

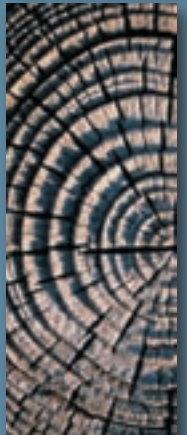
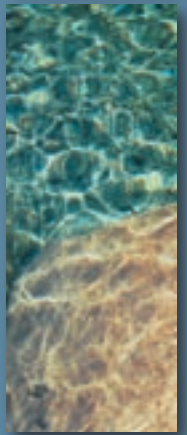
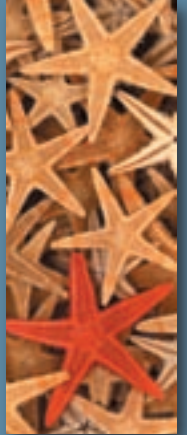
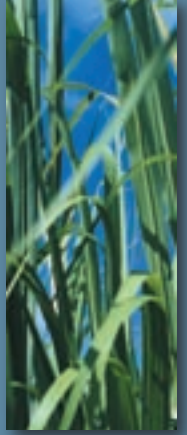
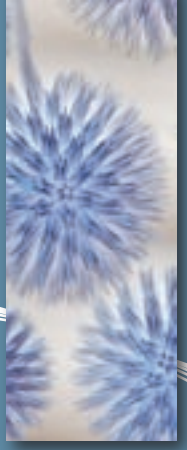
SYNERGY

summary

financial

report

2005



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Chairman's report



I am pleased to report a significant improvement in Synergy's profitability over the past year, with the company's net profit almost double that of the previous year. Although the company's revenue remained static, real efficiencies have emerged in the business as a result of internal restructuring and improvements in client and project management.

Financial performance

Profit before tax for the year ending 31 March 2005 was \$923,000 (2004: \$817,000) with a profit after tax of \$809,000 (2004: \$426,000). The reduced level of taxation is the result of being able to benefit from previously incurred tax losses. The net surplus after minority interests was \$760,000 (2004: \$358,000), which represents a return on shareholders' funds of 18%.

Total operating revenue of \$32.9m was much the same as last year's result of \$32.6m.

Improvements in consulting revenue in New Zealand and Singapore have been offset by a fall in non-consulting revenue in New Zealand and a large UK project entering a phase that required less work than the previous year.

The operating cash surplus was \$1.5m compared with \$1.8m in 2004. From cash generated, \$933,000 was reinvested in fixed assets, \$385,000 was applied to repay loans and \$1,314,000 was paid to shareholders by way of dividends. Total cash decreased by \$1,054,000 from the previous year. The cash balance at year-end of \$2.3m provides strong reserves from which to create value from new initiatives.

The Economic Value Added (EVA) in the year was \$1m (2004: \$92,000) being the value created after deducting a capital charge based on the capital employed in the company.

Dividend

A total of \$1.3m was paid to shareholders by way of dividends, which related to the previous year's performance. A fully imputed dividend of 3.75 cents per share was paid on 1 July 2004 and a fully imputed special dividend of 15 cents per share was paid on 29 July 2004.

A dividend of 4.0 cents per share, fully imputed, has been declared on 26 May 2005, which will be paid on 1 July 2005 to all shareholders on the register at 30 May 2005.

Divisional highlights

The operating revenue of \$32.9m was achieved from New Zealand (\$27.2m), the UK (\$2.4m), Asia (\$2.6m) and Australia (\$0.7m). The overseas contribution of \$5.7m resulted from strong growth in Asia of \$0.7m but a reduction in revenue from the UK of \$1.5m. Further opportunities in the UK market are being actively sought through our UK subsidiary, in conjunction with our joint venture partner Cresta and other business partners. It is pleasing to note our UK subsidiary continues to be profitable.

The New Zealand operational performance reflected an upturn in consulting revenue and consultant utilisation. Non-consulting revenue fell due to one-off license revenue in 2004 not recurring in 2005.



There were signs of a returning market vigour at the end of the last financial year but it took until August for Synergy to see the impact in terms of increased workload and significantly more forward contracts for work. The skills shortage experienced in the latter half of the year has put pressure on the whole industry and that has constrained growth for Synergy in some areas.

The Outsource2NewZealand initiative, in which Synergy is one of a number of software development companies trying to establish a marketing presence for the New Zealand industry in the UK, is taking longer than expected to gain Government funding approval. Activity in this area is restricted until a decision has been made by Government.

Governance

The smaller Board of six Directors has functioned effectively throughout the year and I would like to acknowledge and thank the Directors for their continued and valuable contribution to the company during the year.

Since balance date Garth Hamilton has advised of his intention not to stand for re-election to the Board at the coming Annual Meeting. I offer Garth the thanks of the whole company for the contribution he has made as an Executive Director over the past six years.

The Board is well aware of the effort and commitment shown by the employees of Synergy over the past year and offers its thanks to all for their continued dedication.

Investor activity

At the time of writing Synergy has 190 shareholders of which 46 are current employees of the company.

The future

With retiring Chief Executive, David Irving, stepping aside from the role he has held for the last eight years, there will undoubtedly be a change in style and approach from the new CEO, Jim Donovan. We are delighted to have gained the services of Jim Donovan given his past record of success with growing both revenue and profitability in similar sized companies.

The Board has set growth targets for the company in the coming year that will demand further changes to the way the business is managed if we are to gain market share, rather than merely sustain it. While the increased profit is pleasing, it still remains at the lower end of what is acceptable and we are anticipating further improvement over the coming year.

The company is now poised to enter a new phase and I am confident that it is ready to meet the new challenges that will be presented. We are already encouraged by a much higher level of new business activity in the first quarter of 2005, which includes a number of major projects that will span some years.

On behalf of the Board and the staff at Synergy I would like to thank David for leaving the company in such good health. In establishing Synergy in 1992, David, with co-founder Chris Comber, may well have dreamed of the company in its present form. The realisation of that dream so often flounders for small IT start-up companies, but David can look back with immense pride for what he has achieved over the past 13 years. His contribution to the company, its culture and the wider IT industry has been immeasurable and there are many current and past employees of Synergy to whom their personal career success is a direct result of David's influence.

David remains the largest single shareholder in Synergy and the Directors are pleased that he will continue in his role on the Board.



Philip Shewell
Chairman



Chief Executive's report



It is with a mix of emotions that I report on the 2004/05 financial year for Synergy, which will be my last as Chief Executive. I am delighted with the improvement in company profitability, proud of what the team has accomplished in the last year, and very pleased to be stepping aside at a time when the company is doing well.

At the same time, I am looking back over my 13 years with a sense of sadness at letting go of something that I, in partnership with Chris Comber, was responsible for creating. Over that time there have been moments of great terror as we took on what seemed to be clients and projects that were almost too big for us but then huge satisfaction when we delivered. There has been much laughter throughout the years but also grief, as we came to terms with the untimely death of fellow founder Chris Comber. I thank you all for your interest, support and friendship throughout the years and for believing in Synergy as a company with a great future.

The year in review

The story for Synergy over the past year has been about doing more with what we have. Staff numbers and revenue have remained at the same levels but our ability to deliver more profit has been the result of efforts across a number of fronts.

Restructuring changes within the Operations team to more closely align our resources with client needs and to create a pool of solutions managers operating in both a pre-sales capacity and directly on client work has made a noticeable contribution to our end of year result. The sales strategy of cultivating our existing client base, developing more enduring business relationships and securing longer-term contracts has been successful and we have a solid base

of work for the year going forward. We also notched up a number of major new business wins in highly competitive tenders that gave us a significant boost, though the revenue from these will not be evident until midway through 2005.

The general market upturn, especially noticeable in the second half of the year, has meant we have experienced serious pressure on our resources for the first time in some years and a major recruiting drive has been put in place.

Highlights

- A contract with an existing major UK client to carry out a complete redevelopment of their back-end systems was signed – this is worth £3.5 million over the next two years.
- Synergy negotiated exclusive New Zealand distribution rights for Agitar Software's Java testing tool, Agitator, along with its testing management tool - Management Dashboard. Reseller rights for Agitar products in the UK and Ireland were also secured.
- The mobile solutions team continued to deliver innovative services. We were instrumental in helping Kiwibank become first to market with text balances, and in supporting two-factor security authentication for another New Zealand bank. The successful Wellington TXT-a-Park trial has resulted in the roll-out of the machines across the city, with another major city council preparing to trial.



- New advertising and marketing initiatives introduced during the year saw our brand awareness jump 29% to reach 84%, putting us up there with our much larger competitors.
- The whole company got behind fund-raising for Synergy's tsunami relief fund – a project with Habitat-for-Humanity in Sri Lanka to rebuild a village. More than \$100,000 was raised through donations made from staff and business partners, and through a variety of fund-raising activities including a charity cricket match, charity dinner and a suit-making venture. The Government has contributed significantly to our tally fund as part of their donation-matching agreement.



- In August, the Wellington operation combined onto one site at Queens Wharf, with staff based at Mobil on the Park moving into expanded space created within the existing Harbourside premises and new office space across the plaza in the Events Centre. This has noticeably improved communication between all areas of the business.
- In June 2004, Synergy and Hosting & Datacentre Services (HdS) signed a Memorandum of Understanding that aimed to boost business for both companies through active collaboration on clients and new opportunities.
- A further \$1 million in projects with The Le@rning Federation was awarded in June, and involves Synergy in developing online curriculum content for schoolchildren in Australia and New Zealand.

- The Minister of Economic Development, the Hon Jim Anderton, paid a visit to Synergy in November and was given a tour of the premises and an overview of the issues facing the company, both in terms of regulatory issues and the offshore market potential.

New Zealand

While there was a slight revenue increase for the New Zealand operation, some very productive work was carried out to put in place an Operations structure that would be more flexible and responsive to clients, but which would also provide a level of efficiency and effectiveness in terms of managing client projects.

Consulting revenue was up with major clients increasing their level of spending and signing contracts for longer term work. Some mid-level clients also began to increase spending and showed the potential to grow significantly in the coming year. Revenue through product sales and annuity income was lower as we exited from a number of relationships that we no longer consider part of our core business.

With a refinement of our sales approach and a more experienced sales team in place in Auckland and Wellington, more time has been spent productively selling within existing accounts and to targeted new prospects. We have reduced the amount of time spent bidding for competitive tenders and our success rate is now much higher on the selective bids we choose to respond to.

High consultant utilisation in the second half of the year put some real pressure on the business in terms of recruiting sufficiently skilled staff to meet the demand from clients. Synergy is not alone in trying to recruit in a skills shortage where staff are being tempted with offers from competitors and other opportunities.

We took some steps forward with regard to introducing Agile project management (also known as Xtreme or Radical) and in the coming year we expect this style of working to become more popular with clients and more effective for us from an operational point of view.



Singapore

Synergy enjoyed a strong year in Singapore with existing client Singapore Energy Market Company pulling in more staff from New Zealand to assist with a new Settlements Re-run project, which came in on time and under budget.

UK

It was a mixed year for the UK with revenues down slightly while a major client reviewed its direction for a project we have been extensively involved in. The wait has paid off and a major deal has now been signed which will see Synergy engaged for another two years to help implement a new Java solution. A great deal of effort has also gone into planning for, and gaining the initial traction to start to grow. This has seen us review our services to ensure these are focused and relevant for the market, and to improve our sales and marketing channels.

The year ahead

With Jim Donovan taking on the role of CEO, it is not for me to make promises on what can and will be delivered. Certainly there are many challenges ahead such as continuing to attract and retain high quality staff in a highly competitive labour market and realise more opportunities within our existing business - both onshore and offshore.

Although the economic indicators are starting to show a more pessimistic view of market conditions in the year ahead, we believe it will take at least six months to a year before any slowdown will be evident in the IT sector. I step down from the Chief Executive role knowing the company is in good shape for 2005 and beyond with a much clearer understanding of what it must do to succeed and be profitable.

David Irving
Chief Executive

a .NET solution
that creates a 70%
faster response time
for QV's customers

NOT a problem

New Zealand's fastest growing market was giving the credit to Internet solution and information company, Quanta Video Limited (QV), in the last year. As the demand on the company's video information system soared, the application grew more complex and harder to system. Customer response times were increasing to levels that were unacceptable.

Synergy's answer was a Microsoft .NET solution. The new system is simple and fast, and its development framework is easy to support. It includes web services, and XML and SOAP capability for users who want to receive information transparently via their website or PDA.

The difference in performance has been significant. Today the fact that 70% of QV's website now handles up to seven million web requests, system response times are 10% better, and over the world complex information is available to users. In 2004, Synergy's solution has opened the door to a newly improved customer experience.

Problems solved:
 Auckland: 09 317 1000
 Wellington: 09 439 3000
 www.synergy.co.nz

SYNERGY

www.synergy.co.nz

Synergy's new advertising focuses on the company's proven ability to solve difficult problems for its clients



Statement of financial performance

For the year ended 31 March 2005

	Group 2005 \$	Group 2004 \$	Parent 2005 \$	Parent 2004 \$
Operating revenue	32,896,836	32,575,065	30,541,294	30,490,869
Operating surplus before taxation	1,012,910	871,667	242,833	510,687
Share of associate's (deficit)	(89,764)	(54,429)	–	–
Surplus before taxation	923,146	817,238	242,833	510,687
Taxation expense (credit)	114,411	391,083	(12,574)	345,334
Net surplus	808,735	426,155	255,407	165,353
Net surplus attributable to minority interest	(48,331)	(68,451)	–	–
Net surplus attributable to parent shareholders	760,404	357,704	255,407	165,353

Note: This statement is to be read in conjunction with the Notes to the financial statements.

A copy of the full annual report can be obtained from Synergy International's registered office.



Statement of movements in equity

For the year ended 31 March 2005

	Group 2005 \$	Group 2004 \$	Parent 2005 \$	Parent 2004 \$
Equity at beginning of year, comprising				
Parent shareholders' interest	4,670,210	4,567,004	4,617,632	4,660,580
Minority interest	77,710	–	–	–
	4,747,920	4,567,004	4,617,632	4,660,580
Surplus and revaluations				
Parent shareholders' interest	760,404	357,704	255,407	165,353
Minority interest	48,331	68,451	–	–
Movement in foreign currency translation reserve	(57,772)	(46,197)	–	–
<i>Total recognised revenue and expenses</i>	750,963	379,958	255,407	165,353
Other movements				
Minority interest in contributions from owners	–	9,259	–	–
Distribution to owners	(1,314,043)	(208,301)	(1,314,043)	(208,301)
<i>Movements in equity for the year</i>	(563,080)	180,916	(1,058,636)	(42,948)
Equity at end of year, comprising				
Parent shareholders' interest	4,058,799	4,670,210	3,558,996	4,617,632
Minority interest	126,041	77,710	–	–
	4,184,840	4,747,920	3,558,996	4,617,632

Note: This statement is to be read in conjunction with the Notes to the financial statements.

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Statement of financial position

As at 31 March 2005

	Group 2005 \$	Group 2004 \$	Parent 2005 \$	Parent 2004 \$
Equity				
Share capital	4,907,960	4,907,960	4,907,960	4,907,960
Reserves	(153,287)	(95,515)	–	–
Accumulated deficit	(695,874)	(142,235)	(1,348,964)	(290,328)
Parent shareholders' equity	4,058,799	4,670,210	3,558,996	4,617,632
Minority interest	126,041	77,710	–	–
Total equity	4,184,840	4,747,920	3,558,996	4,617,632
Represented by:				
Current assets				
Cash at bank	2,331,417	3,464,372	1,753,243	3,090,605
Receivables and prepayments	6,196,986	4,643,062	5,346,031	4,455,237
<i>Total current assets</i>	8,528,403	8,107,434	7,099,274	7,545,842
Non current assets				
Property, plant and equipment	1,839,659	1,693,396	1,836,959	1,688,029
Investment in subsidiaries	–	–	26,277	27,540
Net investment in associate	–	196,416	–	196,416
Intangibles				
Software development costs	64,586	102,702	64,586	102,702
<i>Total non current assets</i>	1,904,245	1,992,514	1,927,822	2,014,687
Total assets	10,432,648	10,099,948	9,027,096	9,560,529
Current liabilities				
Payables and accruals	6,189,249	4,874,556	5,532,648	4,515,106
Taxation	58,559	59,811	(64,548)	10,130
Finance leases - current portion	–	15,913	–	15,913
ANZ term loan - current portion	–	385,420	–	385,420
<i>Total current liabilities</i>	6,247,808	5,335,700	5,468,100	4,926,569
Non current liabilities				
Finance leases	–	16,328	–	16,328
<i>Total non current liabilities</i>	–	16,328	–	16,328
Total liabilities	6,247,808	5,352,028	5,468,100	4,942,897
Net assets	4,184,840	4,747,920	3,558,996	4,617,632

For and on behalf of the Board



Director
Date: 26 May 2005



Director

Note: This statement is to be read in conjunction with the Notes to the financial statements.
A copy of the full annual report can be obtained from Synergy International's registered office.



Statement of cash flows

For the year ended 31 March 2005

	Note	Group 2005 \$	Group 2004 \$	Parent 2005 \$	Parent 2004 \$
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Receipts from customers		31,826,697	32,559,437	29,596,253	30,591,825
Dividends from subsidiaries		–	–	–	19,882
Interest received		111,367	134,034	97,352	133,460
		31,938,064	32,693,471	29,693,605	30,745,167
<i>Cash was applied to:</i>					
Payments to suppliers		(4,976,956)	(5,010,687)	(4,702,377)	(4,846,531)
Payments to employees		(25,334,664)	(25,636,305)	(23,908,235)	(24,154,698)
Interest paid		(9,672)	(39,949)	(9,672)	(39,921)
Taxation paid		(111,049)	(118,076)	(62,104)	(112,022)
		(30,432,341)	(30,805,017)	(28,682,388)	(29,153,172)
<i>Net cash inflow from operating activities</i>	2	1,505,723	1,888,454	1,011,217	1,591,995
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Sale of property, plant and equipment		13,660	1,565	13,660	1,565
Repayment of loan to associate		60,000	50,000	60,000	50,000
		73,660	51,565	73,660	51,565
<i>Cash was applied to:</i>					
Purchase of property, plant and equipment		(933,567)	(550,255)	(933,567)	(544,521)
		(933,567)	(550,255)	(933,567)	(544,521)
<i>Net cash (outflow) from investing activities</i>		(859,907)	(498,690)	(859,907)	(492,956)
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)	(170,832)	(385,420)	(170,832)
Repayment of finance lease liabilities		–	(24,461)	–	(24,461)
Inter-company advances		–	–	209,854	(102,625)
Purchase of shares in subsidiaries		–	–	–	(17,302)
Dividends paid to parent shareholders		(1,314,043)	(208,301)	(1,314,043)	(208,301)
		(1,699,463)	(403,594)	(1,489,609)	(523,521)
<i>Net cash (outflow) from financing activities</i>		(1,699,463)	(394,335)	(1,489,609)	(523,521)
Net (decrease) increase in cash held		(1,053,647)	995,429	(1,338,299)	575,518
Foreign currency translation adjustment		(79,308)	(73,330)	937	(27,166)
Cash at beginning of the year		3,464,372	2,542,273	3,090,605	2,542,253
Cash at end of the year		2,331,417	3,464,372	1,753,243	3,090,605

Note: This statement is to be read in conjunction with the Notes to the financial statements.

A copy of the full annual report can be obtained from Synergy International's registered office.



Notes to the financial statements

For the year ended 31 March 2005

1. Statement of accounting policies

Basis of preparation

The summary financial statements for Synergy International Limited have been prepared in accordance with Financial Reporting Standard FRS 39 "Summary Financial Reports".

The information contained in this summary financial report has been extracted from the full financial report authorised for issue by the Board of Directors on 26 May 2005. The summary financial report does not provide complete information and should be read in conjunction with the full financial report.

The full financial report has been audited and an unqualified opinion has been expressed.

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 2005 \$	Group 2004 \$	Parent 2005 \$	Parent 2004 \$
Reported surplus after taxation	760,404	357,704	255,407	165,353
Minority interest share of surpluses	48,331	68,451	–	–
	808,735	426,155	255,407	165,353
<i>Items not involving cash flows</i>				
Depreciation amortisation	794,566	1,068,270	792,055	1,065,663
Share of associate's deficit	89,764	54,429	–	–
Provision for inter-company debt	–	–	5,447	357
Provision for investment in associate	46,652	–	136,416	121,984
Movement in foreign exchange	17,078	27,161	326	27,166
Other	(12,203)	(103,235)	(16,817)	(103,247)
	935,857	1,046,625	917,427	1,111,923
<i>Impact of changes in working capital items</i>				
Accounts receivable	(1,553,924)	513,840	(945,744)	315,962
Accounts payable	1,227,942	(224,754)	843,498	(190,785)
Taxation payable	(1,252)	266,833	(74,678)	227,150
GST	86,751	(130,484)	13,693	(27,847)
	(240,483)	425,435	(163,231)	324,480
<i>Items classified as investing activities</i>				
Loss (gain) on disposal of fixed assets	1,614	(9,761)	1,614	(9,761)
Net cash inflow from operating activities	1,505,723	1,888,454	1,011,217	1,591,995



Notes to the financial statements *continued*

For the year ended 31 March 2005

3. 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 is \$238,000 (2004: \$265,000).

4. Minority interest

As at 31 March 2005, Cresta Group Ltd holds 33.34% of the equity of Synergy New Zealand (UK) Limited which is reflected in the financial statements as a minority interest.

5. International financial reporting standards

In December 2002, New Zealand's Accounting Standards Review Board (ASRB) determined that all New Zealand reporting entities will be required to comply with International Financial Reporting Standards (IFRS) for periods commencing on or after 1 January 2007, with the option to adopt early for periods beginning on or after 1 January 2005.

Synergy intends to adopt NZIFRS for the year ended 31 March 2008. In adopting NZIFRS Synergy will also be in compliance with IFRS. A conversion project has been established which includes an impact assessment and commitment has been received from the Synergy Board.



Audit report

To the Shareholders of Synergy International Limited

The summary financial statements of Synergy International Limited (the "Company") and Group have been extracted from audited financial statements for the year ended 31 March 2005 on which we expressed an unqualified opinion dated 26 May 2005.

Directors' Responsibilities

The Directors are responsible for preparing the summary financial statements and determining their form and content.

Auditor's Responsibilities

We are responsible for reporting whether the information contained in the summary financial statements have been correctly extracted from audited financial statements.

Basis of Opinion on the Summary Financial Statements

We have undertaken procedures to provide reasonable assurance that the amounts set out in the summary financial statements have been correctly taken from the audited financial statements of the Company and Group for the year ended 31 March 2005. Other than in our capacity as auditor and provision of taxation advice, we have no relationship with or interests in the Company or Group.

Unqualified Opinion on the Summary Financial Statements

In our opinion the amounts set out in the summary financial statements for the year ended 31 March 2005 have been correctly taken from the audited financial statements of the Company from which they were extracted.

For a better understanding of the scope of our audit of the Company's and Group's financial statements and of their financial position, financial performance and cash flows for the year ended 31 March 2005, this report should be read in conjunction with the Company's audited financial statements for that period.

Our examination of the summary financial statements was completed on 26 May 2005 and our unqualified opinion is expressed as at that date.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the summary financial statements of Synergy International Limited (the "Company") and Group for the year ended 31 March 2005 included on the Company's website. The Company's Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the financial statements since it was initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 26 May 2005 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Chartered Accountants
Wellington, New Zealand



Company directory

Directors

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

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Synergy International Limited
3 Queens Wharf
Wellington

Auditor

Deloitte
PO Box 1990, Wellington

Bankers

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

Share Registry

BK Registry
PO Box 384, Ashburton

Solicitors

Quigg Partners
PO Box 3035, Wellington



www.synergy.co.nz