

half

year

report

2004

SYNERGY



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Chairman's

report

I am pleased to report consistent and continued profitability for Synergy with an operating surplus before tax of \$613,000 (last year \$612,000) and a net surplus after tax of \$589,000 (last year \$371,000). The reduced level of taxation is the result of being able to benefit from previously incurred tax losses.

The operating revenue of \$16.96m is slightly down on last year's result of \$17.5m due to a fall in procurement revenue and a large UK project entering a development phase requiring less work than the previous year. Despite this, there are very positive signs in terms of consultant utilisation and the upturn we began to experience six months ago has been sustained. We continue to be vigilant over cost efficiencies and effectiveness.

In the six months to September the operating cash surplus was \$288,000 compared with \$145,000 in 2003. Cash was reduced by reinvesting in fixed assets (\$307,000) and repaying loans (\$385,000), which leaves Synergy debt free.

A total of \$1.3m was paid to shareholders by way of dividends. A fully imputed dividend of 3.75 cents per share was paid to shareholders on 1 July 2004 and a fully imputed special dividend of 15.0 cents per share was paid on 29 July 2004.

In September, the chief executive of Synergy, David Irving, signalled his intention to step down after 12 years with the company. David was a co-founder of the company alongside the late Chris Comber and became chief executive in 1997. David has made a huge contribution to Synergy and to the IT industry in New Zealand and we are very pleased that he will remain with the company until a replacement is found. The Board is currently conducting an executive search and the process is expected to take six months. David was re-elected to the Synergy Board at the AGM and this appointment is unaffected by his stepping down from the CEO role.



Philip Shewell
Chairman

Chief Executive's report

The last six months have been very busy for Synergy, not just because of increased consultant utilisation but also because of the consolidation of our Wellington premises. In August, the majority of staff from our Mobil on the Park office on Lambton Quay moved across to newly created office space at Queens Wharf. A small group of remaining staff will be accommodated into our expanded premises by the end of the year. The benefits in terms of ease of communication and better teamwork among the previously separated Wellington team are already apparent.

We were pleased to see much of the increase in work over the last six months come from a renewed focus in building business from existing clients, in areas of their business where we have previously not been active. There has also been a notable upturn in interest in the mobility sector and Synergy is well positioned to take advantage of this.

Work continues on the Outsource2NewZealand initiative with proposals being firmed up for the establishment of a more permanent organisation to represent the IT industry offshore.

As noted by the chairman, after 12 years with Synergy I have decided the time is right to step down from the position of chief executive. I am very proud to have seen Synergy grow from a two-person company to one employing more than 230 people with a turnover exceeding \$30m and a blue chip client list. However, I believe the company needs a new CEO to take it to the next level of growth.

My main focus during my remaining time as CEO is to ensure that the company is in the best possible shape to hand over to a new CEO. I am encouraged by our performance in the last six months, despite the flat revenue, and believe that the next six months should continue to deliver some real consistency across all performance areas.



David Irving
Chief Executive

Statement of financial performance

For the half year ended 30 September 2004

	Note	Group Unaudited half year ended 30 Sept 04 \$	Group Unaudited half year ended 30 Sept 03 \$	Group Audited year ended 31 March 04 \$
Operating revenue	3	16,960,364	17,525,689	32,575,065
Operating surplus before taxation	3	613,345	611,937	871,667
Share of associate's (deficit)		(21,856)	(57,502)	(54,429)
Surplus before taxation		591,489	554,435	817,238
Taxation expense		2,276	183,030	391,083
Net surplus		589,213	371,405	426,155
Net surplus attributable to minority interest		(2,581)	(35,697)	(68,451)
Net surplus attributable to parent shareholders		586,632	335,708	357,704

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 2004

	Group Unaudited half year ended 30 Sept 04 \$	Group Unaudited half year ended 30 Sept 03 \$	Group Audited year ended 31 March 04 \$
Equity at beginning of period, comprising			
Parent shareholders' interest	4,670,210	4,567,004	4,567,004
Minority interest	77,710	–	–
	4,747,920	4,567,004	4,567,004
Surplus and revaluations			
Parent shareholders' interest	586,632	335,708	357,704
Minority interest	2,581	35,697	68,451
Movement in foreign currency translation reserve	(26,532)	(15,315)	(46,197)
<i>Total recognised revenue and expenses</i>	562,681	356,090	379,958
Other movements			
Minority interest in contributions from owners	–	3,340	9,259
Distribution to owners	(1,314,043)	(208,301)	(208,301)
<i>Movements in equity</i>	(751,362)	151,129	180,916
Equity at end of period, comprising			
Parent shareholders' interest	3,916,267	4,679,096	4,670,210
Minority interest	80,291	39,037	77,710
	3,996,558	4,718,133	4,747,920

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

Statement of financial position

As at 30 September 2004

	Group Unaudited half year ended 30 Sept 04 \$	Group Unaudited half year ended 30 Sept 03 \$	Group Audited year ended 31 March 04 \$
Equity			
Share capital	4,907,960	4,907,960	4,907,960
Reserves	(122,047)	(64,633)	(95,515)
Accumulated deficit	(869,646)	(164,231)	(142,235)
Parent shareholders' equity	3,916,267	4,679,096	4,670,210
Minority interest	80,291	39,037	77,710
Total equity	3,996,558	4,718,133	4,747,920
Represented by:			
Current assets			
Cash at bank	1,793,357	2,028,213	3,464,372
Taxation refund	–	42,925	–
Receivables and prepayments	5,920,394	6,051,923	4,643,062
<i>Total current assets</i>	7,713,751	8,123,061	8,107,434
Non current assets			
Property, plant and equipment	1,597,836	1,984,206	1,693,396
Net investment in associate	54,560	243,343	196,416
Intangibles			
Software development costs	83,644	5,639	102,702
<i>Total non current assets</i>	1,736,040	2,233,188	1,992,514
Total assets	9,449,791	10,356,249	10,099,948
Current liabilities			
Payables and accruals	5,424,976	5,084,482	4,874,556
Taxation	28,257	–	59,811
Finance leases – current portion	–	30,678	15,913
ANZ term loan – current portion	–	170,832	385,420
<i>Total current liabilities</i>	5,453,233	5,285,992	5,335,700
Non current liabilities			
Finance leases	–	52,120	16,328
ANZ term loan	–	300,004	–
<i>Total non current liabilities</i>	–	352,124	16,328
Total liabilities	5,453,233	5,638,116	5,352,028
Net assets	3,996,558	4,718,133	4,747,920

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 2004

Note	Group Unaudited half year ended 30 Sept 04 \$	Group Unaudited half year ended 30 Sept 03 \$	Group Audited year ended 31 March 04 \$
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers	15,807,453	17,029,167	32,559,437
Interest received	60,605	51,854	134,034
	15,868,058	17,081,021	32,693,471
<i>Cash was applied to:</i>			
Payments to suppliers	(2,462,612)	(2,894,818)	(5,010,687)
Payments to employees	(13,075,344)	(13,999,178)	(25,636,305)
Interest paid	(9,628)	(23,026)	(39,949)
Taxation paid	(32,056)	(18,981)	(118,076)
	(15,579,640)	(16,936,003)	(30,805,017)
<i>Net cash inflow from operating activities</i>	2	288,418	145,018
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment	–	1,563	1,565
Repayment of loan to associate	60,000	–	50,000
	60,000	1,563	51,565
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment	(306,862)	(323,261)	(550,255)
	(306,862)	(323,261)	(550,255)
<i>Net cash (outflow) from investing activities</i>	(246,862)	(321,698)	(498,690)
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Issue of shares to minority interest	–	–	9,259
	–	–	9,259
<i>Cash was applied to:</i>			
Repayment of loans	(385,420)	(85,416)	(170,832)
Repayment of finance lease liabilities	(1,250)	(14,811)	(24,461)
Dividends paid to parent shareholders'	(1,314,043)	(208,301)	(208,301)
	(1,700,713)	(308,528)	(403,594)
<i>Net cash (outflow) from financing activities</i>	(1,700,713)	(308,528)	(394,335)
Net (decrease) increase in cash held	(1,659,157)	(485,208)	995,429
Foreign currency translation adjustment	(11,858)	(28,852)	(73,330)
Cash at beginning of period	3,464,372	2,542,273	2,542,273
Cash at end of period	1,793,357	2,028,213	3,464,372

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 2004

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 2004 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 Sept 04 \$	Group Unaudited half year ended 30 Sept 03 \$	Group Audited year ended 31 March 04 \$
Reported net surplus after taxation	586,632	335,708	357,704
Minority interest share of surpluses	2,581	35,697	68,451
	589,213	371,405	426,155
<i>Items not involving cash flows</i>			
Depreciation amortisation	398,610	576,567	1,068,270
Share of associate's deficit	21,856	57,502	54,429
Movement in foreign exchange	(14,556)	13,520	27,161
Other	148,453	–	(103,235)
	554,363	647,589	1,046,625
<i>Impact of changes in working capital items</i>			
Accounts receivable	(1,374,894)	(891,681)	513,840
Accounts payable	473,243	(167,978)	(224,754)
Taxation payable	(31,554)	164,097	266,833
GST	77,177	22,516	(130,484)
	(856,028)	(873,046)	425,435
<i>Items classified as investing activities</i>			
Loss (gain) on disposal of property, plant and equipment	870	(930)	(9,761)
Net cash inflow from operating activities	288,418	145,018	1,888,454



Notes to the financial statements continued

For the half year ended 30 September 2004

3. Interest

	Group Unaudited half year ended 30 Sept 04 \$	Group Unaudited half year ended 30 Sept 03 \$	Group Audited year ended 31 March 04 \$
Included in operating revenue			
Interest received	60,605	51,854	140,196
Included in operating expenses			
Finance charges on finance leases	317	5,522	8,920
Other interest	9,311	17,504	31,029

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 2004, the contingent liability was \$265,000 (2003: \$290,000).

company

directory

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