliant on retail deposits This also applies to those finance companies that are unable to meet the new prudential regime.

Availability of bank and other wholesale debt funding sources for those companies who do not rely on the public markets will continue to be limited as banks look to reduce their exposure to the finance sector.

On balance it is likely that finance companies in the new post credit crunch world will be required to maintain far higher equity levels and liquidity than those seen historically.

### **3.4 Impact on CHL**

The performance of CHL in the non-bank finance sector has been somewhat counter-cyclical. CHL has been able to acquire a number of distressed loan books that it may not have otherwise been able to secure and realisation of these loan books has enabled the Company to generate significant growth in its asset base.

CHL has relied primarily on deposits and loan funds received directly from friends, family and associates of the Chairman & CEO Allan Hawkins, as well as bank mortgages in respect of certain property assets owned by the Company. The Company does not currently have a retail debenture issue in the market having made the decision to postpone such an issue due to the credit crisis. CHL's attempt to raise up to \$10 million through the issue of Capital

Securities in 2009 was unsuccessful and the Company currently has limited funds to lend to new customers.

CHL's future is dependent on the Company's ability to maintain lending levels, an appropriate interest rate margin, an acceptable level of bad debts and fundamentally maintain its equity and debt funding sources to fund a lending portfolio that is large enough to not only support the costs of the business infrastructure but provide a risk adjusted return on equity.

CHL's reliance on debt capital from friends, family and associates of Allan Hawkins has enabled the Company to survive the recent credit crisis which saw many other NBDT default on their retail debenture issues. However, these arrangements and relationships may present a risk to the business should the relationship between CHL and Allan Hawkins deteriorate for any reason.

Given the difficulties in obtaining further external capital, and the underperformance of certain subsidiaries and associates of CHL, the realisation of some assets deemed to be non-core to the CHL Group could potentially provide additional funds to re-invest in the Company's finance and lending operations. We note that the Company engaged Deloitte in late 2009 to advise on possible realisation of some of the company's investments and assets for this purpose.

## 4. PROFILE ON CYNOTECH HOLDINGS LTD

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### 4.1 Background

CHL was formerly known as ROCOM Wireless Limited (**RWL**) and was first established in 1989 focusing on providing advanced satellite telecommunications systems. This business evolved to focus on wireless applications and acquired ROCOM Ltd (the trading company) in 2001. RWL listed on the New Capital Market (**NCM**) operated by NZX Limited in August 2000, and moved to the NZAX in November 2003.

In June 2004 the CHL entered into an agreement whereby Mr Allan Hawkins was appointed Chairman and CEO and interests associated with him agreed to underwrite a rights issue as part of a restructuring and a new direction for the Company.

In October 2004 shareholders approved the underwriting arrangement at 5 cents per share and the issue of convertible notes to parties associated with Mr Hawkins. At this time the Company announced the establishment of a finance business and shortly thereafter changed its name to Cynotech Holdings Limited.

CHL acquired Merlin Foods Limited (now Snowdon Limited) through an arrangement approved by shareholders in April 2005 and acquired a finance receivables book from the Receivers of National Finance 2000 Ltd (in Receivership) (**NFL**) in December 2006.

CHL transferred from the NZAX Market to the NZSX Market on 14 December 2007.

In December 2007 CHL undertook an issue of 21,790,601 convertible preference shares (**CPS**) at \$0.20 per CPS raising gross proceeds of \$4,354,594. Following the CPS issue the Company also made a 1:10 bonus issue of ordinary shares and a 1:10 bonus issue of warrants to all ordinary and CPS shareholders.

During 2008 CHL acquired a further two loan receivables portfolios in separate transactions including part of the Western Bay Finance Limited loan book (**WBF**) and a bulk funding arrangement

### 4.2 Board of Directors

The current directors of CHL are:-

- Allan Hawkins (Chairman & CEO)
- Paul Hutchinson
- Kevin McDonald
- Brett Tawse (Managing Director)

We understand that Mr Hawkins has advised the Board of directors of CHL that he wishes to retire or significantly reduce his involvement in the operations of CHL in two years time.

The director's direct and indirect interests in CHL Equity Securities are shown below;

Cynotech Directors Interests in Cynotech Equity Securities							
Name	Notes	Ordinary Shares	%	CPS	%	Warrants	%
<b>Allan Hawkins Interests</b>							
Cynotech Securities Ltd	1	12,800,964	10.42%	0	0.00%	4,334,775	15.42%
Newmarket Securities Ltd	2	13,043,097	10.61%	0	0.00%	2,332,927	8.30%
<b>Total</b>		<b>25,844,061</b>	<b>21.03%</b>	<b>0</b>	<b>0.00%</b>	<b>6,667,702</b>	<b>23.72%</b>
<b>Paul Hutchinson Interests</b>							
Newmarket Securities Ltd	3	as above		as above		as above	
<b>Kevin McDonald Interests</b>							
Kevin McDonald		1,617,748	1.32%	0	0.00%	267,270	0.95%
<b>Brett Tawse Interests</b>							
Farquharson and Fraser		812,613	0.66%	0	0.00%	72,500	0.26%

Notes

- Allan Hawkins family interests hold 99.98% of Cynotech Securities Ltd
- Cynotech Securities Ltd and Allan Hawkins family interests hold 86.96% of Newmarket Securities Ltd
- Paul Hutchinson owns 13.04% of Newmarket Securities Ltd and therefore does not have control of this company, or its decision on whether or not to accept the Offer.

Source: CHL, Link Market Securities

Data as at 9 February 2010

Allan Hawkins interests collectively control 25,844,061 ordinary shares or approximately 21.03% of the issued ordinary shares in CHL. Allan Hawkins family interests hold 99.98% of CSL which in turns holds 10.42% of the ordinary issued securities of CHL. CSL and Allan Hawkins interests hold 86.96% of Newmarket Securities Ltd which in turns holds 13,043,097 ordinary shares in CHL. Paul Hutchinson owns the remaining 13.04% of NSL.

Kevin McDonald controls 1,617,748 Shares in CHL representing 1.32% of the ordinary shares on issue.

Brett Tawse controls, through Farquharson and Fraser (in conjunction with his wife) 812,613 Shares in CHL representing 0.66% of the ordinary shares on issue.

#### 4.3 Capital Structure

CHL currently has two classes of equity traded on the NZX and one class of debt security traded on the NZDX. In addition the Company has issued warrants which are listed.

These various securities are summarised in the table below.

Cynotech Holdings Ltd - Summary of Securities on Issue			
Security	Market	Number on Issue	%
Ordinary shares	NZSX	122,885,996	79.64%
Convertible preference shares	NZSX	3,303,224	2.14%
Warrants	NZSX	28,108,354	18.22%
<b>Fully diluted basis</b>		<b>154,297,574</b>	<b>100.00%</b>
Capital Securities	NZDX	1,804,658	

Source: Cynotech Holdings Ltd

Data as at 9 February 2009

### Ordinary Shares

There are currently 122,885,996 ordinary CHL Shares on issue to a total of 899 shareholders. The names, number of shares held and percentage holding of the top ten shareholders as at 9 February 2009 is set out below:-

CHL's Ten Largest Shareholders		
Shareholder	No. of Shares Held	%
Philip & Pamela Briggs	20,162,859	16.41%
Newmarket Securities Ltd	13,043,097	10.61%
Cynotech Securities Limited	12,800,964	10.42%
M.Daniel, N.Burton, M.Benjamin	12,013,372	9.78%
FNZ Custodians Ltd	3,271,385	2.66%
Guardian Trust Investment Nominees Ltd	3,125,000	2.54%
Brian Mackenzie & G.Newlove	2,233,772	1.82%
Allan & Lynne Nobilo	2,114,752	1.72%
Polar Blast Limited	1,624,287	1.32%
Private Nominees Ltd	1,618,462	1.32%
Subtotal	72,007,950	58.60%
Others (889)	49,735,317	40.47%
<b>Total</b>	<b>122,885,996</b>	<b>99.07%</b>

Source: CHL, Link Market Securities

Note: as at 9 February 2010

The largest shareholder is currently P & P Briggs who hold 20,162,859 shares representing 16.56% of the issued securities of CHL. Other major shareholders include NSL, CSL (both associated with Allan Hawkins) and interests associated with M. Daniel, N. Burton & M. Benjamin. The top ten shareholders in CHL collectively control 59.15% of the ordinary equity of the Company.

### Convertible Preference Shares

There are currently 209 holders of CHL CPS. The names, number of convertible preference shares held and percentage holding of the top ten CPS holders as at 9 February 2010 is set out below:-

CHL's Ten Largest Holders of Convertible Preference Shares		
Holder	No. of CPS Held	%
Alan Liddell	250,000	7.57%
Kenneth Bruce Trevella	150,000	4.54%
Keith Gosling	122,309	3.70%
Georgeson Publishing Pty Ltd	100,000	3.03%
SRT Trustees Ltd	100,000	3.03%
Paul Skolik	99,753	3.02%
Karo Trustee Ltd	91,610	2.77%
Keith Gosling (Trading A/C)	81,539	2.47%
Anthony Ernest Wright	76,737	2.32%
Peter Alfred Bradfield	72,295	2.19%
Subtotal	1,144,243	34.64%
Others (199)	2,158,981	65.36%
<b>Total</b>	<b>3,303,224</b>	<b>100.00%</b>

Source: CHL, Link Market Securities

Note: as at 9 February 2010

The current dividend payable on convertible preference shares is at the rate of 3.75% per annum. The dividend rate is reset quarterly at a rate equivalent to the Reserve Bank of New Zealand Official Cash Rate plus 50%. CPS' are convertible to ordinary shares on a one for one basis for nil consideration at any time by the holder having giving 30 days written notice to the Company. The final closing date for conversion is 31 December 2010.

### **Warrants**

There are currently 880 holders of Warrants in CHL collectively holding 28,108,354 Warrants. The names, number of Warrants held and percentage holding of the top ten Warrant holders as at 9 February 2010 is set out below:-

<b>CHL's Ten Largest Holders of Warrants</b>		
<b>Holders</b>	<b>No. of Warrants Held</b>	<b>%</b>
Cynotech Securities Limited	4,334,775	15.42%
Newmarket Securities Limited	2,332,927	8.30%
Andrew Ronald Bailey	2,250,000	8.00%
Philip Robert & Pamela Annette Briggs	2,018,538	7.18%
Heather Patricia O'Loughlin	1,547,719	5.51%
Oxbow Holdings Limited	1,018,015	3.62%
Ross W & Elizabeth A McMeeken	826,048	2.94%
Austen Herbert Stewart Kyle	758,044	2.70%
John Jeffers Harrison	625,000	2.22%
Norman Louis & Josephine Godden	609,377	2.17%
Subtotal	16,320,443	58.06%
Others (870)	11,787,911	41.94%
<b>Total</b>	<b>28,108,354</b>	<b>100.00%</b>

Source: CHL, Link Market Securities

Note: as at 9 February 2010

The terms of the Warrants give holders a right to subscribe for new ordinary shares in CHL at an exercise price of 30 cents per share on 27 June 2009, 27 June 2010 and 27 June 2011. A total of 32,135 Warrants were exercised on 27 June 2009.

### **Capital Securities**

CHL has a total 1,804,658 Capital Securities on issue. These securities are perpetual preference shares with a notional issue price of \$1 per share. The names, number of Capital Securities held and percentage holding of the top ten Capital Securities holders as at 9 February 2009 is set out on the following page.

The Capital Securities are perpetual unsecured debt securities and have no fixed term. Interest of 9.25% p.a. is payable quarterly in arrears. The Capital Securities rank behind all secured and unsecured creditors of the Company. Payment of the return on the Capital Securities ranks in priority to dividend payments or other distributions on ordinary shares and behind the dividend on the existing CPS. In a liquidation or winding up of CHL, claims by Capital Securities holders rank behind all secured and unsecured creditors and behind CPS holders (but ahead of ordinary shareholders).

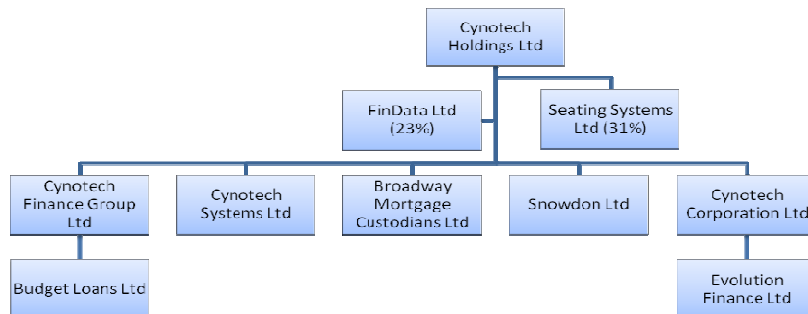
CHL's Ten Largest Holders of Capital Securities		
Holders	No. of Capital Securities Held	%
Philip & Pamela Briggs	285,611	15.83%
Newmarket Securities Ltd	185,929	10.30%
Cynotech Securities Limited	178,199	9.87%
M.Daniel, N.Burton, M.Benjamin	157,480	8.73%
FNZ Custodians Ltd	44,142	2.45%
Guardian Trust Investment Nominees Ltd	41,667	2.31%
Brian Mackenzie & G.Newlove	29,784	1.65%
Allan & Lynne Nobilo	28,197	1.56%
J McMillan, B.Lawler, L Lawler	24,627	1.36%
Polar Blast Limited	21,657	1.20%
Subtotal	997,293	55.26%
Others (876)	807,365	44.74%
<b>Total</b>	<b>1,804,658</b>	<b>100.00%</b>

Source: CHL, Link Market Securities

Note: as at 9 February 2010

#### 4.4 Operations

CHL's corporate and ownership structure is outlined below.



CHL business operations are focused on its core finance business the majority of which relates to the recovery of distressed loans and receivables purchased off third parties. CHL's key business units can be summarised as follows;

Entity	Abbreviation in this Report	Ownership	Principal Activities
Cynotech Holdings Ltd	CHL, Parent	Listed Entity	Parent company for the Group
Cynotech Finance Group Ltd	CFGL	100% CHL	Holding company for the finance group.
Budget Loans Ltd	BLL	100% CFGL	Finance company providing consumer and commercial lending.
Cynotech Systems Ltd	Cynotech Systems	100% CHL	Sale and rental of satellite phones
Snowdon Ltd	Snowdon	100% CHL	Manufacturer and distributor of ice cream cones and confectionery
Cynotech Corporation Ltd	CCL	100% CHL	Holds property assets for resale.
Evolution Finance Ltd	EFL	100% CCL	Finance company providing consumer and commercial lending.
Broadway Mortgage Custodians Ltd	BMCL	100% CHL	Not trading
Seating Systems Ltd	SSL	31% CHL	Temporary event seating
FinData Ltd	FinData	23.7% CHL	Web-based financial data

### ***Cynotech Finance Group***

CHL consolidates the financial information from CFGL, BLL, CCL and EFL as these form the collective finance operations of the Group, these finance operations are referred to as the **Cynotech Finance Group** and are consolidated into CFGL for internal reporting purposes. Cynotech Finance Group provides lending to consumers and businesses for motor vehicle, property finance and mortgages.

CFGL's total book value on loan receivables as at 30 November 2009 was \$19.5 million. The Company divides these loans into two categories;

- Receivables (net of provisions) that essentially comprise loans that are now current and new loans made by CHL. Receivables as at 30 November 2009 were \$7.658 million less impairment of \$2.331 million to give a net book value of \$5.327 million.
- The range of terms to final maturity date of finance receivables are from 1 month to 48 months. The range of standard interest rates of finance receivables are from 16.5% pa to 29.5% p.a. The large majority of these are consumer and retail loans.
- Fair Value Receivables relating to distressed loans purchased by the Company and assessed using a discounted cashflow model based on likelihood of repayment. As at 30 November 2009 Fair Value Receivables had a face value of \$36.653 million and an attributed value of \$14.205 million.

<b>CFGF Summary Receivables as at 30 November 2009</b>		
<b>\$000's</b>	<b>Number of</b>	
	<b>Loans</b>	<b>Total</b>
Current	880	4,732
Salvage	106	594
	<b>986</b>	<b>5,327</b>
<b>Fair Value Receivables</b>		
Fair Value	4,174	14,205
<b>Total Receivables</b>	<b>5,160</b>	<b>19,532</b>

The Cynotech Finance Group has performed well in recent years delivering a net profit of \$3.616 million for the year ended 31 December 2008 and a net profit of \$2.533 million for the six months ended 30 June 2009.

#### ***Snowdon Limited (Snowdon)***

Snowdon is a wholly owned subsidiary of CHL and manufactures ice cream cones and sells associated products throughout New Zealand.

Snowdon was first established in 1987 and traded as Betta Food (NZ) Ltd. When Betta's Australian parent was forced into statutory management in 2005 the New Zealand operations were sold to Merlin Foods Ltd.

The Company employs approximately 30 people at its Hamilton manufacturing base. Snowdon estimates its NZ market share is in excess of 70%. Key customers include major NZ supermarket chains.

CHL reported that Snowdon made a net loss of \$0.455 million for the year ended 31 December 2008 and a net loss of \$78,000 for the six months to 30 June 2009.

#### ***Cynotech Systems Ltd (CSL)***

CSL is a wholly owned subsidiary and trades as Cynotech Satellite. Cynotech Satellite sells satellite telecommunications equipment and manages the connections and ongoing subscriptions for associated satellite airtime. CSL is recognised as one of the leading players in the New Zealand satellite telecommunications market with estimated market share of circa 40%. The satellite services sector includes mobile services, fixed services and broadcasting services.

CSL was established in 2001 as ROCOM Satellite and was renamed in 2004. The business is global in that CSL's customers can roam any where with their satellite telephones. CSL sells a range of brand of mobile earth stations that are able to connect to the Inmarsat and Iridium satellites.

CHL reported that CSL made a net profit of approximately \$75,000 for the year ended 31 December 2008 and a net profit of \$85,000 for the six months to 30 June 2009.

### ***Findata Limited (23.7%)***

Findata is a 23.72% owned associate company. In its 2007 Annual Report CHL announced that it was to promote the float of FinData Ltd on the NZAX and when listed CHL would continue to hold a 20% shareholding.

On 26 February 2008 Findata Ltd, a wholly owned subsidiary of the Company settled the purchase of the Findata share market information website business from Broker Technology Trustee Ltd. The purchase price was \$2,612,500 and was satisfied by the issue by Findata of 4,825,000 shares at 50 cents plus a cash payment of \$200,000. In addition CHL subscribed for 1,500,000 shares for a total consideration of \$750,000.

CHL has reported that while Findata has met its milestones in terms of roll out of its technical development (albeit delayed) its revenue had not matched expectations. A key focus has been the launch of a US website expected to deliver the bulk of the revenue.

The Directors Committee advise that they are of the opinion that the trading circumstances of Findata will have minimal financial impact on the profitability of the CHL Group this year.

### ***Property Portfolio***

In 2006 a wholly owned subsidiary Cynotech Corporation Ltd (**CCL**) acquired three residential apartments in Mount Maunganui for \$1,617,692. These rental properties are held for resale. As at 31 December 2008 the carrying value of the properties was \$1,458,540. CHL has received a recent independent valuation on one of these properties and we are advised that the directors intend to write-down the value of its portfolio by \$327,000 to \$1,131,540.

There are mortgages over these apartments to the National Bank with a current balance of \$1,089,180 as at 30 November 2009.

### ***Seating Systems Ltd (SSL)***

SSL is an associate company 31% owned by CHL. The remaining 69% is owned by a related party, Allan Hawkins through Cynotech Securities Limited.

On 19 November 2008 CHL acquired its 31% equity interest for \$31. SSL had previously acquired the temporary event seating assets from Eventscape Ltd as well as a six year contract to provide temporary seating and grandstands for the Hamilton 400 V8 supercar race. The Directors Committee advises that this investment has been challenging but SSL's pipeline of future work is now increasing and the prospects are improving for this company.

The Directors Committee advise that they are of the opinion the current improved trading of SSL will continue, and that the financial performance of this company in which CHL holds a minority shareholding will have minimal beneficial flow through to impact on the profitability of the CHL Group this year.

## 4.5 Consolidated Financial Results

A summary of CHL's recent consolidated audited financial results are set out below.

Summary of CHL Financial Performance					
NZ\$ 000's		Year Ended 31-Dec-06	Year Ended 31-Dec-07	Year Ended 31-Dec-08	11 Months Ended 30-Nov-09
	Notes	(Audited)	(Audited)	(Audited)	(Unaudited)
<b>Revenue</b>		<b>8,847</b>	<b>11,822</b>	<b>17,050</b>	<b>13,154</b>
Interest income	1	1,021	2,546	3,003	2,228
Gain on loan and loan receivables	2	1,605	2,135	7,478	5,385
Sales of goods and services		5,239	6,139	5,710	5,014
Other income	3	982	1,002	858	527
<b>Operating expenses</b>		<b>7,776</b>	<b>10,263</b>	<b>13,777</b>	<b>10,929</b>
Audit fees		69	97	131	198
Depreciation		201	244	207	177
Directors fees		13	26	34	42
Distribution costs		775	758	822	608
Employee remuneration		2,047	1,900	2,068	1,995
Interest expense		561	1,482	1,588	1,535
Manufacturing costs		245	97	53	89
Office and administration		655	626	1,555	1,823
Other expenses		177	205	488	223
Receivables impairment loss		189	545	2,308	348
Other impairment loss	4	142	131	393	-
Raw materials and consumables used		2,321	3,812	3,607	3,039
Rental and operating lease costs		382	340	365	414
Share of losses of associates		-	-	159	438
<b>Profit before taxation</b>		<b>1,071</b>	<b>1,559</b>	<b>3,272</b>	<b>2,225</b>
Income tax (expense) / credit		-	(416)	(992)	(799)
<b>Net Profit After tax</b>		<b><u>1,071</u></b>	<b><u>1,143</u></b>	<b><u>2,280</u></b>	<b><u>1,426</u></b>
<i>Growth</i>			7%	99%	-37%

### Notes

- 1 Includes interest income from financial receivables, convertible preference share interest and bank interest. Interest income from financial receivables were NZ\$ 2.5m and NZ\$ 2.9m in 2007 and 2008, respectively.
- 2 Includes gain on loan receivables of NZ\$ 2.1m and NZ\$ 6.7m in 2007 and 2008, respectively. Included in the loan receivables - designated at fair value are the loan books of National Finance and Western Bay Finance. Loan receivables - designated at fair value increased significantly to \$9,851,000 in 2008 from \$2,917,000 in 2007 reflecting the results of CHL's credit and collections work on the distressed loan books and the purchase of the Western Bay loan receivables.
- 3 Other income includes fees received, management fee and group levy and rental income.
- 4 Other impairment loss includes plant & equipment impairment loss and property held for resale impairment loss.

Source: CHL Annual Reports and Management Accounts

Overall unaudited earnings after tax for the 11 months to 30 November 2009 are approximately \$1.43 million, compared with \$2.28 million for the previous 12 month period.

The performance of CHL has been positively impacted by the Company's ability to increase collections on its distressed loan books. CHL recorded a gain on loans and loan receivables of almost \$7.5 million in 2008 and the Company is on-track to record a further substantial gain in the current financial year (we note that CHL has recently announced that it is moving its annual balance date to 31 March).

<b>CHL Summary Consolidated Balance Sheet</b>					
NZ\$ 000's		As at	As at	As at	As at
	Notes	31-Dec-06 (Audited)	31-Dec-07 (Audited)	31-Dec-08 (Audited)	30-Nov-09 (Unaudited)
<b>ASSETS</b>					
Cash and cash equivalents		1,402	4,336	716	362
Trade and other receivables	1	847	1,172	2,647	911
Finance receivables	2	10,113	10,708	10,809	5,327
Loan receivables - at fair value	3	1,282	2,917	9,851	14,205
Inventories		410	370	540	582
Property held for resale		-	1,621	2,059	1,459
Property, plant and equipment		1,618	2,411	1,638	2,334
Investment in associates		2,497	-	591	1,279
Intercompany Loans		-	-	-	2,164
Deferred taxation		-	287	658	658
Goodwill		1,532	1,532	1,532	1,532
Other					3
<b>Total assets</b>		<b>19,701</b>	<b>25,354</b>	<b>31,039</b>	<b>30,816</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Bank Overdraft		-	-	249	-
Deposits + Interest bearing loans & borrowings		11,332	11,393	13,989	13,552
Trade and other payables		1,564	1,620	2,945	1,037
Provision - tax		-	46	-	1,935
CPS Interest Component		-	1,407	798	5
<b>Total liabilities</b>		<b>12,896</b>	<b>14,465</b>	<b>17,982</b>	<b>16,529</b>
<b>Equity</b>					
Issued capital (net of costs)		12,964	13,369	14,540	14,478
CPS		-	2,948	2,964	3,757
Convertible notes		250	250	-	-
Capital Securities	4	-	-	-	1,805
Retained earnings/loss net of div paid		(6,409)	(5,678)	(4,447)	(5,753)
<b>Total equity</b>		<b>6,805</b>	<b>10,889</b>	<b>13,057</b>	<b>14,287</b>
<b>Total liabilities and equity</b>		<b>19,701</b>	<b>25,354</b>	<b>31,039</b>	<b>30,816</b>

#### Notes

- 1 Includes advance to associate of NZ\$ 1.5m in 2008.
- 2 The range of terms to final maturity date of finance receivables are from 1 month to 60 months. The range of standard interest rates of finance receivables are from 16.5% pa to 29.5% pa. There were NZ\$ 6.1m and NZ\$ 6.9m in financial receivables with repayment term less than 12 months in 2007 and 2008 respectively.
- 3 Loan receivables - designated at fair value through the income statement, represents the value attributed to the loan receivables acquired. The carrying value of fair value loans is calculated using a discounted cash flow model.
- 4 Net of NZ\$ 0.14m capital raising cost.

Source: CHL Annual Reports and Management Accounts

Total assets of CHL have grown rapidly over the three year period to 31 December 2008, largely reflecting the increase in loan receivables. Unaudited management accounts to 30 November 2009 indicate the total assets are currently approximately \$30.8 million (slightly lower than 31 December 2008). Key assets comprise various loan books and receivables totalling approximately \$19.5 million. The increase in "loan receivables at fair value" in the current year to date has been substantially due to the addition of the WBF loan book together with ongoing gains from the old NFL book. Finance Receivables have reduced substantially since 31 December 2008 as the Equality bulk finance recourse loan has been recovered and other bulk facilities to Equality Finance have been wound-down.

Debt funding of CHL's loan book acquisitions and other activities has been derived from a mix of secured and unsecured deposits together with other secured loan facilities. Balances of these deposit and loan facilities are summarised below.

<b>CHL Summary Deposits and Loans</b>			
NZ\$ 000's		As at	As at
	Notes	31-Dec-08 (Audited)	30-Nov-09 (Unaudited)
Deposits (secured)		494	200
Deposits (unsecured)		3,565	4,087
Secured Loan - Wairahi Trust	1	6,000	6,000
Secured Loans - Goodman Fielder	2	69	56
Secured Loans - National Bank	3	971	619
Secured Loans - National Bank	4	1,390	1,089
Secured Loans - Cynotech Securities Ltd	5	1,500	1,500
<b>Total deposits and loans</b>		<b>13,989</b>	<b>13,552</b>

**Notes**

- 1 GSA over NFL loan book.
- 2 PPSR security over Snowdon plant and equipment.
- 3 GSA over Snowdon.
- 4 Mortgage security over property held for resale.
- 5 GSA over Evolution Finance Limited.

The majority of deposits are unsecured and due within 12 months. CHL has reported that related party deposits include an outstanding balance of \$589,000 to CSL as at 30 June 2009.

The largest lenders to the Company and its subsidiaries include the Wairahi Trust which has a loan of \$6 million and the National Bank of New Zealand which has various loan facilities across the Group totalling approximately \$1.71 million as at 30 November 2009. We note that the Wairahi loan moved to "current liabilities" in the accounts to 31 December 2008, i.e. was due for renewal/repayment during 2009.

Summary consolidated Cash Flows for CHL are shown on the following page (note most recent data is that reported for the half year to 30 June 2009).

Net operating cashflows for the six months to 30 June 2009 were approximately \$1.38 million. Operating cashflows have been positively impacted from the net movement in finance receivables collected during the six months to 30 June 2009. However, the Company has advanced \$2.89 million in cash to SSL between 31 December 2007 and 30 June 2009 for working capital and new plant.

Cash provided from financing activities has been limited over the six months to 30 June 2009 due to the failure of the Capital Securities issue in attracting any significant new cash from investors.

<b>CHL Summary Consolidated Cash Flow Statements</b>			
<b>NZ\$ 000's</b>	<b>Year Ended</b>	<b>Year Ended</b>	<b>6 Months Ended</b>
	<b>31-Dec-07</b>	<b>31-Dec-08</b>	<b>30-Jun-09</b>
<b>Notes</b>	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>
<b>Cashflow from operating activities</b>			
Cash was provided from:			
Receipts from sale of goods and services	4,971	5,826	3,004
Fees received	971	809	306
Interest income received	2,818	2,880	1,433
Increase in loan advance to customers	514	-	-
Net movement in finance receivables	-	-	3,280
Cash was applied to:			
Payments to suppliers	(8,966)	(9,076)	(4,056)
Advance to associate	-	(1,542)	(1,347)
Net movement in finance receivables	-	(2,104)	-
Provisional tax paid	-	(300)	(385)
Interest expense paid	(1,482)	(1,588)	(857)
<b>Net cash flows used in operating activities</b>	<b><u>(1,175)</u></b>	<b><u>(5,093)</u></b>	<b><u>1,378</u></b>
<b>Cash flows from/(used in) investing activities</b>			
Cash was provided from:			
Sale of property, plant and equipment	-	-	-
Repayment of subsidiary capital increase	-	-	-
Cash was applied to:			
Investment in associates	-	(750)	-
Purchase of property, plant and equipment	(299)	(57)	(155)
<b>Net cash (outflow) from investing activities</b>	<b><u>(299)</u></b>	<b><u>(807)</u></b>	<b><u>(155)</u></b>
<b>Cash flows from/(used in) financing activities</b>			
Cash was provided from:			
Proceeds from deposits	884	1,260	238
Proceeds from issue of ordinary shares	455	939	9
Proceeds from issue of CPS	4,355	16	-
Increase in interest bearing loans	-	1,373	-
Cash was applied to:			
Repayment of interest bearing loans	(817)	-	(268)
CPS dividend	-	(492)	(117)
Capital Securities return paid	-	-	(7)
Equity raising costs	(50)	(18)	(62)
Dividends paid	(420)	(1,049)	(874)
<b>Net cash (outflow) from investing activities</b>	<b><u>4,408</u></b>	<b><u>2,030</u></b>	<b><u>(1,081)</u></b>
<b>Net increase in cash</b>	<b>2,934</b>	<b>(3,870)</b>	<b>142</b>
Cash balances at beginning of period	1,402	4,336	466
<b>Cash and cash equivalents at end of period</b>	<b><u>4,336</u></b>	<b><u>466</u></b>	<b><u>608</u></b>

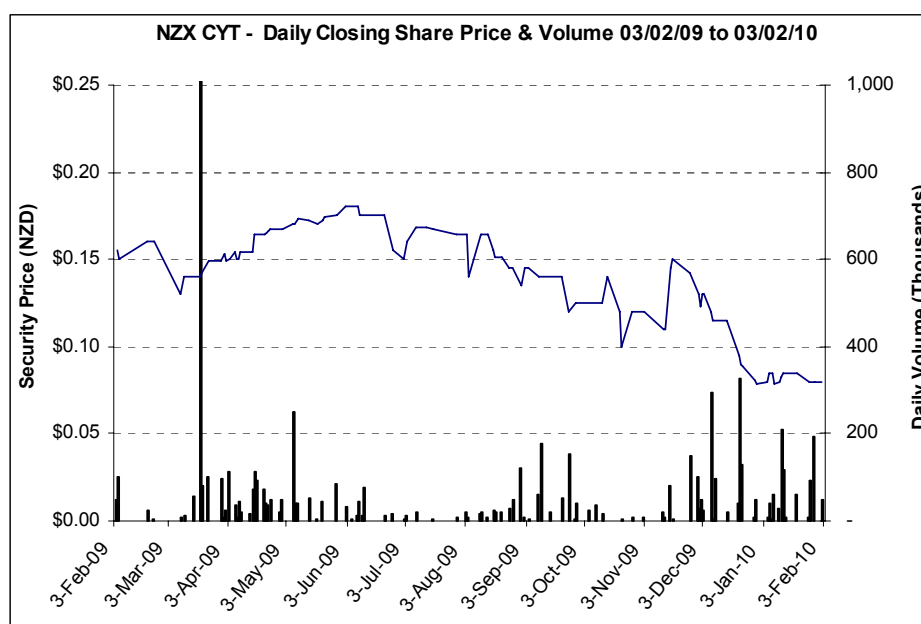
Source: CHL Annual Reports and Interim Report to 30 June 2009

## 4.6 Equity Security Price History

### *Ordinary Shares*

CHL ordinary shares are currently trading at \$0.08 per share as at 3 February 2010.

A share price graph to 3 February 2010 is shown below including key dates in relation to the Offer.



The share price of CHL has traded between \$0.079 and \$0.18 over the last 12 months and there has been a general downward trend in the price since June 2009. The price did recover briefly to \$0.15 immediately following the initial announcement of CSGl's intent to make an offer. However, the price has subsequently fallen again to its current level of \$0.08 per share.

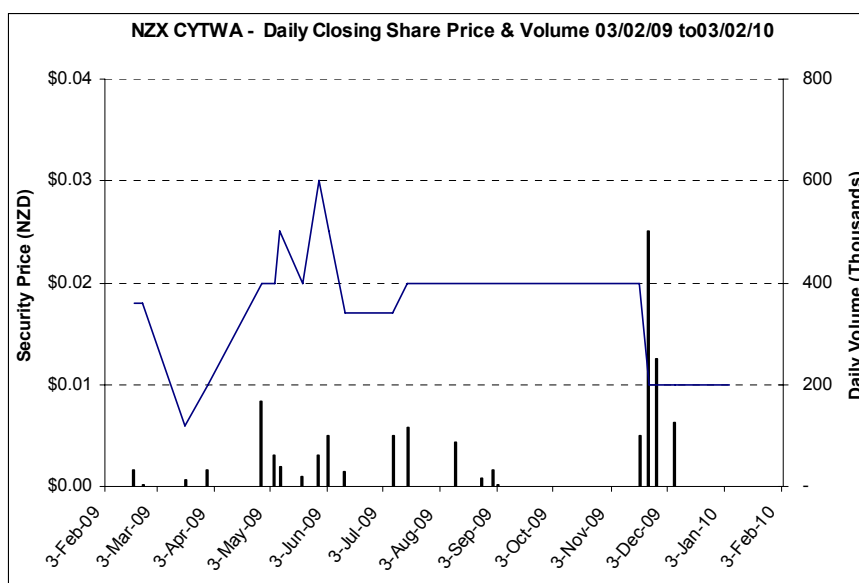
Only 7.0% of the current total shares on issue have been traded on market over the last 12 months indicating that there is limited liquidity in the stock.

### *Convertible Preference Shares*

The CPS are essentially illiquid. There have been two trading days in the past 12 months for a total volume of 26,165 shares traded. The most recent closing price (recorded on 5 January 2010) was \$0.08 per CPS.

### *Warrants*

The Warrants of CHL have poor liquidity and have traded infrequently over the past 12 months within a range of \$0.006 to \$0.03 per Warrant. The current price is \$0.01 per Warrant as at 3 February 2010. A Warrant price graph for the last 12 months is shown below.



#### 4.7 Pending Proceedings

As previously disclosed to the market, CHL subsidiary BLL is the subject of an ongoing enquiry into finance sector practices by the Commerce Commission (the **Commission**). On the 11 February 2010 CHL advised that it had received notice that the Commerce Commission intends to proceed with an action against BLL for alleged breaches against the Fair Trading Act in relation to non-disclosure of letter (administration) fees, charging interest after repossession of goods and applying goods to contracts as security after repossession.

The matters raised affect 61 loans out of CHL Group's total portfolio in excess of 5,000 loans. The directors of CHL intend to review the matters brought forward by the Commerce Commission with their legal advisors.

The Directors Committee have also advised that there is a counterclaim amount for an alleged breach of intellectual property rights for an unspecified sum against a CHL subsidiary, Evolution Finance Ltd which is one of three defendants.

## 5. VALUATION OF CYNOTECH HOLDINGS LTD

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### 5.1 Introduction

CSGL has launched an Offer to acquire up to 100% (but not less than 50.01%) of CHL Equity Securities. The consideration for the Offer will comprise one Preference Share in CSGL for each CHL Share on issue, one Preference Share in CSGL for each CHL CPS on issue and one Preference Share in CSGL for every 33.75 CHL Warrant.

Under the offer CHL will become a subsidiary of CSGL and current holders of CHL Equity Securities would become Preference Shareholders in CSGL. CSGL's sole material asset would be its ownership of CHL.

If the Offer is successful then CSGL will have two classes of shares. Ordinary shares with full voting rights held 100% by CSL, and non-voting CSGL Preference Shares held by former CHL Equity Securities holders. Full control of CHL will therefore transfer to CSL and its owner (interests associated with Allan Hawkins).

Under this scenario we consider that the appropriate valuation approach is to assess the full underlying value of CHL on a stand-alone basis, allocated across the various CHL Equity Securities.

### 5.2 Valuation Basis and Methodology

We have assessed the fair market value of 100% of the CHL Equity Securities. Fair market value is defined as;

“The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, both acting at arms length.”

Where a company is publicly listed, the value of minority parcels of shares can be assessed with reference to the recent price at which the company's equity securities have traded i.e. the market capitalisation. However, care must be taken to ensure that there is sufficient liquidity and trading in the company's securities.

In addition to the market capitalisation A range of valuation methods can be applied to determine fair market value, including:

- Discounted cash flow.
- Capitalisation of earnings / dividends.
- Net asset value / liquidation value.
- Industry-specific techniques.

Where a company is valued based on its operating performance as a going concern, the resulting value may require adjustment for the market value of other non-operating or surplus assets held by the company, such as land or other investments.

#### ***Recent Market Capitalisation***

This methodology is generally applicable to public listed companies. Subject to sufficient levels of liquidity and depth of trading, we consider that recent market prices of public-listed companies are the best indicator of the value of minority share parcels. Such prices represent buyers and sellers views of the fair market value of minority parcels of shares at a given point in time and are generally determined with reference to the current share price and/or the recent volume weighted average price (**VWAP**) over the relevant period.

### ***Discounted Cash Flow***

In the Discounted Cash Flow (**DCF**) method, forecast cash flows are discounted back to the present at a rate that reflects the company's weighted average cost of capital (**WACC**). The resulting net present value (**NPV**), adjusted for any surplus assets, represents the value of the company to both debt and equity holders, also known as the enterprise value (**EV**). The value of equity can then be obtained from deducting long-term debt from EV.

The DCF method is usually calculated in a two-stage process combining the NPV of expected future cash flows over an explicit forecast period plus a terminal value representing the NPV of cash flows beyond that period.

The DCF method requires management to prepare detailed long-range cash flow projections for the business, together with an assessment of the appropriate cost of capital or "discount rate" that should be applied to determine the present value of those cash flows.

### ***Capitalisation of Earnings / Dividends Method***

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the future maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure. This method is based on the principal that comparable companies engaged in similar business activities will have similar operating and financial risks and returns and can therefore be valued using a similar multiple of earnings.

A multiple is often applied to earnings before interest, tax, depreciation and amortisation (**EBITDA**) or earnings before interest and tax (**EBIT**) in order to determine the enterprise value (**EV**) of the business.

The EV represents the value of the business as a whole and a deduction is then made for net debt to determine the equity value of the business and the implied value per share. In the case of finance companies, debt effectively reflects the "cost of goods sold" since finance companies raise debt and equity funds to lend to customers. In the case of finance companies comparative assessments are generally made on a multiple of net profit after tax basis i.e. a price/earnings (**P/E**) ratio or by comparison of the net book value of equity against the market value of equity, i.e. price/book (**P/B**) ratio.

Comparable multiples are generally derived using two key sources of information;

- recent historical (and/or forecast) earnings of comparable companies
- Implied multiples based on recent sale price of comparable companies.

Comparable transaction data is often the most applicable guide to determining the fair market value of a Company. However, this data is often confidential and is therefore difficult to obtain due to its commercial sensitivity.

The capitalisation of dividends method is similar to a capitalisation of earnings approach and is generally used to value minority equity shareholdings. This method involves a direct determination of the equity value of a company using an assessment of the future maintainable dividends. The future maintaining dividends are capitalised using an appropriate dividend yield to determine the value of equity and value per share.

Capitalisation of earnings methodologies are generally most appropriate for established companies with stable earnings. The advantage of an earnings-based method over the DCF method is that earnings multiples can often be directly observed in the market.

### ***Asset-based Methods***

An asset based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them.

A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and/or there is some indication that an orderly realisation is contemplated. This approach may also be used to test a preferred valuation approach by providing an estimate of a minimum value for the company.

### ***Industry-Specific Techniques***

Different industries may develop their own general approaches or "rule of thumb" valuation methods that can be applied to companies in their industry.

## **5.3 Valuation Approach**

The diverse nature and performance of the operating and finance assets held by CHL makes valuation of the Company complex. Campbell MacPherson has assessed the fair market value of 100% of the CHL Equity Securities using a range of methodologies that we consider appropriate to CHL and/or its subsidiary entities, having given due regard to the financial and operating information available on these entities.

These methods comprise;

- Valuation based on Market Capitalisation (adjusted for a premium for control as required).
- A sum-of-the parts valuation based on a divisional analysis using P/E and P/B multiples, earnings multiples and/or net asset value assessments for the various subsidiaries and minority interests of CHL.

## **5.4 Value of CHL Based on Market Capitalisation**

Campbell MacPherson has assessed the value of CHL with reference to the recent price of its traded equity securities. We have reviewed the price of its CHL Equity Securities based on the current prices and VWAP's for several key trading periods;

- The period since the first Takeover Offer was received on 18 December 2009 through to 3 February 2010.
- The period 16 November 2009 to 12 December 2009 (i.e. the period between the announcement of receipt of the letter of intent to make an offer and the issuance of the first Takeover Notice).
- The 1 month, 3 month and 6 month VWAP prior to the announcement of the letter of intent on 16 November 2009.

CHL Equity Securities - Current Price and VWAP				
NZ\$	Notes	Shares	CPS	Warrants
Price as at 3 Feb 2010		0.080	0.080	0.010
<b>VWAP</b>				
19 Dec 2009 to 3 Feb 2010	1	0.084	0.080	n/a
16 Nov 2009 to 18 Dec 2010	2	0.128	n/a	0.011
1 month prior to 16 Nov 2009	3	0.114	n/a	n/a
3 months prior to 16 Nov 2009	3	0.136	0.100	0.016
6 months prior to 16 Nov 2009	3	0.148	0.100	0.021

**Notes**

- 1 Period since the earlier Takeover Notice was issued.
  - 2 Period between the announcement of initial intent to offer and the receipt of the earlier Takeover Notice.
  - 3 Period up until the initial announcement of an intent to offer.
- n/a = no trading during the period

As previously noted there has been a general downward trend in the share price of CHL and this is reflected in the VWAP figures above. The exception to this was the period following the initial announcement of CSG's intent to make an Offer. However, in the period following receipt of the Takeover Notice including the proposed terms of the first Offer (which was not materially different from the final Offer) the VWAP has been noticeably lower at \$0.084 per share. This reaction is somewhat contrary to normal trends where a takeover offer results in an increase in the share price as investors react to the terms of the Offer which often includes a "premium for control".

Although we are mindful of the limited liquidity of CHL shares we have applied the VWAP data above to determine a **fair market valuation of CHL Shares in the range of \$0.084 to \$0.114 per share** using this valuation methodology. This broad range reflects the recent volatility of the stock.

Liquidity in other CHL Equity Securities has been very low and we have not used VWAP data as a valuation method for these securities.

## 5.5 Sum of the Parts Valuation

CHL is the holding company for a diverse range of businesses including the primary consumer and commercial finance operations and other businesses such as Snowdon, Cynotech Satellite, property interests and minority interests in Findata and SSL.

We have valued these business units separately using methodologies we consider appropriate to each unit on the basis of a separate sale of 100% of CHL's interests in each unit at fair market value.

### ***Cynotech Finance Group Limited***

CFGL is the key business unit of CHL and incorporates the finance operations of the business including BLL, the NFL loan book, EFL (the WBF loan book) and the bulk loan facilities to Equality.

We note that for financial reporting purposes EFL (which owns the WBF loan book) is consolidated into CFGL accounts (although it is technically a wholly-owned subsidiary of CCL) and therefore all of the finance operations of CHL are consolidated into CFGL's accounts.

We have reviewed the financial information available on CFGL. Management of CHL have not prepared detailed cash flow forecasts for CFGL and therefore we do not consider that a DCF valuation of CFGL as whole is realistic.

### Price/Book Multiples

CFGL has positive earnings and its value can therefore, in principle, be assessed on a comparative basis against P/E ratios of other New Zealand finance companies. However, the financial problems of CFGL peers are well documented and the paucity and quality of comparative earnings information does not give us confidence in utilising this data. P/B ratios are another ratio commonly used to compare relative values in the finance sector. Selected P/B ratios (and P/E ratios) for selected finance companies are shown in the table below.

<b>Trading Multiples for Selected Finance Companies</b>				
<b>Company</b>	<b>Notes</b>	<b>Market cap \$m</b>	<b>P/B</b>	<b>P/E</b>
<b>Market Cap &lt;\$50m</b>				
Allied Farmers (pre-Hanover)	1	10	1.02	na
Canterbury Building Society		37	0.72	na
NZF Group		15	0.74	7.54
<b>average</b>		<b>21</b>	<b>0.83</b>	<b>7.54</b>
<b>Market Cap &gt;\$50m</b>				
Pyne Gould Corp Ltd		364	1.97	na
PGG Wrightson Finance		470	1.20	118.90
<b>average</b>		<b>417</b>	<b>1.59</b>	<b>118.90</b>

#### **Notes**

1. Prior to acquisition of Hanover debenture securities.

na = not applicable

Comparative data for our selected small cap finance companies (<\$50 million market cap.) although limited, indicates average price/book ratio's are approximately 0.8x. As noted previously share price data (subject to sufficient liquidity) reflects the value of minority share parcels without any premium for control.

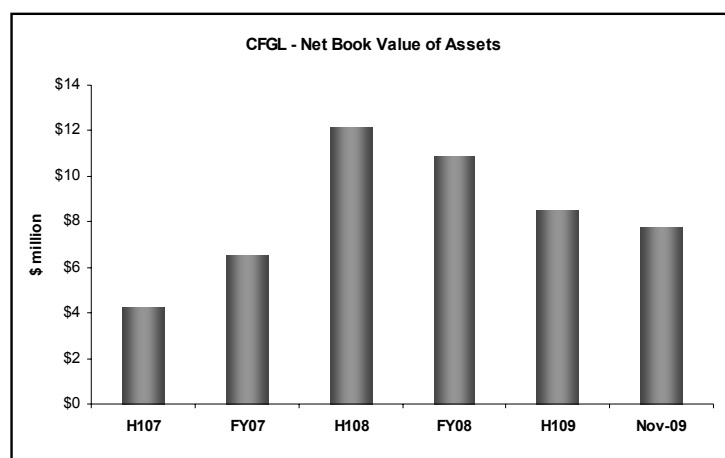
Comparative multiples for other comparable takeover or acquisition transactions will include a premium for control (if any). However, information available on comparable small cap finance company takeover metrics is limited. The acquisition of Loan & Building Society by CBS Canterbury in February 2008 was completed on an implied P/B of 2.02x and the acquisition of the finance division of Speirs Group by Allied Farmers in July 2008 was completed on an implied P/B of 1.22x as shown below.

<b>Transaction Multiples for Selected Finance Companies</b>				
<b>Target</b>	<b>Acquirer</b>	<b>Date</b>	<b>Consideration Paid (\$m)</b>	<b>Implied P/B</b>
Loan & Building Society	CBS Canterbury	Feb-08	24.6	2.02
Speirs Group Finance Division	Allied Farmers	Jul-08	5.2	1.22
<b>average</b>			<b>15</b>	<b>1.62</b>

In assessing an appropriate P/B multiple to apply to CFGL we are cognisant that, from a valuation perspective higher P/B ratios can be fundamentally due to higher spread between the return on equity and the cost of equity, and due to higher expected long-term growth rates.

We note that CFGL's future cashflows are primarily expected to be driven by collections on the distressed loan books that it controls and several of these loan books are either largely collected (in the case of the Equality bulk finance facilities) or have already peaked in terms of the ability to convert non-performing loans into cash (in the case of NFL). Key growth in cashflows is likely to come from the WBF loan book where collections are continuing to increase.

As discussed in Section 4, CHL is required to assess the fair value of its loan portfolio and uses a detailed discounted cashflow model to track to expected cash receipts from its distressed loan books. Changes in the net book value (**NBV**) of CFGL therefore provide a guide to the capitalised value of future cashflows. As shown below, the trend over the last 3 years indicates a peak in NBV of \$12.1 million as at 30 June 2008 and a subsequent downward trend to the current (unaudited) NBV of \$7.8 million as at 30 November 2009.



In our view this trend, together with CHL's limited ability to fund growth in new loans due to capital-raising constraints in the current market conditions, suggests that CFGL's P/B ratio is unlikely to significantly exceed 1.0x until market conditions improve.

Taking into account both the transactional and non-transactional comparative data above and CFGL's growth prospects we consider that an appropriate P/B ratio is in the range of 0.9x – 1.1x.

#### Analysis of the CFGL Book Value

Underpinning the use of P/B multiples is the underlying NBV of a company. CFGL assesses and records its loans as an asset on the balance sheet based on the expected recovery of those cashflows. Current loans (those that have generally not previously been in default) are recorded at face value. The distressed receivables loan books are assessed at their fair value based on the expected probability of recovery of each loan and are discounted using a cost of capital charge assessed by the management of CHL.

Campbell MacPherson has reviewed the DCF model used by CHL to derive the book value of these loans on the balance sheet. Whilst the model appears robust, it is sensitive to key inputs and assumptions including;

- The cost of capital assumption (discount rate)
- The probability rates of recovery
- The average loan repayment

Subsequent to the last audited accounts as at 31 December 2008, CHL has adjusted the discount rate to 13.5% (compared with 20% used in the audited 2008 accounts). Decreases in the discount rate increase the fair value of receivables on the balance sheet.

A decrease in the discount rate should reflect a decrease in the risk of receiving future cashflows. We note that management now believe they have an increased understanding of the loans which has reduced their view on the risk of recovery. However, given that this accounting policy change is yet to be externally audited we consider that a range of between 13.5% (low) and 20% (high) is appropriate to our valuation analysis.

We outline below the impact of changing the discount rate on the fair value of receivables as at 30 November 2009.

Sensitivity Analysis of CFGL Fair Value Receivables as at 30 November 2009						
(\$ million)	Notes	Discount Rate				
		13.5%	14.0%	16.0%	18.0%	20.0%
FV of Receivables		14.21	14.05	13.48	12.94	12.45
Net Variation from current		0.00	-0.15	-0.73	-1.26	-1.76

Based on the range of FV of Receivables in the table above we have adjusted the NBV of CFGL to range between \$6.04 million and \$7.80 million as shown in the table below.

Assessed NBV of CFGL			
(\$ million)	Notes	Low	High
FV Receivables		12.45	14.21
Other Assets net of Liabilities		-6.40	-6.40
Assessed NBV (30 November 2009)		6.04	7.80

#### Summary Analysis

Having given due regard to the various inputs and results our assessed valuation of CFGL using the P/B methodology outlined above is in the range of \$5.44 to \$8.58 million as shown in the table below.

Summary of CFGL Assessed Valuation			
(\$ million)	Notes	Low	High
P/B Multiple		0.90x	1.10x
NBV (30 November 2009)		6.04	7.80
Assessed Value Range		5.44	8.58

We note that this valuation is net of debt (loans and deposits) currently on the balance sheet of CFGL of \$11.63 million as at 30 November 2009.

#### **Snowdon Limited**

Snowdon operates mainly in the domestic market with the big supermarket chains making up around 60% of the customer base. This exposes the business to considerable customer concentration risk and potential for margin squeeze.

Detailed long-range financial forecasts are not available for Snowdon and therefore the DCF methodology cannot be applied. Furthermore recent earnings are relatively poor and therefore any assessed value on a comparative earnings basis is likely to be below the net book value of assets.

Our preferred method for valuing Snowdon is on an NAV basis using current depreciated net book value of assets (excluding intra-group loans to parent). It is common for small companies to sell at or around their book value of assets, when earnings are relatively low.

We understand that, following recent advice from Deloitte regarding the marketability of Snowdon and certain surplus assets held by Snowdon, the directors of CHL intend to write-down the value of Snowdon, and the value of the surplus assets.

The scope and quantum of these write-downs is yet to be determined by CHL and we have therefore applied a notional adjustment downwards to fixed assets of 5% (High) to 20% (Low)

to the current net book value as at 30 November 2009 in order to determine our assessed equity value for Snowdon.

<b>Snowdon Assessed Net Book Value of Assets</b>			
<b>(\$000)</b>	<b>Notes</b>	<b>Low</b>	<b>High</b>
Current Assets		1,171	1,171
Current Liabilities	1	(712)	(712)
Fixed Assets (adjusted)	2	1,908	2,265
Long term debt		<u>(807)</u>	<u>(807)</u>
<b>Assessed NBV</b>		<b>1,559</b>	<b>1,917</b>

**Notes**

1. Excluding inter-group debt to parent
2. Lower range includes 20% discount to actual NBV of fixed assets. High range includes 5% discount to actual NBV of fixed assets.

We therefore estimate the equity value of Snowdon at approximately \$1.56 to 1.92 million.

***Cynotech Systems Limited***

Cynotech Systems is a small but profitable business operating in a niche market within the telecom sector covering satellite phones. The business is profitable with an established EBIT over the last 3 years of between \$120,000 and \$190,000.

The net book value of assets of Cynotech Systems as at 30 November 2009 was approximately \$122,000 and the company has no external debt.

We have applied a simple comparative earnings valuation estimate on Cynotech Systems based on Campbell MacPherson's knowledge of trading multiples for small low growth cashflow positive businesses in the current market. Our assessed EBIT multiple for Cynotech Systems is 3.0 – 3.5x FY09 forecast EBIT of \$187,000. The resulting equity valuation of Cynotech Systems is in the range of \$0.56 to \$0.66 million.

***Cynotech Corporation Limited (excluding Evolution Finance)***

CCL owns three residential apartments in Mount Maunganui and the WBF loan book. However, the latter is consolidated into CFGL for reporting purposes and has therefore already been dealt with in our valuation of CFGL. However, we note that the equity interest in EFL still appears on the CCL balance sheet as a \$1.5 million asset.

As discussed in Section 4, based on a recent independent valuation on one of the apartments completed in January 2010, the directors of CHL intend to write down the current carrying value of \$1.458 million as shown on the balance sheet of CHL as at 30 June 2009 by \$0.327 million to \$1.131 million

The mortgage balance owing on the Mount Maunganui apartments as at 30 November 2009 was \$1.089 million. CCL also had a small outstanding debt to CSL of approximately \$31,000.

Based on our review of the assets and liabilities of CCL we consider that the value of CCL is best estimated (for the purposes of this Report) using the net book value of the company following the proposed write-down of the apartment assets, and excluding inter-company accounts and the equity interest in EFL. This results in a current equity valuation for CCL of \$0.01 million.

### **Findata Limited (23.7%)**

Findata is an early-stage web-based financial data services company with limited revenues to date. Revenue for the 10 months to 30 November 2009 was \$0.135m and was well below budget as the company has yet to drive sales into the US market. Findata recorded a small unaudited loss for the 11 months to 30 November 2009.

Findata is capital constrained and it has not received any significant growth funding from either CHL or CSL over the last 12 months. Original plans to list the company were shelved due to the economic downturn in 2008. In our view the company's prospects for growth appear limited unless additional investment funds can be sourced from existing shareholders or new investors.

Given the start-up nature of Findata it is difficult to place a value on this business. We note the original purchase price of \$2.61 million in early 2008 when market conditions were superior to the current environment and expectations for Findata's growth were high. In light of the lack of progress to date we have notionally adjusted this value down by 50% to \$1.3 million, implying a value for CHL's 23.72% stake of approximately \$0.31 million.

### **Seating Systems Limited (31%)**

CHL's interest in SSL was acquired by way of a equity for debt swap. Although SSL is only an associate company of CHL, Campbell Macpherson had access to necessary financial information regarding SSL to form a view on its value to CHL. Based on our analysis of this information we have used a net asset value approach to assess the value of CHL's investment in SSL at \$2.39 to 2.62 million (inclusive of CHL advances to SSL).

### **Corporate Costs**

We have allocated negative capitalised value of \$2.38 million based on operating expenses of the parent for the year to 31 December 2008 together with net operating liabilities on the parent company balance sheet.

### **Aggregated Value**

Based on the above analysis we consider that the equity value using the "sum of the parts" valuation for all of operating business units of CHL is the range of \$7.89 to 11.71 million as shown in the table below.

<b>CHL Sum-of-the-parts Equity Valuation</b>			
<b>(\$ million)</b>	<b>Notes</b>	<b>Low</b>	<b>High</b>
CFGL		5.44	8.58
Snowdon		1.56	1.92
Cynotech Systems		0.56	0.65
CCL		0.01	0.01
Findata (23.7%)		0.31	0.31
SSL (31%) + Advances to SSL		2.39	2.62
CHL (Parent)		(2.38)	(2.38)
<b>Total Assessed Equity Value</b>		<b>7.89</b>	<b>11.71</b>

This equates to a valuation range of \$0.063 to \$0.093 per ordinary share on a diluted basis (Shares and CPS).

## 5.6 Summary Assessed Valuation – Shares & CPS

As discussed consider that the CHL Shares and CPS can be materially valued on the same basis given that the CPS are convertible for no consideration into CHL Shares on a one-for-one basis and market trading of CPS is insufficient to establish any useful market price.

Based on the analysis above and taking into account the various factors associated with the valuation of CHL and the methodologies used, we **assess the fair market value of CHL ordinary shares and CHL CPS in the range of \$0.073 to \$0.103 per share** as shown below.

<b>CHL Summary Valuation Results - Shares &amp; CPS</b>			
<b>(\$ per share)</b>	<b>Notes</b>	<b>Low</b>	<b>High</b>
Market Capitalisation Method		0.084	0.114
Sum of the Parts Method		0.063	0.093
<b>Assessed Value</b>		<b>0.073</b>	<b>0.103</b>

## 5.7 Valuation of Warrants

There are currently 28,108,354 CHL Warrants outstanding convertible into ordinary shares at an exercise price of \$0.30 per share on 27 June 2010 or 27 June 2011.

The Warrants are listed on the NZX and have a current price of \$0.01 per Warrant as a 3 February 2010. However, the Warrants have very limited liquidity and we do not consider that the current market price on the NZX is necessarily a fair reflection of the underlying value of the Warrants.

We have assessed the value of the consideration options using the Black Scholes option valuation formula (**Black Scholes Formula**). The Black-Scholes formula calculates a fair option price for European options.

The key variables used in our assessment of the value of the Warrants are:-

- i) Exercise period remaining – 1.4 years
- ii) Exercise price of NZ\$0.30 per share
- iii) The risk free rate of 5.08% based on the current 5 year NZ Government bond yield.
- iv) The current market value of CHL shares of \$0.073 to 0.103 per share (based on our assessed range in section 5.6).
- v) Volatility of 60%
- vi) Expected dividend distributions are assumed to be nil.
- vii) Shares on issue – we have assumed that the number of shares on issue prior to the exercise of the Warrants is 126,191,220 comprising the current aggregate Shares and CPS on issue. We have also applied a dilution factor to reflect the issue of new shares upon exercise of the Warrants.

Based on the above inputs we assess the value of each Warrant to be in the range of \$0.0009 to \$0.0034 per Warrant. This equates to a conversion ratio (warrants to shares) of 30.37 to 82.09.

The terms of the Offer to CHL Warrant holders is 33.75 Warrants per CSGL Preference Share on the basis that each CHL Share and CPS will be exchangeable for one CSGL Preference Share. This implies a ratio of 33.75 Warrants per CHL Share which lies within and at the upper end of our assessed range of 30.37 to 82.09.

## 6. PROFILE OF CSGL

### 6.1 Background

CSGL was incorporated on 2 November 2009 and is a wholly owned subsidiary of CSL which is controlled by interests associated with Alan Hawkins. CSGL has been established for the sole purpose of making the Takeover Offer, has no employees and has not traded. Mr Allan Hawkins is the sole director of CSGL.

The principal activity of CSGL is as an investment vehicle to provide a mechanism to allow for the takeover of CHL. The Offer indicates that CSGL has been put in place as a way of achieving the objective of cashing up the CHL Group and returning investment funds to CHL shareholders.

The intended strategy of CSGL is:-

- That the assets of CHL are to be progressively realised to provide for the repayment of borrowings and then for the purpose of realising sufficient financial resources to provide for the eventual repayment or redemption of the CSGL Preference Shares proposed to be issued under the Offer; and
- The current program at CHL to recover the distressed loan books purchased from National Finance and Western Bay Finance will continue. (This is a key element to providing the resources to enable the eventual redemption the CSGL Preference Shares).
- In the short term the current CHL operations are expected to continue under the existing management structure.

### 6.2 Cashflow Projections

CSGL is a newly established Company and does not have historical financial accounts. The Prospectus does contain prospective statements of cash flows for CSGL under two scenarios, one assuming 100% acceptance of the Offer (**100% Scenario**) and a second scenario based on 50.1% acceptance of the Offer (**50.1% Scenario**). These cash flow statements are summarised below;

Summary of CSGL Prospective Statement of Cash Flows (assuming 100% acceptance of Takeover Offer)				
NZ\$ 000's	Notes	CSGL	CHL	CSGL Consolidated
<b>12 Months from 18/12/09 to 17/12/10</b>				
<b>Cashflow from operating activities</b>				
Cash from operating activities		80	11824	11824
Cash applied to operating activities		(90)	(10,747)	(10,757)
<b>Net cash flows from/(used in) operating activities</b>		<b>(10)</b>	<b>1,077</b>	<b>1,067</b>
<b>Cashflow from investing activities</b>				
Cash from investing activities	1	-	1,290	1,290
Cash applied to investing activities		-	(193)	(193)
<b>Net cash flows from/(used in) investing activities</b>		<b>-</b>	<b>1,097</b>	<b>1,097</b>
<b>Cashflow from financing activities</b>				
Cash from financing activities	2	1010	(1,010)	-
Cash applied to financing activities	3	(860)	(1,294)	(2,154)
<b>Net cash flows from/(used in) operating activities</b>		<b>150</b>	<b>(2,304)</b>	<b>(2,154)</b>
<b>Cash and cash equivalents at 17 December 2010</b>		<b>324</b>	<b>208</b>	<b>532</b>

#### Notes

- 1 Based on sale of property assets owned by CHL together with surplus Snowdon plant.
- 2 Based on dividends paid from CHL Group to CSGL.
- 3 CSGL includes Preference dividends paid of \$686,000. CHL includes \$1,126,000 in repayment of interest-bearing loans.

<b>Summary of CSGL Prospective Statement of Cash Flows (assuming 50.1% acceptance of Takeover Offer)</b>				
<b>NZ\$ 000's</b>	<b>Notes</b>	<b>CSGL</b>	<b>CHL</b>	<b>CSGL Consolidated</b>
<b>12 Months from 18/12/09 to 17/12/10</b>				
<b>Cashflow from operating activities</b>				
Cash from operating activities		80	11824	11824
Cash applied to operating activities		(90)	(10,747)	(10,757)
<b>Net cash flows from/(used in) operating activities</b>		<b>(10)</b>	<b>1,077</b>	<b>1,067</b>
<b>Cashflow from investing activities</b>				
Cash from investing activities	1	-	1,290	1,290
Cash applied to investing activities		-	(193)	(193)
<b>Net cash flows from/(used in) investing activities</b>		<b>-</b>	<b>1,097</b>	<b>1,097</b>
<b>Cashflow from financing activities</b>				
Cash from financing activities	2	506	(1,010)	(504)
Cash applied to financing activities	3	(517)	(1,294)	(1,811)
<b>Net cash flows from/(used in) operating activities</b>		<b>(11)</b>	<b>(2,304)</b>	<b>(2,315)</b>
<b>Cash and cash equivalents at 17 December 2010</b>		<b>163</b>	<b>208</b>	<b>371</b>

**Notes**

- 1 Based on sale of property assets owned by CHL together with surplus Snowdon plant.
- 2 Based on dividends paid from CHL Group to shareholders including CSGL.
- 3 CSGL includes Preference dividends paid of \$343,000. CHL includes \$1,126,000 in repayment of interest-bearing loans.

The prospective cash flow statements provided in the Offer are based on detailed sets of assumptions. These include, but are not limited to the following;

- Yields from CSGL's investment in CHL are projected to be 1.08 cents per CHL Share per annum and 1.08 cents per CHL CPS per annum (Warrants at nil yield).
- Quarterly payment of dividends on CHL ordinary shares at a rate that is sufficient for CSGL to meet the CSGL Preference Share payments.
- Sale of CHL assets (property and surplus assets) amounting to \$1,290,000.
- Limited new lending within Budget Loans Limited in order to provide for accumulation of resources to allow for materially reducing the assets of CHL Group.
- Continued program of collection of the NFL and WBF distressed loan books with the prime purpose of generating resources over and above the value at which these loans are currently carried on the CHL Group financial statements.
- No additional advances to either of CHL's associates (SSL and Findata) or any of its subsidiaries.
- Generating cash from CHL Group fair value loan collections totalling \$3.433 million for the year ended 17 December 2010.

### 6.3 Director

Allan Hawkins is the sole director of CSGL. The Offer documents state that;

"Allan has many years experience in many different sectors. He has predominantly an accounting training but has had varied managerial positions and over the last 15 years has been Managing Director or Chief Executive of a variety of organisations with emphasis on the finance industry and investment activity. Allan has also been actively involved as Company Director and Chairman of a number of public companies. Allan was Executive Chairman of the Equiticorp group of companies. Allan, along with other directors, was convicted on a number of fraud related charges arising out of the operations of Equiticorp after that group was placed into statutory management in 1989."

Mr Hawkins performs the joint roles of Chief Executive and Chief Financial Officer of CSGL. CSGL receives services from CSL including operating management, financial management, taxation services, etc at a rate of \$12,000 plus GST per quarter.

Mr Hawkins is also a director of CHL and fulfils the role of Chairman & CEO. CSL currently receives \$300,000 per annum to reimburse the cost of Mr Hawkins management services to CHL. We assume (in the absence of any evidence to the contrary in the Offer documents) that this arrangement would continue.

Mr Hawkins is the sole director of CSL, a substantial security holder, and interests associated with him have a controlling interest in CSL. CSL currently holds 12,013,372 ordinary shares in CHL representing 10.42% of the ordinary shares on issue. CSL also holds 4,334,775 Warrants. CSL has entered into a pre-bid agreement with CSGL dated 8 December 2009 to accept the Offer in respect in the CHL equity securities it holds.

Mr Hawkins is also a director of NSL and interests associated with him have a controlling interest in NSL. NSL currently holds 13,043,097 ordinary shares in CHL representing 10.61% of the ordinary shares on issue. NSL also holds 2,332,927 Warrants. NSL has not entered into a pre-bid agreement with CSGL.

#### **6.4 Offer Documents**

We strongly recommend that CHL Equity Security holders read carefully the full terms of the Offer including the Prospectus for further information on key assumptions, risks and other key elements that comprise the Offer and the proposed issue of the CSGL Preference Shares.

## **7. EVALUATION OF THE CONSIDERATION OFFERED BY CSGL**

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### **7.1 CSGL Preference Share Pricing**

In consideration for acquiring CHL Equity Securities, CSGL is offering CHL Equity Security holders CSGL Preference Shares at an issue price and attributed value of \$0.135 per share. This value has been established on the basis of a 100% acquisition of CHL Equity Securities resulting in the issue of 127,022,060 CSGL Preference Shares.

Key terms of the CSGL Preference Shares are provided in Section 1.2 and further detailed information is contained in the Offer documents.

### **7.2 Risks Associated with CSGL Preference Shares**

CSGL is a private New Zealand company with a single shareholder and sole director. An investment in CSGL through CSGL Preference Shares will have a number of risks including, but not limited to, the following:-

- There is no guarantee that CSGL Preference Share holders will receive the 8% p.a. dividend yield on the CSGL Preference Shares. The ability of CSGL to pay dividends to CSGL Preference Share holders will be dependent on the future performance of the CHL Group.
- CSGL Preference Share holders may not be able to recoup part or all of the \$0.135 issue price of the CSGL Preference Shares. The ability of CSGL to redeem or purchase the CSGL Preference Shares is dependent upon the realisation of assets in the CHL Group to a value that is sufficient to enable capital payments to CSGL equal to the aggregate issue price of the CSGL Preference Shares.
- CSGL could become insolvent.
- CSGL Preference Share holders may not be able to sell their shares due to lack of demand.
- There will be concentration risk as the only asset of CSGL will be its shareholding in CHL and therefore CSGL and CSGL Preference Share holders will be fully exposed to the future performance of CHL.
- CSGL would be able to issue further CSGL Preference Shares at the same or a lesser issue price and dividend, to holders of CHL Equity Securities (subject to compliance with the Takeovers Code).
- There will be an absence of market in which to trade the CSGL Preference Shares as they will not be listed.

The holders of CSGL Preference Shares will receive periodic statutory reports including an annual report that includes CSGL's annual audited financial statements. Its first annual report would not be available until after the first balance date of 31 March 2010.

### **7.3 Evaluation of the Consideration**

The Offer by CHL involves only the issue of new CSGL Preference Shares in consideration for acquiring CHL Equity Securities. The consideration does not include any cash component. CSGL Preference Shares are being offered on a one for one basis for every CHL ordinary share and CHL CPS (and on a one for every 33.75 basis for Warrants).

CSGL is a recently formed shell company with start-up capital of around \$0.2 million (sufficient only to meet the costs of the Offer). Therefore, should the Offer be successful then CSGL's only material asset is expected to be the equity securities it holds in CHL.

**Given that the only assets of CSGL will be CHL we do not consider there is any material difference between the value of CSGL Preference Shares and our assessed fair market value of CHL Shares and CPS as provided in Section 5 is in the range of \$0.073 to \$0.103 per share. We therefore consider that each CSGL Preference Share is also valued in the range of \$0.073 to \$0.103 per share.**

We note that this is below the value of \$0.135 per share attributed by CSGL to each CSGL Preference Share. However, given the 100% scrip based nature of the Offer we view the key valuation matter for CHL Equity Security holders is that the issue price of \$0.135 per CSGL Preference Share caps the maximum capital investment return that CSGL Preference Share holders can ever expect to receive through redemption or repurchase of the CSGL Preference Shares.

**Given that our assessed value range for each CSGL Preference Share is the same as that for the CHL Shares and CHL CPS, and below the \$0.135 per share cap, we do not consider that the matter of valuation is of primary importance in determining the merits of the Offer.**

## **APPENDIX I. SOURCES OF INFORMATION**

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### **I.a Sources of Information**

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

- Cynotech Holdings Limited annual reports for the periods ending 31 December 2007 and 2008.
- Cynotech Holdings Limited interim reports for the periods ending 30 June 2007, 2008 and 2009.
- Cynotech Holdings Limited unaudited management accounts to 30 November 2009.
- Takeover Notice from Cynotech Securities Group Limited dated 18 January 2010.
- Takeover Offer by Cynotech Securities Group Limited dated 2 February 2010.
- Cynotech Securities Group Limited Combined Prospectus and Investment Statement dated 18 December 2009 (as amended by Memorandum of Understanding of Amendments dated 18 January 2010).
- Various independent apartment valuations in respect of the apartments owned by Cynotech Corporation Limited.
- Various public company reports and public statements and industry reports in the public domain.
- Securities data from NZX, Link Market Securities and Bloomberg.

During the course of preparing this Report, we have had discussions with and/or received information from the Directors and Chief Financial Officer of CHL and their legal advisers.

The Directors Committee of CHL have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Offer 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 is 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 the Directors and shareholders to understand all the relevant factors and to make an informed decision in respect of the merits of the Offer.

### **I.b 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 CHL 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 CHL. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

**I.c 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 forecasts of future profits, cash flows or financial position of CHL 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 CHL and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever 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 its attention after the date of this Report or to review, revise or update our Report.

**I.d Indemnity**

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

## **APPENDIX II. QUALIFICATIONS, DECLARATIONS & CONSENTS**

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### **II.a Qualifications**

Campbell MacPherson is an Auckland investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The persons in the Company responsible for issuing this Report are Stephen Burns, Tony Haworth, Alistair Ward and Helen Lu.

Campbell MacPherson has 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.

### **II.b Independence**

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with CHL that could affect our ability to provide an unbiased opinion in relation to this transaction.

Campbell MacPherson has not had any part in the formulation of the Offer, or any aspects thereof. Our sole involvement has been the preparation of this Report.

Campbell MacPherson will receive a fixed fee for the preparation of this Report. This fee is not contingent on the conclusions of this Report or the outcome of the Offer. We will receive no other benefit from the preparation of this Report.

### **II.c Declarations**

Advance drafts of this Report were provided to the Directors Committee for their comments as to factual accuracy as opposed to opinions, which are the responsibility of Campbell MacPherson alone. Changes made to the Report as a result of the circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson.

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

### **II.d Consents**

We consent to the issuing of this Report in the form and context in which it is to be included in the Target Company Statement to be sent to CHL 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.

11 February 2010  
Campbell MacPherson Ltd.