ST Synergy Ltd and its Controlled Entity

Half-Year Financial Report
31 December 2006

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DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2006.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr John Athans (Executive Chairman)
Mr Gurmit Singh (Director – Non-Executive)
Mr Leonard Taylor (Director – Non-Executive)

REVIEW OF OPERATIONS

During the six months to December 2006 the Company significantly increase its investment in Panorama Labs Pty Ltd (Panorama Labs).

This period saw Panorama Labs successfully test a display prototype which vindicated the technology's potential.

Amongst the attributes noted during testing were the technology's extremely fast switching times and it's dramatically reduced power consumption (by up to 1,000,000 times existing power modules).

The features demonstrated during the testing indicate the photonic technology will have application in large-area flat panel displays, theatrical and consumer video projectors, head-mounted displays for military, telecom switching and gaming.

Panorama Labs Technology Overview

The photonic technology is expected to greatly improve the quality and lower the cost of a broad range of applications.

In order to accelerate its technology development, Panorama Labs has entered into research and development partnerships with leading Institutions in Japan, Russia, Sweden, Australia, and at several locations in the U.S.

The commercialisation of the first product is now underway – the cinematic digital projector.
Panorama Labs is currently fast tracking the development of this projector as it believes it will offer the most true-to-life cinema experience possible. Panorama Labs believes that, with its technology, cinema projectors will be able to deliver brighter images, higher resolution rates, and more intense, accurate colours than those available commercially today and at a lower cost.

By December 2006, Panorama Labs development program had resulted in the number of US patents pending rising to 33 with in excess of 50 additional filings in various stages of processing.

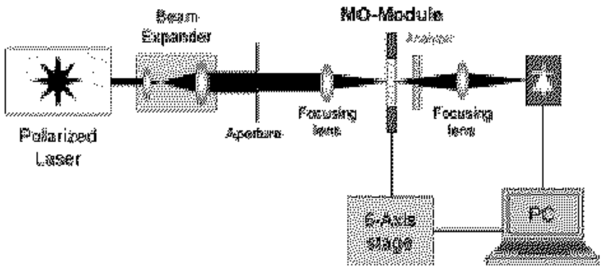

Figure 1. Schematic of the photo receiver based high-speed testing station

ST Synergy Ltd's Equity Position in Panorama Labs

During the six months to December 2006, the Company continued to seek out opportunities to increase its investment in Panorama Labs. The Company's equity investment in Panorama Labs rose from 39.25% (26th July 2006) to 44.17% (21st December 2006). Importantly, on 7th February 2007, the Company increased its direct equity holding to a strategic 51%. This consolidated the Company's position as the single largest shareholder in Panorama Labs. The increase in equity holding has a number of important benefits, including allowing the Company to work more closely with Panorama Labs in commercialising and bringing Panorama Labs ground breaking technology to market.

The Company will continue with its objective of monitoring future investment opportunities in Panorama Labs, and where appropriate will seek to increase its holdings.

Software Development

In respect of the Company's ST Synergy software product suite, the Company has continued its Internet-based prototype development focus in the six months to December 2006. The Company anticipates early versions of Internet modules will be delivered in the 2007 calendar year.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor's, PKF Chartered Accountants, which is included on page 5.

Signed in accordance with a resolution of the directors

John Athans
Director
Dated: 27 February 2007

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF ST SYNERGY LTD

As lead engagement partner for the half year review of ST Synergy Ltd for the period ended 31 December 2006, 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 Smith
Partner

Dated at Perth, Western Australia this 27th day of February 2007

INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated 31 December 2006 $	Consolidated 31 December 2005 $
Continuing Operations			
Revenue	4	68,804	31,135
Interest		29,103	41,676
Employee benefits expense	4	(113,645)	(112,867)
Depreciation and amortisation expense		(164,143)	(148,617)
Other expenses		(270,262)	(238,891)
Share of (loss) of associate		(785,058)	-
Profit/(loss) from continuing operations before income tax		**(1,235,201)**	**(427,565)**
Income tax expense		-	-
Profit/(loss) from continuing operations after tax		**(1,235,201)**	**(427,565)**
Net profit/(loss) attributable to members of parent		(1,235,201)	(427,565)
		Cents	**Cents**
Basic earnings per share		(1.70)	(0.69)
Diluted earnings per share		(1.34)	(0.47)

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Notes	Consolidated 31 December 2006 $	Consolidated 30 June 2006 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,739,779	702,150
Trade and other receivables		54,194	150,674
Other		48,351	23,617
Total Current Assets		**1,842,324**	**876,441**
Non-Current Assets			
Investment in associates accounted for using the equity method		10,615,782	6,739,742
Property, plant and equipment		62,355	23,949
Intangible assets		108,208	186,452
Total Non-Current assets		**10,786,345**	**6,950,143**
TOTAL ASSETS		**12,628,669**	**7,826,584**
LIABILITIES			
Current liabilities			
Trade and other payables		89,054	66,642
Provisions		50,401	30,175
Other	6	2,006,421	483,090
Total Current Liabilities		**2,145,876**	**579,907**
TOTAL LIABILITIES		**2,145,876**	**579,907**
NET ASSETS		**10,482,793**	**7,246,677**
EQUITY			
Contributed equity	8	48,087,082	43,615,764
Accumulated losses		(37,604,289)	(36,369,087)
TOTAL EQUITY		**10,482,793**	**7,246,677**

CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated 31 December 2006 $	31 December 2005 $
Cash flows from operating activities			
Receipts from customers		162,534	193,789
Payments to suppliers and employees		(375,138)	(447,950)
		(212,604)	(254,161)
Interest received		29,103	41,676
Net cash flows from/(used in) operating activities		**(183,501)**	**(212,485)**
Cash flows from operating activities			
Purchase of property, plant and equipment		(47,241)	(1,908)
Payment of research and development costs		(77,449)	(73,299)
Payment for shares in company		(4,661,098)	(2,600,000)
Repayment of loan from Pine Valley Pty Ltd		-	914,961
Net cash flows from/(used in) investing activities		**(4,785,788)**	**(1,760,246)**
Cash flows from financing activities			
Proceeds from issue of shares		4,669,000	1,132,051
Share issue costs		(217,682)	-
Deposits refundable		1,555,600	-
Net cash flows from/(used in) financing activities		**6,006,918**	**1,132,051**
Net increase/(decrease) in cash and cash equivalents		1,037,629	(840,680)
Cash and cash equivalents at beginning of period		702,150	1,427,308
Cash and cash equivalents at end of period	5	**1,739,779**	**586,628**

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Issued capital $	Accumulated losses $	Total $
CONSOLIDATED			
At 1 July 2005	32,463,713	(28,694,803)	3,768,910
(Loss) for the period	-	(427,565)	(427,565)
Shares issued	8,820,000	-	8,820,000
Exercise of options	1,332,051	-	1,332,051
At 31 December 2005	42,615,764	(29,122,368)	13,493,396
CONSOLIDATED			
At 1 July 2006	43,615,764	(36,369,088)	7,246,676
(Loss) for the period	-	(1,235,201)	(1,235,201)
Shares issued	2,451,318	-	2,451,318
Exercise of options	2,020,000	-	2,020,000
At 31 December 2006	48,087,082	(37,604,289)	10,482,793

1. CORPORATE INFORMATION

The financial report of ST Synergy Ltd (the company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 27 February 2007. ST Synergy Ltd is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Company are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all of the 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 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by ST Synergy Ltd and its controlled Entity during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of Preparation

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

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

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006.

(c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of ST Synergy Ltd and its controlled subsidiary ('the Group').

3. SEGMENT INFORMATION

During the half-year ended 31 December 2006 the consolidated entity operated in the following sectors:

- knowledge management software sector in Australia
- investment in Panorama Labs Pty Ltd

3. SEGMENT INFORMATION (Continued)

The following table presents certain asset and liability information regarding the sectors for the half-years ended 31 December 2006 and 2005.

	Software	Investment	Total
	$	$	$
2006			
Assets			
Current assets	1,842,324	-	1,842,324
Investment in associate	-	10,615,782	10,615,782
Unallocated non-current assets	170,563	-	170,563
Total assets	2,012,887	10,615,782	12,628,669
Liabilities			
Current liabilities	2,145,876	-	2,145,876
Total liabilities	2,145,876	-	2,145,876
2005			
Assets			
Current assets	694,972	-	694,972
Other financial assets	-	12,610,000	12,610,000
Unallocated non-current assets	311,413	-	311,413
Total assets	1,006,385	12,610,000	13,616,385
Liabilities			
Current liabilities	122,989	-	122,989
Total liabilities	122,989	-	122,989

The following table presents revenue and profit information regarding the sectors for the half-years ended 31 December 2006 and 2005.

	Software	Investment	Total
	$	$	$
2006			
Revenue			
Sales to external customers	68,804	-	68,804
Interest	29,103	-	29,103
	97,907	-	97,707
Result			
Segment (loss)	(450,143)	(785,058)	(1,235,201)
2005			
Revenue			
Sales to external customers	31,135	-	31,135
Interest	41,676	-	41,676
	72,811	-	72,811
Result			
Segment (loss)	(427,564)	-	(427,564)

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $

4. REVENUE, INCOME AND EXPENSES

(a) Revenue, Income and Expenses from Continuing Operations

	2006 $	2005 $
Revenue		
Sale of goods	68,804	31,135
Bank interest	29,103	41,676
Total revenue	97,907	72,811
Other expenses		
Depreciation	2,113	1,151
Loss on disposal of fixed assets	385	-
Amortisation of development costs	162,030	147,466
Employee benefits	113,645	112,867

		CONSOLIDATED 31 December 2006 $	CONSOLIDATED 30 June 2006 $

5. CASH AND CASH EQUIVALENTS

For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

	31 December 2006 $	30 June 2006 $
Cash at bank and in hand	1,586,098	2,590
Short term deposits	153,681	584,038
	1,739,779	586,628

6. OTHER LIABILITIES

		31 December 2006 $	30 June 2006 $
Deposit on licence fees not yet installed		5,600	-
Deposits on shares not yet issued	(i)	1,975,000	20,000
Short term loan		-	425,000
Prepaid support contracts		25,821	38,090
		2,006,421	483,090

	31 December 2006 $	30 June 2006 $
(i) Deposits on shares not yet issued		
Shares issued 4 July 2006	-	20,000
Shares issued 9 January 2007	900,000	-
Shares issued 11 January 2007	200,000	-
Deposit refunded 8 February 2007	150,000	-
Deposit refunded 15 February 2007	725,000	-
	1,975,000	20,000

7. COMMITMENTS AND CONTINGENCIES

Lease commitments

On 1 November 2006, the Company entered into a lease agreement for the rental of office space in Balcatta. The lease is for a period of 3 years with an annual commitment of $15,000 for the first two years, and an increase of 3% or the CPI (whichever is the greater) in the third year.

Since the last annual reporting date, there have been no other material changes to any contingent liabilities or contingent assets.

8. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2006	*2005*
	$	*$*
Ordinary shares (i)	22,348,540	16,877,222

(i) Ordinary shares
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movement in ordinary shares on issue	*Number*	*$*
At 1 January 2006	64,635,515	16,877,222
Issued on 3 April 2006 for cash on exercise of share options	1,000,000	200,000
Issued on 8 May 2006 for cash on exercise of share options	3,000,000	600,000
Issued on 26 May 2006 for cash on exercise of share options	1,000,000	200,000
At 30 June 2006	69,635,515	17,877,222
Issued on 4 July 2006 for cash on exercise of share options	100,000	20,000
Issued on 5 September 2006 for cash on exercise of share options	2,000,000	400,000
Issued on 21 November 2006 for cash on exercise of share options	5,000,000	1,000,000
Issued on 21 November 2006 for cash at $2.00 per share	1,334,500	2,669,000
Issued on 6 December 2006 for cash on exercise of share options	3,000,000	600,000
Transaction costs on share issue	-	(217,682)
At 31 December 2006	81,070,015	22,348,540

	CONSOLIDATED	
	2006	*2005*
	$	*$*
Options (ii)	25,738,542	25,738,542

(ii) Options
Unlisted and exercisable at $0.20 each, on or before 31 December 2006

Movement in ordinary shares on issue	*Number*	*$*
At 1 January 2006	28,339,745	25,738,542
Issued on 3 April 2006 for cash on exercise of share options	(1,000,000)	-
Issued on 8 May 2006 for cash on exercise of share options	(3,000,000)	-
Issued on 26 May 2006 for cash on exercise of share options	(1,000,000)	-
At 30 June 2006	23,339,745	25,738,542
Issued on 4 July 2006 for cash on exercise of share options	(100,000)	-
Issued on 5 September 2006 for cash on exercise of share options	(2,000,000)	-
Issued on 21 November 2006 for cash on exercise of share options	(5,000,000)	-
Issued on 6 December 2006 for cash on exercise of share options	(3,000,000)	-
At 31 December 2006	13,239,745	25,738,542

8. CONTRIBUTED EQUITY (Continued)

	CONSOLIDATED	
	2006	*2005*
	$	*$*
Total issued capital		
Ordinary shares	22,348,540	17,877,222
Options	25,738,542	25,738,542
	48,087,082	43,615,764

Note:
Prior to 31 December 2006, the Company received payments together with signed option exercise forms to exercise 5,500,000 shares for $1,100,000. Due to the office closure over the Christmas/New Year break, the issue was not registered until after 1 January 2007.

9. EVENTS AFTER THE BALANCE SHEET DATE

Deposits on shares

Prior to 31 December 2006, the Company received funds and signed option conversion forms to convert 4,500,000 and 1,000,000 options to fully paid ordinary shares for $900,000 and $200,000. Because of the closure of the registered office over the Christmas/New Year period, the shares were not registered with the share registry until 9 and 11 January 2007 respectively.

Further deposits were received prior to 31 December 2006 but were not accompanied by signed option conversion forms. These amounts were refunded in February 2007.

Please refer to Note 6 for further detail.

Investment in Panorama Labs Pty Ltd

Since the end of the half year, the Company increased its direct equity interest in Panorama Labs Pty Ltd from 44.17% to a strategic 51%. Panorama Labs Pty Ltd is an Australian company achieving significant breakthroughs in the areas of magneto-optics and fibre-device technology that heralds a revolution in the way images are projected and displayed.

This further investment in Panorama Labs Pty Ltd was funded by a cash consideration of $701,300 along with the issue of 587,696 fully paid ordinary shares in the Company at an issue price of $1.65.

In addition, the Company completed a private placement to raise $1,425,501 through the issue of 950,334 fully paid ordinary shares at $1.50 each. The capital raising assisted the Company in funding the cash component of the Panorama Labs share acquisition noted above, and will provide for additional working capital in the period ahead.

There have been no other matters or circumstances that have arisen since the end of the half year which have significantly affected or may significantly affect the operations or the state of affairs of the consolidated entity in the future financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of ST Synergy Ltd, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

i. give a true and fair view of the financial position as at the 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and

ii. comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

John Richard Athans
Director

Balcatta, 27 February 2007

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT REVIEW REPORT

TO THE MEMBERS OF ST SYNERGY LTD

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ST Synergy Ltd, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the entity comprising the company and the entities it controlled at 31 December 2006 or from time to time during the half year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the disclosing entities financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of ST Synergy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

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Conclusion

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 Ltd is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the consolidated entities financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

PKF

PKF
Chartered Accountants

Neil Smith
Partner

Dated in Perth, Western Australia, this 27th day of February 2007