



Summary financial report 2006

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Chairman's report



A much improved final quarter reflects success in sales and cost reduction, and we have set a new strategic direction for the Company.

Financial performance

Despite weak trading in the middle of the year, operating revenue for the financial year ending 31 March 2006 recovered to \$32.9 million, matching the previous year's \$32.9 million. The mid-year downturn arose from contract-signing delays on two major projects. The final quarter improvement was a result of sales success in New Zealand and Britain.

The mid-year downturn, combined with high overhead costs, saw the Company's operating surplus before tax fall significantly in the first half, but recover following restructuring to \$777,000 (\$923,000), including all restructuring costs. Profit after tax was \$617,000 (\$809,000), while net profit after tax and minority interests was \$404,000 (\$760,000), reflecting tax outflows after a successful year in the UK.

Cash fell to \$1.15 million (\$2.33 million), due to the weak mid-year trading and extended payments on some major contracts. Operating cash flow was -\$0.16 million (+\$1.51 million), and total net cashflow was -\$1.37 million (-\$1.05 million), following investments in fixed assets, dividends to subsidiary minority interests, and payment of a fully imputed dividend of 4.0 cents per share during the year.

Operations

In the middle two quarters of 2005/6, the Company experienced a slowdown in work because two major new projects did not start due to protracted contract negotiations. This slowdown highlighted that the Company carried excess management and back office costs.

Following the arrival of CEO Jim Donovan, work had commenced on developing a new strategic direction for the Company. In the third quarter of the financial year, management instigated a major change to reposition the Company for this future strategy shift. This also saw some \$2 million in annual costs removed from overheads. These changes have already proved their value, with a substantially improved operating performance in the final quarter of the financial year.

On behalf of the board and shareholders, I would like to thank all our staff for working hard to implement such significant change.

Governance

During the year, David Irving stepped aside as CEO while remaining on the board as a non-executive director, and Garth Hamilton left the Company and the board. I again thank both for their contributions to the Company.

The smaller board of five non-executive directors has functioned well, and I take this opportunity to acknowledge my co-directors and thank them for their continued commitment and contribution.

Investor activity

There was little share trading during the year. The Company plans to explore options for improving share liquidity. At 31 March 2006, the Company had 195 shareholders, of whom 32 are staff and directors (or their interests). CEO Jim Donovan's family interests have acquired a shareholding, and are considering further acquisitions (see below).

Ownership and dividend

A committee of independent directors is evaluating possible changes in the Company's shareholder base. In recognition of the recent shift of a substantial part of the Company's owners out of management roles, we are exploring proposals to facilitate partial exit by some existing shareholders while encouraging substantial buy-in by current management.

This will not be a quick process, but I hope to announce more details in due course. Until we have considered these proposals further, the board has decided not to declare a dividend at this stage. Anyone considering buying or selling shares in the Company may want to wait for our report before taking such action, because the outcome of these proposals may have a material impact on the value of their shares.

The future

**One of New Zealand's top 5
strategic IT companies**

MIS Magazine, 2005

In late February, the Company announced a new business strategy, based on our acknowledged market position as a leading provider of "industrial-strength" business transaction and payment systems and services. The Company has a vision for the future based on a distinctive area of competence which builds on the proud heritage and reputation built up since its foundation. Initial market feedback has been very encouraging, and the future looks promising.



Philip Shewell
Chairman

Chief Executive's report



At the start of calendar year 2006, we announced a new direction for the Company. In future, we will design, build and operate industrial-strength business transaction and payment systems and services which connect the world to our clients and our clients to the world.

Operating results highlight the need for change

Reduced revenues and operating losses in the middle two quarters of the year demonstrated that we needed to address underlying weaknesses in our business model, and that we needed to reposition the business in client value terms, rather than being just another (albeit technically very good) IT shop.

In the half-year report to shareholders, I outlined six imperatives:

- To free up our senior people to do more high value work for clients;
- To be rewarded for services we currently give away "free" to clients;
- To simplify and optimise our business processes;
- To invest in smarter tools to support our client teams;
- To simplify our management structure to better lead our client teams;
- To shift market perceptions (and our own) of the value of our work.

Market research and client feedback during the year confirmed that we have outstanding IT people and a strong reputation for quality and delivery. It also showed that the vast majority of our work involves industrial-strength business transaction and payment systems. It became clear that to achieve increased growth and profit, we needed to leverage off these strengths.

In the third quarter, we reorganised ourselves around client-centric teams, simplified and streamlined our management and administrative structures, and removed over \$2 million in annual overhead costs. We also began implementing new tools to support the business, including a new service delivery portal (the knowledge repository for our client work), a new intranet and a new professional services management system. These are all in place and bedding in before undergoing further development.

In February 2006, we announced our new strategic direction, which should drive improved and growing shareholder value through a clearer client value proposition, more distinctive competitive positioning, a sharper business focus and a more ambitious yet realistic business development path.

The new strategy

Synergy has begun a major shift away from generalist IT services, to increase our focus on industrial-strength business transaction and payment systems and services. We will build our skills and knowledge to support our new emphasis. This will see us offering three main service lines:

- Application design, build & implementation services;
- Managed IT services;
- Transaction services.

Design build and implementation

Synergy has been designing and building mission critical transaction and payment systems for years:

- We deliver and support government funding and payment systems that support billions of dollars of payments annually.
- We have delivered leading edge mobile payment platforms for telecommunications companies in Australasia and Europe.
- We are a major development partner for two of New Zealand's leading online channels - Fly Buys and QV Online.
- We are building a very high volume online security application platform for a major UK client, which we won in January.
- We implemented New Zealand's original energy market settlement system, and we are helping to build the next generation system today. We have helped build similar systems in Singapore, and we anticipate more such projects internationally.

Manage, operate and support

Our clients trust us to keep them operating. Delivery doesn't stop when we complete the build of a client's system. A key part of our growth strategy is to further invest in our capability to support live business applications.

- We are already trusted by some of New Zealand's (and the world's) biggest organisations to keep their core systems operating 24/7, with managed sites in 13 countries.
- We provide long-term software maintenance and support for student loans and allowances payments.
- We host court fines and payment systems.
- We support our clients to move consumers away from costly contact centres to more effective self-service e-business channels.
- We help to keep the roads clear by monitoring New Zealand's traffic management systems.

Fronde Transaction Services

By focusing on clients, client businesses and client business sectors, we have identified common needs for specialist transaction gateways and application frameworks. We are introducing a new brand for this growing line of business – Fronde Transaction Services.

We have big plans for Fronde Transaction Services, in New Zealand and offshore. Our first solutions are already in place:

- We're helping banks to innovate with secure new mobile channels.
- Transport providers and government agencies are improving their service by proactively communicating and transacting with customers.
- Our world leading payment services for parking have increased council revenues, while providing motorists with convenient, easy-to-use payment options and greater customer satisfaction.

We are building up capability to support this growing area of our business with a dedicated business unit and development team.

FRONDE

Derived from the time of the French revolution. In contemporary Europe Fronde refers to the spirit that makes people challenge current thinking and lead a wave of change. Appropriately, it also suggests New Zealand's iconic fern.

Market focus

In New Zealand, we are heavily involved in the finance, energy, telecommunications, and government sectors. Over time, we expect our transaction and payment offerings to appeal to the distribution sector as well. Internationally, finance, telecommunications and energy are our primary interests.



Banking & Financial Services



Energy



Telecommunications



Government



Distribution

Because so much of what we do requires close interaction with clients, we have decided to focus on English-speaking markets for now. Although we will not turn away other opportunities that fit our long-term strategic focus on transactions and payments, we won't go looking for them outside North America, Australasia, the British Isles, and Singapore.

Our primary offer in international markets will be based on our strength in mobile transactions & payments, and selected industrial strength transaction systems, e.g. energy market solutions. Our overseas businesses will shift to the Fronde brand, to distinguish them from the many overseas companies who also use Synergy as a brand. We will review the long-term use of Synergy as our NZ brand during the coming year.

Strategic and organic growth

We are recruiting additional senior people to organically grow our NZ and UK businesses in line with our new market offer.

We are also interested in acquisition opportunities that fit our strategic purpose. We are looking for businesses that will either add scale and additional products in our portfolio of managed services and transaction services or speed up entry into a target geographic or industry market.

We are not interested in growth for growth's sake. Any acquisition would only be undertaken if there is a compelling opportunity to build shareholder value.

Investing in people

A major new initiative this year will see us offering a comprehensive learning and development programme to our staff. This will not only encompass technical skills, but also develop our people's general business, management and commercial skills. We have restarted our graduate recruitment and development scheme. And very importantly, we also want to identify and groom the next generation of leaders for the Company.

Looking ahead

While this year has not been a great one financially, we are building the platform for improved future performance. We are investing in new services and systems to drive business success and shareholder value. Our new market positioning is starting to work for us, the sales pipeline is looking stronger, and we are actively recruiting staff to meet increased client demands both in New Zealand and abroad.

Jim Donovan
CEO

Statement of financial performance

For the year ended 31 March 2006

	Group 2006 \$	Group 2005 \$	Parent 2006 \$	Restated Parent 2005 \$
Operating revenue	32,972,453	32,896,836	29,706,745	31,011,049
Operating surplus before taxation	776,993	1,012,910	278,918	716,428
Share of associate's (deficit)	–	(89,764)	–	–
Surplus before taxation	776,993	923,146	278,918	716,428
Taxation expense (credit)	160,064	114,411	(17,866)	(12,574)
Net surplus	616,929	808,735	296,784	729,002
Net surplus attributable to minority interest	(212,941)	(48,331)	–	–
Net surplus attributable to parent shareholders	403,988	760,404	296,784	729,002

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 2006

	Group 2006 \$	Group 2005 \$	Parent 2006 \$	Restated Parent 2005 \$
Equity at beginning of year, comprising				
Parent shareholders' interest	4,058,799	4,670,210	3,558,996	4,617,632
Prior period adjustment	–	–	473,595	–
Minority interest	126,041	77,710	–	–
	4,184,840	4,747,920	4,032,591	4,617,632
Surplus and revaluations				
Parent shareholders' interest	403,988	760,404	296,784	729,002
Minority interest	212,941	48,331	–	–
Movement in foreign currency translation reserve	69,461	(57,772)	–	–
<i>Total recognised revenue and expenses</i>	686,390	750,963	296,784	729,002
Other movements				
Minority interest distribution to owners	(214,685)	–	–	–
Distribution to owners	(280,329)	(1,314,043)	(280,329)	(1,314,043)
<i>Movements in equity for the year</i>	191,376	(563,080)	16,455	(585,041)
Equity at end of year, comprising				
Parent shareholders' interest	4,251,919	4,058,799	4,049,046	4,032,591
Minority interest	124,297	126,041	–	–
	4,376,216	4,184,840	4,049,046	4,032,591

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 2006

	Group 2006 \$	Group 2005 \$	Parent 2006 \$	Restated Parent 2005 \$
Equity				
Share capital	4,907,960	4,907,960	4,907,960	4,907,960
Reserves	(83,826)	(153,287)	–	–
Accumulated deficit	(572,215)	(695,874)	(858,914)	(875,369)
Parent shareholders' equity	4,251,919	4,058,799	4,049,046	4,032,591
Minority interest	124,297	126,041	–	–
Total equity	4,376,216	4,184,840	4,049,046	4,032,591
Represented by:				
Current assets				
Cash at bank	1,153,328	2,331,417	1,051,946	1,753,243
Taxation refund	287,403	–	582,999	–
Receivables and prepayments	8,369,531	6,196,986	6,215,802	5,819,626
<i>Total current assets</i>	9,810,262	8,528,403	7,850,747	7,572,869
Non current assets				
Property, plant and equipment	2,071,261	1,839,659	2,056,956	1,836,959
Investment in subsidiaries	–	–	29,191	26,277
Net investment in associate	–	–	–	–
Intangibles				
Software development costs	–	64,586	–	64,586
<i>Total non current assets</i>	2,071,261	1,904,245	2,086,147	1,927,822
Total assets	11,881,523	10,432,648	9,936,894	9,500,691
Current liabilities				
Payables and accruals	7,505,307	6,189,249	5,887,848	5,532,648
Taxation	–	58,559	–	(64,548)
<i>Total current liabilities</i>	7,505,307	6,247,808	5,887,848	5,468,100
Total liabilities	7,505,307	6,247,808	5,887,848	5,468,100
Net assets	4,376,216	4,184,840	4,049,046	4,032,591

For and on behalf of the Board



Director
Date: 25 May 2006



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 2006

	Note	Group 2006 \$	Group 2005 \$	Parent 2006 \$	Parent 2005 \$
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Receipts from customers		32,440,672	31,826,697	31,118,735	29,596,253
Dividends from subsidiaries		–	–	435,675	–
Interest received		81,079	111,367	62,747	97,352
		32,521,751	31,938,064	31,617,157	29,693,605
<i>Cash was applied to:</i>					
Payments to suppliers		(4,512,655)	(4,976,956)	(4,280,396)	(4,702,377)
Payments to employees		(27,630,591)	(25,334,664)	(25,482,787)	(23,908,235)
Interest paid		(3,913)	(9,672)	(3,913)	(9,672)
Taxation paid		(537,373)	(111,049)	(500,586)	(62,104)
		(32,684,532)	(30,432,341)	(30,267,682)	(28,682,388)
<i>Net cash inflow from operating activities</i>	2	(162,781)	1,505,723	1,349,475	1,011,217
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Sale of property, plant and equipment		50,289	13,660	50,289	13,660
Repayment of loan to associate		–	60,000	–	60,000
		50,289	73,660	50,289	73,660
<i>Cash was applied to:</i>					
Purchase of property, plant and equipment		(760,382)	(933,567)	(746,015)	(933,567)
		(760,382)	(933,567)	(746,015)	(933,567)
<i>Net cash (outflow) from investing activities</i>		(710,093)	(859,907)	(695,726)	(859,907)
Cash flows from financing activities					
<i>Cash was applied to:</i>					
Repayment of loans		–	(385,420)	–	(385,420)
Inter-company advances		–	–	(1,078,606)	209,854
Dividends paid to parent shareholders		(280,329)	(1,314,043)	(280,329)	(1,314,043)
Dividends paid to minority interest		(214,685)	–	–	–
		(495,014)	(1,699,463)	(1,358,935)	(1,489,609)
<i>Net cash (outflow) from financing activities</i>		(495,014)	(1,699,463)	(1,358,935)	(1,489,609)
Net (decrease) increase in cash held		(1,367,888)	(1,053,647)	(705,186)	(1,338,299)
Foreign currency translation adjustment		189,799	(79,308)	3,889	937
Cash at beginning of the year		2,331,417	3,464,372	1,753,243	3,090,605
Cash at end of the year		1,153,328	2,331,417	1,051,946	1,753,243

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 2006

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 25 May 2006. 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 2006 \$	Group 2005 \$	Parent 2006 \$	Restated Parent 2005 \$
Reported surplus after taxation	403,988	760,404	296,784	729,002
Minority interest share of surpluses	212,941	48,331	–	–
	616,929	808,735	296,784	729,002
<i>Items not involving cash flows</i>				
Depreciation amortisation	683,782	794,566	681,108	792,055
Share of associate's deficit	–	89,764	–	–
Provision for inter-company debt	–	–	2,284	5,447
Provision for investment in associate	–	46,652	–	136,416
Movement in foreign exchange	(88,903)	17,078	(6,803)	326
Other	(188,829)	(12,203)	(157,481)	(16,817)
	406,050	935,857	519,108	917,427
<i>Impact of changes in working capital items</i>				
Accounts receivable	(2,172,545)	(1,553,924)	519,795	(1,419,339)
Accounts payable	957,617	1,227,942	498,668	843,498
Taxation payable	(345,962)	(1,252)	(518,451)	(74,678)
GST	358,442	86,751	16,883	13,693
	(1,202,448)	(240,483)	516,895	(636,826)
<i>Items classified as investing activities</i>				
Loss (gain) on disposal of fixed assets	16,688	1,614	16,688	1,614
Net cash inflow from operating activities	(162,781)	1,505,723	1,349,475	1,011,217

Notes to the financial statements continued

For the year ended 31 March 2006

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 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)

4. Prior period adjustment

In 2005, the cost of consultancy services performed by Synergy International Limited on behalf of Synergy New Zealand PTE Ltd was wrongly charged at cost. This resulted in an understatement of operating revenue and an overstatement of operating expenses amounting to \$469,755 and \$3,840 respectively.

The error has been adjusted retrospectively by restating the 2005 comparative figures to correct the understatement in sales and overstatement in operating expenses.

The effect of the restatement on the 2005 financial statements of the company is summarised below. There is no effect in 2006.

	Effect on 2005 \$
Increase in operating revenue	469,755
Decrease in other operating expenses	3,840
Increase in net surplus before taxation	473,595
Increase in net surplus before taxation	473,595
Increase in attributable tax	156,286
Increase in retained earnings	317,309

5. Minority interest

As at 31 March 2006, 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.

6. 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 commenced which includes an impact assessment and commitment has been received from the Synergy Board. At the time of preparing this report, the impact of NZIFRS is not expected to be material.

Audit report

To the Shareholders of Synergy International Limited

We have audited the summary financial statements of Synergy International Limited (the "Company") and Group for the year ended 31 March 2006 as set out on pages 6 to 11.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation of summary financial statements, in accordance with New Zealand law and generally accepted accounting practice.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the summary financial statements.

Basis of Opinion

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of FRS-39: Summary Financial Reports.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the Company or Group.

Unqualified Opinion

In our opinion, the information reported in the summary financial statements complies with FRS-39: Summary Financial Reports and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to the shareholders dated 25 May 2006.

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 2006, this report should be read in conjunction with the Company's and Group's audited financial statements for that period.

Our examination of the Summary Financial Report was completed on 25 May 2006 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 2006 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 summary financial statements since they were initially presented on the website. The audit report refers only to the summary financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these summary 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 summary financial statements and related audit report dated 25 May 2006 to confirm the information included in the audited summary financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements and summary financial statements may differ from legislation in other jurisdictions.



Chartered Accountants

Wellington, New Zealand

Company directory

Directors

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

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ANZ Banking Group
(New Zealand) Ltd
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Share Registry

Link Market Services
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Solicitors

Quigg Partners
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www.synergy.co.nz