



Half year report 2006

Contents

Chairman's report	1
Chief Executive's report	2
Statement of financial performance	3
Statement of movements in equity	4
Statement of financial position	5
Statement of cash flows	6
Notes to the financial statements	7

Chairman's report



I am pleased to be able to report substantially improved performance by the Company in the first half of the current financial year. Operating surplus before tax was \$1,219,000 (last year \$285,000) with a net profit, after tax and minority interests, of \$599,000 (last year \$101,000).

Operating revenue of \$18.03 million was 4% ahead of last year (\$17.33 million). Cash on hand decreased slightly to \$1.02 million since year end, after paying shareholders a fully imputed dividend of 4 cents per share in August.

The improvement in profitability was a result of excellent work by the Company's staff. The Company's clearer value proposition around industrial-strength business transaction and payment solutions has resulted in greater success with new and existing corporate clients in New Zealand, Britain and Singapore. We are also seeing the benefits of lower overheads and a simpler management structure. However, while these numbers show a marked improvement on earlier results, professional services margins remained tight with salary pressures and low-ball pricing by some competitors.

Earlier this year, a committee of independent directors explored with major shareholders and senior management the possibility of a management buy-in. While this discussion did not reach fruition, it remains a possibility for another time. In the meantime, the Company has registered on the Unlisted share trading facility.

Looking ahead, the Company has a strong opportunity pipeline (although it can be thrown off-balance if clients do not start major projects on time). The Company continues to invest in new tools, training and methodologies, as well as extending its professional services, managed services and the mobile commerce platform. These investments should see further performance improvements in 2007/8, bringing results into line with other leading IT service companies. Meanwhile, the Company is developing the next iteration of its strategic plans, and I look forward to briefing shareholders on those developments.



Philip Shewell
Chairman

Chief Executive's report



"We design, build and operate industrial-strength business transaction and payment systems and services which connect the world to your business and your business to the world." That's the message we're taking to the market and it's working.

We have won several new assignments based on our clearer market offer, helped by our new organisation structure, which focuses on key clients and industries. This has strengthened relationships and improved service delivery. In the first six months of this financial year, there were many successes - in New Zealand, Britain and elsewhere. Standouts for me were a major project for MessageLabs, a leading global provider of online security services, and the launch of advanced mobile banking services for Kiwibank.

We have made substantial progress repositioning the Company as a high-value provider of specialist IT services and solutions, rather than being just another IT shop. Interestingly, we are seeing several competitors follow our lead away from cut-throat hourly rates. By focusing on output-based projects rather than input-based body-shop rates, we have improved our professional services revenues, while increasing certainty of outcome for our clients. With our lower overhead costs, this has given us a much improved bottom line, although we still have a way to go to achieve our target profitability.

We continue to invest in new tools, methodologies, skills and services. In Professional Services, we are a leading exponent of "Agile" project management and have begun introducing "Agile" application development. We are launching a new application testing service based on world-leading Mercury technology. In Managed Services, we have invested in BMC system management tools, as the first step in an expansion of that service line.

In Transaction Services, we implemented a new and very robust transaction gateway, and we are rolling out exciting new mobile commerce solutions. In particular, our Fronde Bank Anywhere product is drawing global interest (see more at www.fronde.com). To give this business the impetus it needs, we have announced our intention to move it into a separate subsidiary, and seek outside venture capital for it.

Since the half year ended, we have lifted our ownership in the British joint venture to 100%, as a prelude to further growth in the market. We have also made major investments in our own business information systems, and that investment continues well into 2007. When complete, we should see not only enhanced business processes and client delivery, but also improved overheads.

Looking ahead for the rest of the year, we have a strong pipeline of existing business and new prospects. If we successfully deliver those engagements already won and quickly secure those new opportunities, we should continue our improved performance. We also plan further developments in our branding and business strategies.

A handwritten signature in black ink that reads "Jim Donovan". The signature is written in a cursive, flowing style.

Jim Donovan
CEO

Statement of financial performance

For the half year ended 30 September 2006

	Note	Group Unaudited half year ended 30-Sep-06 \$	Group Unaudited half year ended 30-Sep-05 \$	Group Audited year ended 31-Mar-06 \$
Operating revenue	3	18,027,762	17,328,609	32,972,453
Operating surplus before taxation	3	1,219,112	284,940	776,993
Surplus before taxation		1,219,112	284,940	776,993
Taxation expense		462,283	103,952	160,064
Net surplus		756,829	180,988	616,929
Net surplus attributable to minority interests		(157,977)	(80,267)	(212,941)
Net surplus attributable to parent shareholders		598,852	100,721	403,988

This Statement is to be read in conjunction with the Notes to the financial statements.

Statement of movements in equity

For the half year ended 30 September 2006

	Group Unaudited half year ended 30-Sep-06 \$	Group Unaudited half year ended 30-Sep-05 \$	Group Audited year ended 31-Mar-06 \$
Equity at beginning of period, comprising			
Parent shareholders' interest	4,251,919	4,058,799	4,058,799
Minority interest	124,297	126,041	126,041
	<hr/> 4,376,216	<hr/> 4,184,840	<hr/> 4,184,840
Surplus and revaluations			
Parent shareholders' interest	598,852	100,721	403,988
Minority interest	157,977	80,267	212,941
Movement in foreign currency translation reserve	10,492	(20,449)	69,461
<i>Total recognised revenue and expenses</i>	<hr/> 767,321	<hr/> 160,539	<hr/> 686,390
Other movements			
Minority interest in distributions to owners	(146,854)	(43,037)	(214,685)
Distribution to owners	(280,329)	(280,329)	(280,329)
<i>Movements in Equity</i>	<hr/> 340,138	<hr/> (162,827)	<hr/> 191,376
Equity at end of period, comprising			
Parent shareholders' interest	4,580,934	3,858,742	4,251,919
Minority interest	135,420	163,271	124,297
	<hr/> 4,716,354	<hr/> 4,022,013	<hr/> 4,376,216

This Statement is to be read in conjunction with the Notes to the financial statements.

Statement of financial position

As at 30 September 2006

	Group Unaudited half year ended 30-Sep-06 \$	Group Unaudited half year ended 30-Sep-05 \$	Group Audited year ended 31-Mar-06 \$
Equity			
Share capital	4,907,960	4,907,960	4,907,960
Reserves	(73,334)	(173,736)	(83,826)
Accumulated deficit	(253,692)	(875,482)	(572,215)
Parent shareholders' equity	4,580,934	3,858,742	4,251,919
Minority interests	135,420	163,271	124,297
Total equity	4,716,354	4,022,013	4,376,216
Represented by:			
Current assets			
Cash at bank	1,022,853	3,188,694	1,153,328
Taxation	-	107,700	287,403
Receivables and prepayments	6,541,984	4,773,562	8,369,531
<i>Total Current Assets</i>	<i>7,564,837</i>	<i>8,069,956</i>	<i>9,810,262</i>
Non current assets			
Property, plant and equipment	2,261,318	1,869,284	2,071,261
Intangibles			
Software Development Costs	199,053	45,528	-
<i>Total Non Current Assets</i>	<i>2,460,371</i>	<i>1,914,812</i>	<i>2,071,261</i>
Total assets	10,025,208	9,984,768	11,881,523
Current Liabilities			
Payables and accruals	5,163,105	5,962,755	7,505,307
Taxation	145,749	-	-
<i>Total Current Liabilities</i>	<i>5,308,854</i>	<i>5,962,755</i>	<i>7,505,307</i>
<i>Total Non Current Liabilities</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total liabilities	5,308,854	5,962,755	7,505,307
Net assets	4,716,354	4,022,013	4,376,216

This Statement is to be read in conjunction with the Notes to the financial statements.

Statement of cash flows

For the half year ended 30 September 2006

	Group Unaudited half year ended Note 30-Sep-06 \$	Group Unaudited half year ended 30-Sep-05 \$	Group Audited year ended 31-Mar-06 \$
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers	17,853,086	18,881,834	32,440,672
Interest received	26,659	51,569	81,079
Dividends received	440	-	-
	17,880,185	18,933,403	32,521,751
Cash was applied to:			
Payments to suppliers	(2,687,346)	(2,725,898)	(4,512,655)
Payments to employees	(14,303,484)	(14,470,812)	(27,630,591)
Interest paid	(12,450)	(1,412)	(3,913)
Taxation paid	(24,589)	(167,547)	(537,373)
	(17,027,869)	(17,365,669)	(32,684,532)
Net cash inflow from operating activities	2 852,316	1,567,734	(162,781)
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment	-	289	50,289
	-	289	50,289
Cash was applied to:			
Purchase of property, plant and equipment	(557,791)	(350,552)	(760,382)
	(557,791)	(350,552)	(760,382)
Net cash (outflow) from investing activities	(557,791)	(350,263)	(710,093)
Cash flows from financing activities			
Cash was applied to:			
Dividends paid to parent shareholders'	(280,329)	(280,329)	(280,329)
Dividends paid to minority interests	(146,854)	(43,037)	(214,685)
	(427,183)	(323,366)	(495,014)
Net cash (outflow) inflow from financing activities	(427,183)	(323,366)	(495,014)
Net (decrease)/increase in cash held	(132,658)	894,105	(1,367,888)
Foreign currency translation adjustment	2,183	(36,828)	189,799
Cash at beginning of period	1,153,328	2,331,417	2,331,417
Cash at end of period	1,022,853	3,188,694	1,153,328

This Statement is to be read in conjunction with the Notes to the financial statements.

Notes to the financial statements

For the half year ended 30 September 2006

1. Statement of accounting policies

Basis of preparation

The consolidated financial statements for Synergy International Limited have been prepared in accordance with Financial Reporting Standard FRS 24 "Interim Financial Statements" and should be read in conjunction with the Statement of Accounting Policies and Notes to the Financial Statements contained in Synergy's 2006 Annual Report.

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

2. Reconciliation of net surplus after taxation with cash inflow from operating activities

	Group Unaudited half year ended 30-Sep-06 \$	Group Unaudited half year ended 30-Sep-05 \$	Group Audited year ended 31-Mar-06 \$
Reported net surplus after taxation	598,852	100,721	403,988
Minority interest share of surpluses	157,977	80,267	212,941
	756,829	180,988	616,929
Items not involving cashflows			
Depreciation / amortisation	396,970	359,903	683,782
Movement in foreign exchange	6,882	16,477	(88,903)
Other including movement on doubtful debts	(18,532)	(89,847)	(188,829)
	385,320	286,533	406,050
Impact of changes in working capital items			
Accounts receivable	1,818,270	1,492,872	(2,172,545)
Accounts payable	(2,234,868)	(225,705)	957,617
Taxation payable	433,152	(166,259)	(345,962)
GST	(306,387)	(789)	358,442
	(289,833)	1,100,119	(1,202,448)
Items classified as investing activities			
Loss on disposal of property, plant and equipment	-	94	16,688
Net cash inflow from operating activities	852,316	1,567,734	(162,781)

Notes to the financial statements continued

For the half year ended 30 September 2006

3. Interest

	Group Unaudited half year ended 30-Sep-06 \$	Group Unaudited half year ended 30-Sep-05 \$	Group Audited year ended 31-Mar-06 \$
Included in operating revenue:			
Interest received	26,659	51,569	81,079
Included in operating expenses:			
Other interest	12,450	1,412	2,505

4. Contingent Liabilities

Synergy International Limited has guaranteed the unexpired term of the operating lease for the Mobil on the Park Wellington Office. The guarantee is for a maximum of \$350,000 based on the hard fit-out cost of the offices. The term of the guarantee is for 11 years, with the liability diminishing on the anniversary of the lease in December of each year.

At 31 March 2006, the contingent liability is \$207,000 (2005: \$238,000).

Synergy International Limited has a rental dispute with Exxon Mobil as lessor on the annual rent payable following rent review for the Mobil on the Park Wellington office. The rental dispute is quantified at \$54,508 per annum exclusive of GST over the unexpired term of the operating lease. This has not been recorded as a liability as Synergy's position will be defended vigorously.

At 31 March 2006, the contingent liability is \$272,540 (2005: \$Nil).

5. Significant Event after reporting date

On 27 October 2006, Synergy International Limited purchased the remaining 33.34% of the equity of Fronde Synergy Great Britain Limited from SQS Group Limited.

Company directory

Directors

Philip Shewell, Chairman
Rick Bettle
David Irving
Sandy Maier Jr
Penny Mudford

Auditor

Deloitte
PO Box 1990, Wellington

Share Registry

Link Market Services
PO Box 384, Ashburton

Registered Office

Synergy International Limited
3 Queens Wharf
Wellington

Bankers

ANZ Banking Group
(New Zealand) Ltd
PO Box 1492, Wellington

Solicitors

Quigg Partners
PO Box 3035, Wellington

www.synergy.co.nz