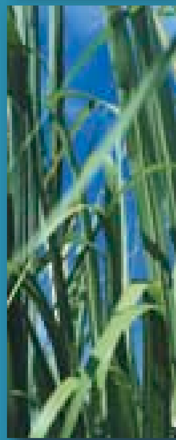
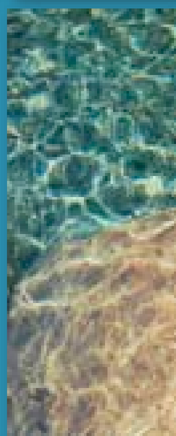
SYNERGY

half year report 2005

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Chairman's report

Despite a promising start, I am disappointed to have to report a reduced surplus for the first half of the financial year. The operating surplus before tax for the half year was $285,000 (last year $613,000) and the net surplus after tax and minority interests $101,000 (last year $587,000).

Operating revenue at $17.33 million was slightly ahead of last year ($16.96 million). Cash on hand has increased by $0.86 million to $3.19 million since year end as a result of excellent collections, and was achieved after paying shareholders a fully imputed dividend of 4.0 cents per share.

Profitability has been adversely affected by unavoidable delays in two major projects and by sales campaigns absorbing significant resources that would normally be engaged on revenue-earning activities.

The market has also displayed considerable price pressure in the development services sector, which combined with rising internal staff costs has impacted our ability to generate adequate returns. There have been some costs incurred during the half year, including executive team changes, which will not reoccur.

A number of factors indicate that the outlook for the second half of the financial year is constrained, exacerbated by some pre- and post-election slowdown in the government sector and a cyclical slowdown at one major commercial client. Although the Company has been successful in winning major new projects (including some which have yet to be announced), these will not start until 2006.

These could be regarded as the normal stresses with which any business is expected to cope, and your board is supporting management to take appropriate corrective action. Our new CEO Jim Donovan has identified some key factors which have held back our underlying profitability. He has begun to address these, and will continue to do so over the next 12 months. At the same time, he and his leadership team have begun work on a new growth-oriented strategy for the Company, to be rolled out progressively next year, along with improved business performance.

During this half year, we saw the retirement of Garth Hamilton as a Director of the Company, and founder David Irving's transition to non-executive Director. I reiterate my previous thanks to both of them for the contributions they have made to Synergy.

Philip Shewell
Chairman

Chief Executive's report

On joining Synergy in May, I quickly learnt that we have a wealth of talent in our people, a great reputation for good work, and a blue chip client base, all of which should make us a premium brand in software development. Therefore, it is very disappointing to show a weak profit in my first report as CEO, especially when the Company seemed to have started the year well. Although our UK and Singapore teams are going well, in New Zealand things won't get much better in the second half. That isn't for lack of sales success - our business pipeline from February onward looks very full.

Several factors have combined together to create a temporary slowdown, but a well-run business should be able to cope with that. In looking at the causes of our low profitability, we have found some underlying weaknesses in our business model. I have set six imperatives to address those weaknesses:

- We need to free up our senior people to do more high value work for clients;
- We need to be rewarded for services we currently give "free" to clients;
- We need to simplify and optimise our business processes;
- We need to invest in smarter tools to support our client teams;
- We need to simplify our management structure to better lead our client teams;
- We need to change market perceptions (and our own) of the value of our work. In cost terms, this is primarily a people business. You can't have the best people (with commensurate salary costs) and not command a premium price – the formula doesn't work. We deliver value, but it is masked by simplistic comparisons of hourly rates.

This last point leads me to the big question – where is Synergy going in the long term? We are developing our strategic plan as I write this, and we will begin rolling it out in 2006. The plan is evolutionary rather than revolutionary, building on our strengths, but it should radically reposition the business in client value terms, rather than being just another general IT shop. It should reinforce our position as a preferred employer. And, above all, it should deliver a fundamental shift in shareholder value.

In part, this is why we decided to withdraw from the O2NZ consortium, which will supply NZ staff to overseas projects. We want to shift to an outcome-driven value proposition, not an input-driven one. I look forward to telling you about that strategy in 2006. In the meantime, be assured that we are doing our very best to minimise the impact of the workload slowdown.

Jim Donovan

Jim Donovan
Chief Executive

Statement of financial performance

For the half year ended 30 September 2005

	Note	Group Unaudited half year ended 30 Sept 05 $	Group Unaudited half year ended 30 Sept 04 $	Group Audited year ended 31 March 05 $
Operating revenue	3	17,328,609	16,960,364	32,896,836
Operating surplus before taxation	3	284,940	613,345	1,012,910
Share of associate's (deficit)		–	(21,856)	(89,764)
Surplus before taxation		284,940	591,489	923,146
Taxation expense		103,952	2,276	114,411
Net surplus		180,988	589,213	808,735
Net surplus attributable to minority interest		(80,267)	(2,581)	(48,331)
Net surplus attributable to parent shareholders		100,721	586,632	760,404

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 2005

	Group Unaudited half year ended 30 Sept 05 $	Group Unaudited half year ended 30 Sept 04 $	Group Audited year ended 31 March 05 $
Equity at beginning of period, comprising			
Parent shareholders' interest	4,058,799	4,670,210	4,670,210
Minority interest	126,041	77,710	77,710
	4,184,840	4,747,920	4,747,920
Surplus and revaluations			
Parent shareholders' interest	100,721	586,632	760,404
Minority interest	80,267	2,581	48,331
Movement in foreign currency translation reserve	(20,449)	(26,532)	(57,772)
Total recognised revenue and expenses	160,539	562,681	750,963
Other movements			
Distribution to owners	(280,329)	(1,314,043)	(1,314,043)
Minority interest in distributions to owners	(43,037)	–	–
Movements in equity	(162,827)	(751,362)	(563,080)
Equity at end of period, comprising			
Parent shareholders' interest	3,858,742	3,916,267	4,058,799
Minority interest	163,271	80,291	126,041
	4,022,013	3,996,558	4,184,840

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

Statement of financial position

As at 30 September 2005

	Group Unaudited half year ended 30 Sept 05 $	Group Unaudited half year ended 30 Sept 04 $	Group Audited year ended 31 March 05 $
Equity			
Share capital	4,907,960	4,907,960	4,907,960
Reserves	(173,736)	(122,047)	(153,287)
Accumulated deficit	(875,482)	(869,646)	(695,874)
Parent shareholders' equity	3,858,742	3,916,267	4,058,799
Minority interest	163,271	80,291	126,041
Total equity	4,022,013	3,996,558	4,184,840
Represented by:			
Current assets			
Cash at bank	3,188,694	1,793,357	2,331,417
Taxation	107,700	–	–
Receivables and prepayments	4,773,562	5,920,394	6,196,986
Total current assets	8,069,956	7,713,751	8,528,403
Non current assets			
Property, plant and equipment	1,869,284	1,597,836	1,839,659
Net investment in associate	–	54,560	–
Intangibles			
Software development costs	45,528	83,644	64,586
Total non current assets	1,914,812	1,736,040	1,904,245
Total assets	9,984,768	9,449,791	10,432,648
Current liabilities			
Payables and accruals	5,962,755	5,424,976	6,189,249
Taxation	–	28,257	58,559
Total current liabilities	5,962,755	5,453,233	6,247,808
Total liabilities	5,962,755	5,453,233	6,247,808
Net assets	4,022,013	3,996,558	4,184,840

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 2005

	Note	Group Unaudited half year ended 30 Sept 05 $	Group Unaudited half year ended 30 Sept 04 $	Group Audited year ended 31 March 05 $
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		18,881,834	15,807,453	31,826,697
Interest received		51,569	60,605	111,367
		18,933,403	15,868,058	31,938,064
Cash was applied to:				
Payments to suppliers		(2,725,898)	(2,462,612)	(4,976,956)
Payments to employees		(14,470,812)	(13,075,344)	(25,334,664)
Interest paid		(1,412)	(9,628)	(9,672)
Taxation paid		(167,547)	(32,056)	(111,049)
		(17,365,669)	(15,579,640)	(30,432,341)
Net cash inflow from operating activities	2	1,567,734	288,418	1,505,723
Cash flows from investing activities				
Cash was provided from:				
Sale of property, plant and equipment		289	–	13,660
Repayment of loan to associate		–	60,000	60,000
		289	60,000	73,660
Cash was applied to:				
Purchase of property, plant and equipment		(350,552)	(306,862)	(933,567)
		(350,552)	(306,862)	(933,567)
Net cash (outflow) from investing activities		(350,263)	(246,862)	(859,907)
Cash flows from financing activities				
Cash was applied to:				
Repayment of loans		–	(385,420)	(385,420)
Repayment of finance lease liabilities		–	(1,250)	–
Dividends paid to parent shareholders'		(280,329)	(1,314,043)	(1,314,043)
Dividends paid to minority interest		(43,037)	–	–
		(323,366)	(1,700,713)	(1,699,463)
Net cash (outflow) from financing activities		(323,366)	(1,700,713)	(1,699,463)
Net increase (decrease) in cash held		894,105	(1,659,157)	(1,053,647)
Foreign currency translation adjustment		(36,828)	(11,858)	(79,308)
Cash at beginning of period		2,331,417	3,464,372	3,464,372
Cash at end of period		3,188,694	1,793,357	2,331,417

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 2005

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 2005 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 05 $	**Group** Unaudited half year ended 30 Sept 04 $	**Group** Audited year ended 31 March 05 $
Reported net surplus after taxation	100,721	586,632	760,404
Minority interest share of surpluses	80,267	2,581	48,331
	180,988	589,213	808,735
Items not involving cash flows			
Depreciation amortisation	359,903	398,610	794,566
Share of associate's deficit	–	21,856	89,764
Provision for investment in associate	–	–	46,652
Movement in foreign exchange	16,477	(14,556)	17,078
Other including movement on doubtful debts	(89,847)	148,453	(12,203)
	286,533	554,363	935,857
Impact of changes in working capital items			
Accounts receivable	1,492,872	(1,374,894)	(1,553,924)
Accounts payable	(225,705)	473,243	1,227,942
Taxation payable	(166,259)	(31,554)	(1,252)
GST	(789)	77,177	86,751
	1,100,119	(856,028)	(240,483)
Items classified as investing activities			
Loss on disposal of property, plant and equipment	94	870	1,614
Net cash inflow from operating activities	1,567,734	288,418	1,505,723

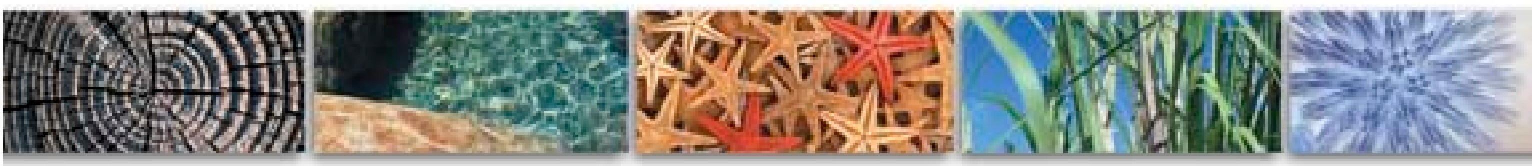
3. Interest

	Group Unaudited half year ended 30 Sept 05 $	Group Unaudited half year ended 30 Sept 04 $	Group Audited year ended 31 March 05 $
Included in operating revenue			
Interest received	51,569	60,605	111,367
Included in operating expenses			
Finance charges on finance leases	–	317	317
Other interest	1,412	9,311	9,356

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 2005, the contingent liability was $238,000 (2004: $265,000).



company directory

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Sandy Maier Jr
Penny Mudford

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solicitors

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