ST SYNERGY LTD

ABN 84 060 369 048

HALF-YEAR REPORT – 31 DECEMBER 2005

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by ST SYNERGY LTD during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

ST SYNERGY LTD and controlled entity
Directors' Report

Your directors present their report on the consolidated entity consisting of ST SYNERGY LTD and the entity it controlled at the end of, and during, the half-year ended 31 December 2005.

Directors

The Directors in office at the date of this report are:

Mr John Athans - Executive Chairman and Managing Director, B.Com, FCA.

Mr John Athans is a Chartered Accountant who commenced public practice in 1980 under the practice name Athans and Meacock. The firm is now known as Athans and Taylor. Spanning thirty years in the field of public accounting, John has developed the Athans and Taylor practice to become one of the leading suburban firms in Western Australia. Under his direction the firm has evolved into an organisation that not only provides accounting services to its clients, but also invests heavily in information technology.

Mr Gurmit Singh - (Director - Non-Executive), B. Bus (Dist), CPA, Affiliate ICAA.

Mr Gurmit Singh is a Certified Practicing Accountant with specialty in information technology. Gurmit has been specifically responsible for all the technical and engineering aspects of the firm's IT division, driving the technical development of the firm's custom business solutions and software development strategies.

Mr Leonard Alexander Taylor (Director - Non-Executive) FCA

Mr Taylor is a Chartered Accountant with 36 years professional experience. He began his professional career with Touché Ross in 1969 and later gained broad experience with several international accounting firms. He commenced public practice in 1983 in the firm now known as Athans and Taylor. Len's extensive experience in financial management and taxation matters provides added strength to the company's management team.

At the date of this report the Directors' and related parties share and option holdings and relevant interests therein were:

	Fully Paid Shares
J.R Athans	6,132,752
G. Singh	2,045,489
L.A Taylor	3,965,548

The particulars of Directors' and related parties interests in shares and options are as at the date of this report.

Meetings of Directors

During the half-year ended 31 December 2005, the Directors held 7 meetings and the attendance of Directors at those meetings were:

	Meetings Attended
J. Athans	7
G. Singh	7
L. Taylor	6

Principal Activity

The principal activity of the consolidated entity constituted by ST SYNERGY LTD and the entity it controlled during the financial period was the development and sale of its knowledge management software, ST Synergy.

Results of Operations

The consolidated entity's policy is to carry forward development costs and write them off over a five-year period from the date of commercialisation. To this extent an amount of $147,466 (December 2004: $141,363) was written off. Expenditure totalling $284,429 (December 2004: $425,009) has been carried forward. The consolidated results are as follows:

	2005	2004
	$	$
Operating loss after income tax	427,565	349,367

Review of Operations

Consolidation of the Company's software offering into targeted markets continued in the six months to 31 December 2005. During this time, significant effort was expended into focusing the product's ability to operate in the financial planning industry. The Company continued its Internet based development, with the first of a series of Internet based modules expected to enter prototype testing and release by December 2006. Research and Development into these innovative Internet based modules continued to drive software engineering efforts in the months to December 2005.

The Company has also been pleased with the progress of its investment in Panarama Labs Pty Ltd. Panorama Labs has developed a breakthrough in microphotonics technology that will improve the quality and lower the cost of a broad range of applications, including displays, telecommunications and integrated circuits. During the six months to December 2005, Panorama Labs continued with its development program that resulted in a number of new patents being developed in the six months to December 2005. Currently 29 U.S. pending patents and 24 filings under the International Patent Cooperation Treaty (PCT) covers Panorama Labs' magneto-optic technology. In addition, there are in excess of 50 additional filings currently in various stages of processing.

Listed below are selected samples of Panorama Lab's patent publications.

Publication Date	Short Title	Publication Number
8/18/05	Transport	US2005180722
8/18/05	Multicolor	US2005180672
8/25/05	Switching Matrix	US2005185877
9/15/05	Coilform	US2005201651
9/15/05	Unitary Flat Panel	US2005201673
9/15/05	Transverse Switch	US2005201704
9/15/05	Substrated Waveguide Display	US2005201654

Review of Operations (Cont'd)

The management team at Panorama Labs believes the technology will reveal the following advantages:

- Fewer and lower cost manufacturing process steps compared to current leading or emerging technologies
- Lower capital investment for manufacturing facilities resulting in faster time to market and lower production cost
- Superior display characteristics including viewing angle, brightness, and resolution (pixel density) beyond any known technology
- Theatrical-quality projection systems at a price that will allow mass conversion of theatres from film projection to digital projection possible
- Flat panel displays and projection systems being equally possible
- Flexible displays based on a more robust structural platform compared to other flexible-substrate technologies
- The ability to manufacture extremely large displays without substantial increases in production cost

The Company will continue to monitor its investment in Panorama.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the period not otherwise dealt with in this report.

Matters Subsequent to the end of the half-year

There were no significant matters to report subsequent to the end of the half-year.

Internet Web Site

Copies of ASX announcements and details of ST Synergy's activities can be viewed at its Web site on www.stsynergy.com

Segment Reporting

A summary of consolidated revenues and results for the half-year by significant industry segments is set out below:

	Segment revenues		Segment results	
	2005	2004	2005	2004
	$	$	$	$
Software licence sales and consulting revenue	31,135	121,272	(427,565)	(349,367)
	31,135	**121,272**	**(427,565)**	**(349,367)**
Less: Unallocated revenue less unallocated expenses			-	-
Loss from ordinary activities before income tax (revenue)			(427,565)	(349,367)
Income tax revenue			-	-
Loss from ordinary activities after income tax (revenue)			(427,565)	(349,367)
Net loss attributable to members of ST SYNERGY LTD			**(427,565)**	**(349,367)**

The investment by the Company in Panorama Labs Pty Ltd represents a significant segment of the activities of the Company. The Company received no revenues, and no expenses were incurred for reporting purposes for this segment. The Company holds 26.88% of the issued shares of Panorama Labs, with a carrying value of $12,610,000. Panorama Labs specialises in the research, development and commercialisation of applications of microphotonic technology.

This report is made in accordance with a resolution of the directors.

John Athans
Director

16 March 2006

Chartered Accountants
& Business Advisers

Level 7, BGC Centre
28 The Esplanade
Perth WA 6000

PO Box Z5066
St Georges Terrace
PERTH WA 6831

Tel: (08) 9278 2222
Fax: (08) 9278 2200
www.pkf.com.au/wa

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ST SYNERGY LIMITED

As lead engagement partner for the review of ST Synergy Limited for the half year ended 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

PKF

PKF
Chartered Accountants

NEIL G SMITH
Partner

Dated at Perth, Western Australia on this 16th day of March 2006

ST SYNERGY LTD and controlled entity
Condensed income statement
For the half-year ended 31 December 2005

	Notes	31 December 2005 $	31 December 2004 $
Continuing operations			
Revenue from operating activities	2	31,135	121,272
Interest		41,676	59,044
Total revenue from ordinary activities		**72,811**	**180,316**
Employee benefits expense		(112,867)	(189,711)
Depreciation and amortisation expenses		(148,617)	(143,215)
Administration expenses			
Other expenses from ordinary activities		(238,891)	(196,757)
Total expenses from ordinary activities		**(500,375)**	**(529,683)**
Loss from ordinary activities before income tax (revenue)		**(427,565)**	**(349,367)**
Income tax (revenue)		-	-
Loss from ordinary activities after income tax (revenue)		**(427,565)**	**(349,367)**
Net loss attributable to members of ST SYNERGY LTD		**(427,565)**	**(349,367)**
		Cents	**Cents**
Basic earnings per share	4(a)	**(0.69)**	**(0.69)**
Diluted earnings per share	4(b)	**(0.47)**	**(0.69)**

The above condensed income statement should be read in conjunction with the accompanying notes.

ST SYNERGY LTD and controlled entity
Condensed balance sheet
As at 31 December 2005

	Notes	31 December 2005 $	30 June 2005 $
Current assets			
Cash assets		586,628	1,427,308
Trade and other receivables		48,125	224,828
Loan receivable	5	-	914,961
Other		60,219	8,096
Total current assets		**694,972**	**2,575,193**
Non-current assets			
Property, plant and equipment		26,984	29,682
Other financial assets	6	12,610,000	990,000
Intangible assets		284,429	358,253
Total non-current assets		**12,921,413**	**1,377,935**
Total assets		**13,616,385**	**3,953,128**
Current liabilities			
Trade and other payables		55,092	104,958
Provisions		39,337	46,412
Other		28,560	32,848
Total current liabilities		**122,989**	**184,218**
Total liabilities		**122,989**	**184,218**
Net assets		**13,493,396**	**3,768,910**
Equity			
Contributed equity		42,615,764	32,463,713
Accumulated losses		(29,122,368)	(28,694,803)
Total equity	1(d)	**13,493,396**	**3,768,910**

The above condensed balance sheet should be read in conjunction with the accompanying notes.

ST SYNERGY LTD and controlled entity
Condensed cash flow statement
For the half-year ended 31 December 2005

	31 December 2005 $	31 December 2004 $
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	193,789	106,490
Payments to suppliers and employees (inclusive of goods and services tax)	(447,950)	(299,089)
	(254,161)	(192,599)
Interest received	41,676	59,044
Net cash (outflow)/inflow from operating activities	**(212,485)**	**(133,555)**
Cash flows from investing activities		
Payments for property, plant and equipment	(1,908)	(3,813)
Payment of research and development costs	(73,299)	(81,332)
Payments for shares in companies	(2,600,000)	(190,000)
Loan (to)/repayment of loan from Pine Valley Pty Ltd	914,961	(852,000)
Net cash (outflow) from investing activities	**(1,760,246)**	**(1,127,145)**
Cash flows from financing activities		
Proceeds from issue of shares	1,132,051	-
Share issue costs	-	(127,273)
Refund of deposit on shares	-	(50,000)
Net cash inflow (outflow) from financing activities	**1,132,051**	**(177,273)**
Net (decrease) in cash held	**(840,680)**	**(1,437,973)**
Cash at the beginning of the reporting period	**1,427,308**	**2,898,173**
Cash at the end of the reporting period	**586,628**	**1,460,200**

The above condensed cash flow statement should be read in conjunction with the accompanying notes.

Non-cash investing and financing activities

Note 1
On 5 July 2005, the Company issued 7 million ordinary shares. The securities were issued pursuant to an agreement with Pine Valley Enterprises Pty Ltd whereby in exchange for a payment of $300,000 cash and the issue of 7 million fully paid ordinary shares in the Company, Pine Valley Enterprises Pty Ltd transferred to the Company 6,845,338 fully paid ordinary shares it holds in Panorama Labs Pty Ltd, and assign to the Company the right to acquire Pine Valley's obligation to invest a further $2,500,000 in Panorama Labs Pty Ltd.

Note 2
The payment of $300,000 included in Note 1 above, consisted of a cash payment of $100,000 included in this cash flow statement, and a non-cash transaction whereby the remaining $200,000 was used to finance the conversion of options by Pine Valley Enterprises Pty Ltd.

ST SYNERGY LTD and controlled entity
Condensed statement of changes in equity
For the half-year ended 31 December 2005

	Issued Capital $	Retained Earnings $	Total Equity $
At 1 July 2004	4,159,260	(2,555,483)	1,603,777
(Loss) for the period	-	(349,367)	(349,367)
Contributions of equity	2,775,002	-	2,775,002
Costs of issuing equity	(209,092)	-	(209,092)
Exercise of options	-	-	-
At 31 December 2004	**6,725,170**	**(2,904,850)**	**3,820,320**
At 1 July 2005	32,463,713	(28,694,803)	3,768,910
(Loss) for the period	-	(427,565)	(427,565)
Contributions of equity	8,820,000	-	8,820,000
Costs of issuing equity	-	-	-
Exercise of options	1,332,051	-	1,332,051
At 31 December 2005	**42,615,764**	**(29,122,368)**	**13,493,396**

The above condensed statement of changes in equity should be read in conjunction with the accompanying notes.

Note 1. Basis of preparation of half-year financial report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of ST Synergy Ltd as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP").

It is also recommended that the half-year financial report be considered together with any public announcements made by the Company during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of Accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of Compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Company under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:
- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(d) below.

(c) Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of the entity controlled by ST Synergy ("company" or "parent entity") as at 31 December 2005 and the results of the controlled entity for the year then ended. ST Synergy and its controlled entity together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Revenue

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised as follows:

(i) Sale of developed software from end users under licences; and

(ii) Service revenues, which include implementation, consulting services and maintenance and customer support.

(c) Summary of Significant Accounting Policies (Cont'd)

Revenue (Cont'd)

For software licence contracts, the consolidated entity recognises revenues upon completion of the services and when collection of the resulting receivable is deemed probable. Service revenue from consulting is recognised as the related services are performed.

Research and development costs

Research costs are expensed as incurred.

Development expenditure is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the asset is to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually.

Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-resale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

(d) Impact of Adoption of AIFRS

The impacts of adopting AIFRS on the equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP") are illustrated below.

Reconciliation of total equity as presented under AGAAP to that under AIFRS

		30 June 2005	**31 Dec 2004**	**1 July 2004**
		$	**$**	**$**
Total equity under AGAAP		3,888,328	3,921,133	1,685,984
Adjustments to retained earnings:				
Recognition of research expense	(i)	(119,418)	(100,813)	(82,207)
Total equity under AIFRS		3,768,910	3,820,320	1,603,777

(d) Impact of Adoption of AIFRS (Cont'd)

(i) Under AASB 136 *Impairment of Assets,* the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The Company's assets were tested for impairment on transition as part of the cash generating unit ("CGU") to which they belong. The intangible asset, Accumulated development expenditure, was tested and an amount recognised in relation to research expenditure recognised on transition was written back to retained earnings.

Reconciliation of net profit under AGAAP to that under AIFRS

	Year ended 30 June 2005	**Half-year ended 31 December 2004**
	$	**$**
Net loss as reported under AGAAP	26,102,109	330,762
Recognition of research expense	37,211	18,605
Net loss under AIFRS	26,139,320	349,367

Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

Note 2. Revenue

The consolidated entity experienced losses from ordinary activities after income tax for the half-years ended 31 December 2005 and 31 December 2004 of $427,565 and $349,367 respectively. The consolidated entity experienced a net negative cash flow from operating activities of $212,485 in 2005 compared with a negative cash flow of $133,555 in 2004.

The consolidated entity generated revenues from operating activities of $31,135 consisting of:

- Software licence sales revenue of $7,000;
- Other sales revenue of $24,135

Note 3. Dividends

The consolidated entity is a knowledge management software based entity and has not yet established a dividend policy. The board of directors will consider establishing a dividend policy upon achievement of profitable operations.

Note 4. Earnings per share

	Half-year	
	2005	**2004**
	Cents	**Cents**
(a) Basic earnings per share – (loss)	**(0.69)**	**(0.69)**

Note 4. Earnings per share (Cont'd)

	Consolidated 2005 Number	Consolidated 2004 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	**62,302,838**	**50,975,260**

	Consolidated 2005 $	Consolidated 2004 $
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share:		
Net loss	(427,565)	(349,367)
Earnings used in calculating basic earnings per share	**(427,565)**	**(349,367)**

	Half-year 2005 Cents	Half-year 2004 Cents
(b) Diluted earnings per share – (loss)	**(0.47)**	**(0.69)**

	Consolidated 2005 Number	Consolidated 2004 Number
Weighted average number of ordinary shares used as the denominator	62,302,838	50,975,260
Weighted average number of issued options used as the denominator	28,033,835	-
Weighted average number of issued options and ordinary shares used as the denominator in calculating diluted earnings per share.	**90,336,673**	**50,975,260**

	Consolidated 2005 $	Consolidated 2004 $
Reconciliation of earnings used in calculating earnings per share		
Diluted earnings per share:		
Net loss	(427,565)	(349,367)
Earnings used in calculating diluted earnings per share	**(427,565)**	**(349,367)**

Note 5. Loans Receivable

	31 December 2005 $	30 June 2005 $
Loan to Pinevalley Enterprises Pty Ltd	**-**	**914,961**

The original loan of $852,000 was repaid on 18 August 2005 together with interest of $62,961.

Note 6. Other Financial Assets

	31 December 2005 $	30 June 2005 $
Investment in Panorama Labs Pty Ltd	12,610,000	990,000
Right to invest in Panorama Labs Pty Ltd	25,738,542	25,738,542
Less provision for write-downs	(25,738,542)	(25,738,542)
	12,610,000	**990,000**

During the period, the Company invested a further $11,620,000 in Panorama Labs Pty Ltd, resulting in a total holding of 22,666,671 shares representing approximately 26.88% of the issued shares of Panorama Labs. The investment consisted of $2,800,000 cash paid and the issue of 7,000,000 ordinary shares in the Company with a market value of $8,820,000.

Panorama Labs specialises in the research, development and commercialisation of applications of microphotonic technology.

The directors consider that the Company does not exert significant influence over Panorama Labs because
(i) Although the Company has a representative on the Board of Directors of Panorama Labs, a 75% majority is required for all decisions, and
(ii) The majority shareholder of Panorama Labs holds 47.5% of the issued shares of that company. ST Synergy holds 26.88% of the issued shares of Panorama Labs. Therefore the majority shareholder holds the most voting power resulting in the influence of ST Synergy to be ineffective.

Note 7. Segment Information

The consolidated entity operates in the knowledge management software industry in Australia.

Note 8. Contingent Liabilities

There are no contingent liabilities that have not been disclosed in the financial report.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 7 to 15:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

(b) give a true and fair view of the consolidated entity's financial position as at 31 DECEMBER 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that ST SYNERGY LTD will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

John Athans
Director

16 March 2006

A Member Firm of PKF International

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Chartered Accountants
& Business Advisers

Level 7, BGC Centre
28 The Esplanade
Perth WA 6000

PO Box Z5066
St Georges Terrace
PERTH WA 6831

Tel: (08) 9278 2222
Fax: (08) 9278 2200
www.pkf.com.au/wa

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF ST SYNERGY LIMITED

Scope

We have reviewed the financial report of ST Synergy Limited for the half-year ended 31 December 2005 as set out on pages 7 to 16. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ST Synergy Limited is not in accordance with:

(a) the Corporations Act 2001, including:
   - i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date;
   - ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

PKF

PKF
Chartered Accountants

NEIL G SMITH
Partner
Dated at Perth, Western Australia this 16th day of March 2006.