

# SYNERGON

SYNERGON

INFORMATION

SYSTEMS PLC.

ANNUAL REPORT

2 0 0 2

## Informations for Investors

### Board of Directors

Ferenc Czakó      Chairman  
Árpád Barta  
Dr. János Illésy  
László Oláh  
Dr. Sándor Szalay  
Zsolt Szalóczy

### Management of Group Companies

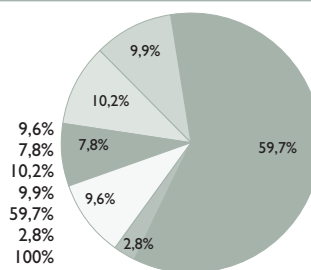
Nikola Dujmovic      Managing Director, Span d.o.o.  
Jiří Fanta              CEO, Infinity a.s.  
Zoltán Pintér          Managing Director, Fibex Kft.  
Loránt Száray          CEO, Synergon Information Systems plc.

### Registered Capital

The company's subscribed capital consists of by 9,554,630 "T" series ordinary shares of a nominal value of HUF 200 each. The company's shares can be traded in the form of shares and global depository receipts (GDR). The company's shares are registered in category "A" of the Budapest Stock Exchange and in the electronic trading system of the London Stock Exchange (SEAQ).

#### Synergon's ownership structure December 31, 2002

Deutsche Bank (depository) 9,6%  
Davon Kft. 7,8%  
RCX Kft. 10,2%  
Curdie Trust Corp. 9,9%  
Financial investors below 5% ownership back 59,7%  
Treasury shares 2,8%  
Total 100%



### Synergon Information Systems plc.

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Homepage: [www.synergon-international.com](http://www.synergon-international.com) E-mail: [info@synergon.hu](mailto:info@synergon.hu)

### Investor Relations:

Tamás Garamszegi, Director of Investor Relations  
H-1047 Budapest, Baross u. 91-95. Phone: +36 (1) 399 5500 Fax: +36 (1) 399 5599  
Homepage: [www.synergon-international.com](http://www.synergon-international.com)  
[www.synergon.hu](http://www.synergon.hu) E-mail: [investor.relations@synergon.hu](mailto:investor.relations@synergon.hu)

### Stock Exchange Symbols:

Budapest Stock Exchange (BSE): SYNERG HB London Stock Exchange Automatic Quotation (SEAQ): SYSD LI

### Share Registry:

Synergon Informatika Rt., Legal Department  
H-1047 Budapest, Baross u. 91-95. Phone: +36 (1) 399 5500 Fax: +36 (1) 399 5599

**SYNERGON INFORMATIKA RT  
AND SUBSIDIARIES**

**AUDITED CONSOLIDATED  
FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

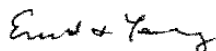
## Report of Independent Auditors

To the Shareholders  
Synergon Informatika Rt.

We have audited the consolidated financial statements of Synergon Informatika Rt and its subsidiaries (the Group) for the year ended December 31, 2002 which comprise the consolidated balance sheet, the statement of consolidated income, the statement of changes in consolidated shareholders equity, the statement of consolidated cash flows and the related notes 1 to 30. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at December 31, 2002 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young  
Budapest, Hungary  
March 21, 2003

## Consolidated Balance Sheet

	Note	December 31, 2002	December 31, 2001
<b>Assets</b>			
Current Assets:			
Cash		1,103,782	1,729,992
Short-term investments	3	512,692	634,702
Accounts receivable, net	4	5,683,495	6,135,664
Inventory	6	1,249,072	1,680,074
Other current assets	7	976,237	989,379
Total current assets		9,525,278	11,169,811
Non-current Assets:			
Property, plant and equipment	8	2,376,611	2,237,055
Investments		16,702	20,107
Intangible assets	9	1,099,792	711,873
Total non-current assets		3,493,105	2,969,035
Total assets		13,018,383	14,138,846
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities:			
Short-term loans		730,063	606,888
Trade accounts payable	10	2,948,239	3,679,975
Other payables and accruals	11	1,323,844	1,614,472
Total current liabilities		5,002,146	5,901,335
Long-term liabilities		87,742	87,261
Minority interest in consolidated subsidiaries	12	157,976	356,292
Shareholders' Equity:			
Share capital	13	1,910,926	1,910,926
Treasury shares	13	(188,565)	(188,805)
Share premium		5,770,883	5,770,883
Revaluation reserve		—	15,311
Capital reserve		28,685	27,925
Retained earnings		253,978	228,141
Exchange reserve		(5,388)	29,577
Total shareholders' equity		7,770,519	7,793,958
Total liabilities and equity		13,018,383	14,138,846

See accompanying notes to the consolidated financial statements.

## Statement of Consolidated Income

	Note	December 31, 2002	December 31, 2001
Sales	14	19,614,009	21,127,809
Cost of sales		14,116,900	15,542,034
Gross profit		5,497,109	5,585,775
Selling, general and administration expenses	15	5,700,709	6,009,462
Operating loss		(203,600)	(423,687)
Other income (expense):			
Interest income	16	118,087	187,918
Interest expense	17	(59,041)	(50,922)
Foreign exchange gain (loss)		86,093	(16,970)
Other income		297,142	169,650
		442,281	289,676
Income (loss) before income tax and minority interest		238,681	(134,011)
Income tax expense	18	110,856	182,742
Income (loss) before minority interest		127,825	(316,753)
Minority interest		100,988	187,416
Net income (loss)		26,837	(504,169)
Income (loss) per share: (HUF per share)	19	3	(54)

See accompanying notes to the consolidated financial statements.

## Statement of Changes in Consolidated Shareholders' Equity

	Share Capital	Treasury Shares	Share Premium	Revaluation Reserve	Capital Reserve	Retained Earnings	Exchange Reserve	Total
Balance on January 1, 2001	910,926	(82,297)	5,770,883	15,311	27,925	811,060	37,143	8,490,951
Sale of treasury shares	–	105,000	–	–	–	(78,750)	–	26,250
Purchase of treasury shares	–	(211,508)	–	–	–	–	–	(211,508)
Exchange loss on translation	–	–	–	–	–	–	(7,566)	(7,566)
Net loss	–	–	–	–	–	(504,169)	–	(504,169)
Balance on December 31, 2001	1,910,926	(188,805)	5,770,883	15,311	27,925	228,141	29,577	7,793,958
Sale of treasury shares	–	212,505	–	–	–	(240)	–	212,265
Purchase of treasury shares	–	(212,265)	–	–	–	–	–	(212,265)
Exchange loss on translation	–	–	–	–	–	–	(34,965)	(34,965)
Release of revaluation reserve on sale of asset	–	–	–	(15,311)	–	–	–	(15,311)
Statutory reclassification	–	–	–	–	760	(760)	–	–
Net income	–	–	–	–	–	26,837	–	26,837
Balance on December 31, 2002	1,910,926	(188,565)	5,770,883	–	28,685	253,978	(5,388)	7,770,519

See accompanying notes to the consolidated financial statements.

## Statement of Consolidated Cash Flows

	Note	December 31, 2002	December 31, 2001
Cash flow relating to operating activities:			
Net income (loss) before taxation and interest	29	78,647	(458,423)
Depreciation and amortisation		823,681	788,956
Minority interest		100,988	187,416
Exchange loss on translation		(34,965)	(7,566)
Gain on sale of fixed assets		–	3,572
Loss on sale of short-term investments		(240)	(78,750)
Changes in assets and liabilities:			
Accounts receivable and other current assets		447,283	(548,035)
Inventory		431,002	642,380
Payables and accruals		(1,022,363)	707,271
Cash from operating activities		824,033	1,236,821
Returns on investment and financing:			
Net interest received		59,046	136,996
Income tax paid		(110,856)	(182,742)
Net cash flows from operating activities		772,223	1,191,075
Cash flow relating to investing activities:			
Purchase of fixed assets		(888,032)	(619,207)
Sale (purchase) of short-term investments		122,011	(634,702)
Purchase of other long-term assets		(23,263)	(35,270)
Acquisition of subsidiary, net of cash acquired	20	(681,815)	(805,948)
Proceeds on disposal of fixed assets		105,920	297,131
Net cash flow used in investing activities		(1,365,179)	(1,797,996)
Cash flow relating to financing:			
Sale of treasury shares		212,505	105,000
Purchase of treasury shares		(212,265)	(211,508)
Increase in loans payable		123,655	694,149
Dividends paid to minority interests		(157,149)	–
Net cash flow (used in) provided by financing		(33,254)	587,641
Decrease in cash and cash equivalents		(626,210)	(19,280)
Cash and cash equivalents at the:			
Beginning of the year		1,729,992	1,749,272
End of the period		1,103,782	1,729,992

See accompanying notes to the consolidated financial statements.

## 1. General

The consolidated financial statements of Synergon Informatika Rt ("the Company" or "Synergon") for the year ended December 31, 2002 were authorised for publication by the directors on March 21, 2003. Synergon Informatika Rt is a public limited company incorporated under the laws of the Republic of Hungary.

The registered office of Synergon Informatika Rt is located at Baross utca 91-95, Budapest 1047, Hungary.

The main operations of the group are in the area of information systems integration.

## 2. Significant accounting policies

### Basis of preparation

The consolidated financial statements of Synergon Informatika Rt have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards (IAS) and Standing Interpretations Committee interpretations approved by the IASC that remain in effect.

Synergon Informatika Rt maintains its official accounting records and prepares its financial statements for domestic purposes in accordance with accounting regulations in force in Hungary (HAS). A summary of the significant differences between IFRS and HAS as affecting these financial statements is presented in Note 30.

The financial statements have been prepared under the historical cost convention.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. The financial statements of the Group are presented in thousands of Hungarian Forints (HUF 000).

### Basis of consolidation

The consolidated financial statements include the financial statements of Synergon Informatika Rt (the parent company) and those companies in which the Group holds more than 50% of the voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the parent company, using consistent accounting policies. The reports of the companies involved in the consolidation were made in the foreign exchange mentioned below, and the balances were converted into Hungarian Forints using the policy described.

Companies acquired during the year are consolidated from the date on which control over the net assets and operations of the acquiree is effectively transferred to the Group. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. Subsidiaries disposed of are consolidated up to the date of the disposal.

All intercompany balances and transactions, including unrealised intercompany profits, are eliminated.

The results and balances of the following companies are included within the consolidated results of the Group:

Company	Share-holding %	Currency	Country of incorporation
Fibex Kft.	100%	HUF	Republic of Hungary
Officium Kft. (formerly SynInvest Kft.)	100%	HUF	Republic of Hungary
Synergon Information Systems UK Ltd	100%	GBP	United Kingdom
Infinity a.s	67%	CZK	Czech Republic
Span d.o.o	68%	HRK	Republic of Croatia

### Investments and financial instruments

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

Short-term investments, which are regarded as being held for resale, are measured at their fair value; the fair value being determined by reference to open market value at close of business on the balance sheet date, adjusted for transaction costs necessary to realise the asset.

Long-term investments are carried at cost or revalued amounts. Provision is made where in the opinion of the Directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

#### Cash and cash equivalents

Cash on hand and in banks on short-term deposit which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash on hand and deposits in banks, net of outstanding bank overdrafts.

#### Inventory

Inventory is stated at the lower of purchase cost, on the first-in, first-out basis, or net realisable value after making allowance for obsolete or slow moving items. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Work in progress goods are valued at production cost.

#### Trade receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Receivables from related parties are recognised and carried at cost. Bad debts are written-off as incurred.

#### Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not invoiced to the Group.

Payables to related parties are recognised and carried at cost.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision for warranty costs is recognised for all products under warranty at the balance sheet date based on past experience of the level of repairs and returns.

#### Property, plant and equipment

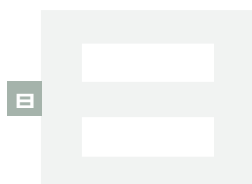
Property, plant and equipment are stated at purchase price or production cost less accumulated depreciation. Depreciation is provided using the straight-line method at rates calculated to write off the cost of the asset over its expected economic useful life. The rates used by the company are 15% – 20% for technical equipment, vehicles and machinery and 25% for computer software. Capitalised leasehold improvements are depreciated over the length of the corresponding lease. Land is not depreciated. The carrying amounts are reviewed at each balance sheet date in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated amount, assets are written down to their recoverable amount.

Production cost for self-constructed assets includes the cost of materials and direct labour. Expenditure on repairs and maintenance of property, plant and equipment incurred to restore or maintain future economic benefits expected from the assets is recognised as an expense when it is incurred.

#### Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying amount as follows:

- (i) For financial assets at amortised cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- (ii) For financial assets at fair value – where a loss has been directly recognised in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised in equity is transferred to the net profit and loss for the period.



#### Leased assets

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property, plant and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The present value of the related lease obligations is included in long and short term liabilities as appropriate. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

#### Goodwill

Purchased goodwill represents the excess of acquisition costs over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as an intangible asset and is amortised over a period of five to ten years using the straight-line method.

#### Income taxes

Taxation is provided in accordance with Hungarian fiscal and applicable local regulations. The Company uses the liability method in accounting for income taxes.

Deferred tax assets and liabilities are determined using the tax rate for the period in which the temporary differences to which these deferred tax assets and liabilities relate are expected to reverse. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised. A deferred tax liability is recognised for all taxable temporary differences, unless they relate to goodwill or the initial recognition of an asset or a liability.

#### Foreign currency conversion

##### *Foreign currency transactions*

Non-monetary assets and liabilities denominated in foreign currencies are converted into Hungarian Forints at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the rate of exchange at the balance sheet date. The resulting exchange gains and losses are recognised in the statement of income.

##### *Foreign entities*

The Group uses the closing rate method for converting the financial statements of subsidiaries whose transactions are recorded in foreign currencies. Under this method, on consolidation, assets and liabilities are converted at the exchange rates prevailing at the balance sheet date. Income and expense items are converted using average exchange rates which approximate to those prevailing during the period. Exchange differences arising from the conversion of the financial statements of foreign subsidiaries are taken to exchange reserves.

#### Revenue recognition

Revenue is recognised at the time the goods are despatched by the company as this is the point at which the significant risks and rewards of ownership of the goods are transferred to the customer. In case of rendering of services, the revenue is recognised in accordance with the stage of completion of the transaction on the balance sheet date. The method used determines services performed as a percentage of total services to be performed and applies this percentage to total revenue expected.

#### Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

#### Treasury shares

Treasury stock represents the cost of shares of the Company repurchased and is displayed as a reduction of shareholders' equity. Premiums and discounts on repurchase and subsequent disposal are credited and debited respectively directly to retained earnings. According to Hungarian regulations, any premiums arising are available for distribution.

#### Earnings per share

Basic earnings per share data is calculated based on the weighted average number of shares outstanding during the period excluding treasury shares held by the Company. Fully diluted earnings per share are calculated based on the weighted average number of shares



outstanding as calculated for basic earnings per share and as adjusted for giving effect to the assumed issuance of all potentially dilutive securities. Net income is adjusted in the fully diluted earnings per share calculation for any income or expense associated with the potentially dilutive securities. At December 31st 2002 and of 2001 there were no significant potentially dilutive securities in issue.

#### Segment reporting

Segmental information is based on the Company's business segments which reflect the Group's internal management reporting structure.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Unallocated items mainly comprise corporate expenses, research and development costs, amortisation of intangible assets and, restructuring and other costs.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

#### Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

### 3. Short-term investments

Short-term investments at December 31, 2002 comprised treasury bonds earning average interest of 5% per annum payable upon maturity.

### 4. Accounts receivable

	2002	2001
Trade receivables	5,567,720	5,956,649
Less, reserve for doubtful accounts	(84,025)	(54,770)
	5,483,695	5,901,879
Gross amount receivable from customers for contract work (see note 5)	199,800	233,785
Accounts receivable, net	5,683,495	6,135,664

### 5. Contract work-in-progress

The following amounts relate to long-term contracts in progress at the respective year ends.

	2002	2001
Contract revenue recognised as revenue in the period	521,296	545,836
Contract costs incurred and recognised profits (less losses) to date	385,406	372,409
Progress billings	(380,259)	(138,624)
Gross amount due from customers for contract work	199,800	233,785
Gross amount due to customers for contract work	194,653	–

### 6. Inventory

	2002	2001
Demonstration inventory	68,231	44,909
Goods for resale	835,111	1,289,216
Maintenance inventory	365,879	356,728
	1,269,221	1,690,853
Less, provision for obsolete inventory	(20,149)	(10,779)
Total inventories, net	1,249,072	1,680,074

## 7. Other current assets

	2002	2001
Uninvoiced contract work	525,392	420,250
Prepayments	89,294	213,416
Deposits	88,733	113,733
Advances given	83,377	80,717
Tax receivable	53,610	6,356
Employee advances	33,426	54,519
Deferred tax	22,285	21,930
Accrued interest receivable	2,504	25,339
Other	77,616	53,119
Total other current assets	976,237	989,379

## 8. Property, Plant and Equipment

Activity in property, plant and equipment was as follows:

	Technical Equipment, Vehicles & Machinery	Capital Projects	Lands & Buildings	Computer Software	Total
<b>Cost:</b>					
January 1, 2001	1,243,454	199,154	1,236,557	366,616	3,045,781
Additions	494,296	35,385	13,446	76,080	619,207
Transfer	37,094	(227,505)	112,331	78,080	–
Acquisitions	419,694	189	125,881	–	545,764
Disposals/write-offs	(140,154)	(189)	(255,729)	–	(396,072)
December 31, 2001	2,054,384	7,034	1,232,486	520,776	3,814,680
Additions	337,816	478,273	13,135	58,808	888,032
Transfer	150,423	(323,822)	58,689	114,710	–
Disposals/write-offs	(287,545)	(38,297)	(81,531)	(4,523)	(411,896)
December 31, 2002	2,255,078	123,188	1,222,779	689,771	4,290,816
<b>Depreciation:</b>					
January 1, 2001	582,285	–	178,328	121,757	882,370
Charge	415,885	–	49,565	99,524	564,974
Acquisitions	216,550	–	9,100	–	225,650
Disposals/write-offs	(71,582)	–	(23,787)	–	(95,369)
December 31, 2001	1,143,138	–	213,206	221,281	1,577,625
Charge	425,068	–	48,855	153,324	627,247
Disposals/write-offs	(275,237)	–	(10,907)	(4,523)	(290,667)
December 31, 2002	1,292,969	–	251,154	370,082	1,914,205
<b>Net book value</b>					
December 31, 2001	911,246	7,034	1,019,280	299,495	2,237,055
December 31, 2002	962,109	123,188	971,625	319,689	2,376,611

## 9. Intangible assets

Activity in intangible assets was as follows:

	<b>Goodwill</b>
Cost:	
January 1, 2001	438,883
Additions	732,170
Disposals	<u>(28,420)</u>
December 31, 2001	1,142,633
Additions	584,353
Disposals	<u>–</u>
December 31, 2002	<u>1,726,986</u>
Amortisation	
January 1, 2001	206,778
Charge	<u>223,982</u>
December 31, 2001	430,760
Charge	196,434
December 31, 2002	<u>627,194</u>
Net book value:	
December 31, 2001	<u>711,873</u>
December 31, 2002	<u>1,099,792</u>

## 10. Accounts payable

	<b>2002</b>	<b>2001</b>
Trade payables	2,753,586	3,679,975
Gross amount payable to customers for contract work (see note 5)	194,653	–
Accounts payable	<u>2,948,239</u>	<u>3,679,975</u>

## 11. Other payables and accruals

	<b>2002</b>	<b>2001</b>
Value added tax	401,272	327,932
Deferred service income	478,886	314,358
Accruals	148,895	368,505
Other taxes	78,059	214,491
Social insurance	51,669	51,108
Advance payments from customers	29,408	188,843
Warranty provisions	17,597	17,597
Other	118,058	131,638
	<u>1,323,844</u>	<u>1,614,472</u>

None of the above payables are specifically secured on any of the assets of the Group.

Deferred service income represents amounts invoiced by the Company for the provision of support services, the costs of which will be incurred during 2003.

The Company provides a three year warranty on certain products under which faulty products are repaired or replaced. The amount of the provision is based on sales volume and past experience with the level of repairs and returns.

## 12. Minority interest in consolidated subsidiaries

Minority interest represents the minority shareholders' proportionate share in the equity of the group's subsidiaries.

	2002	2001
Infinity a.s.	70,576	203,883
Span d.o.o.	87,400	152,409
	<u>157,976</u>	<u>356,292</u>

## 13. Share capital

Ordinary share capital

On December 31, 2002 the Group's issued and fully paid share capital consisted of 9,554,630 shares with a nominal value of HUF 200 (only).

Treasury shares

On December 31, 2002 the Company held 265,000 (2001; 265,000) ordinary shares of nominal value HUF 200 each, as treasury shares. These shares were sold and repurchased on the open market and resulted in a loss of HUF 240 only.

A reconciliation of the number of shares outstanding at the beginning and the end of the current year is as follows:

	Equity shares	Own shares	Total
Actual number of shares			
January 1, 2002	9,554,630	(265,000)	9,289,630
Sale of treasury shares	–	265,000	265,000
Purchase of treasury shares	–	(265,000)	(265,000)
December 31, 2002	<u>9,554,630</u>	<u>(265,000)</u>	<u>9,289,630</u>

## 14(a). Segment information – business segments

For management purposes the company is organised into the following major operating divisions – Information Systems Services (ISS), Business Solutions Developments (BSD), Infinity and SPAN. These divisions are the basis according to which the company reports its primary segment information:

Year ended 31 December 2002	ISS	BDS	Infinity	Span	Elimination	Total
Segment revenues						
External sales	9,186,282	3,194,598	5,875,288	1,773,959	(416,118)	19,614,009
Total revenue	<u>9,186,282</u>	<u>3,194,598</u>	<u>5,875,288</u>	<u>1,773,959</u>	<u>(416,118)</u>	<u>19,614,009</u>
Segment result	<u>1,709,255</u>	<u>1,574,902</u>	<u>1,782,017</u>	<u>430,935</u>	<u>–</u>	<u>5,497,109</u>
Selling, general and administration expenses	1,953,661	1,896,167	1,480,551	433,976	(63,646)	5,700,709
Operating (loss) income	(244,406)	(321,265)	301,466	(3,041)	63,646	(203,600)
Interest income, net	106,853	4,787	(50,969)	(1,625)	–	59,046
Other income (expense)	361,339	47,814	22,481	15,247	(63,646)	383,235
Minority interest	–	–	(91,741)	(9,247)	–	(100,988)
Income taxes	(7,264)	–	(95,844)	(7,748)	–	(110,856)
Net income (loss)	<u>216,522</u>	<u>(268,664)</u>	<u>85,393</u>	<u>(6,414)</u>	<u>–</u>	<u>26,837</u>
Segment assets	4,737,082	1,224,376	2,704,437	636,639	–	9,302,534
Unallocated assets						<u>3,715,849</u>
Consolidated total assets						<u>13,018,383</u>
Segment liabilities						<u>5,079,212</u>
Unallocated liabilities						<u>7,939,171</u>
Consolidated total liabilities						<u>13,018,383</u>

Year ended December 31, 2001	ISS	BDS	Infinity	Span	Elimination	Total
Segment revenues						
External sales	9,563,539	4,148,320	7,247,267	1,265,161	(1,087,478)	21,127,809
Total revenue	9,563,539	4,148,320	7,247,267	1,256,161	(1,087,478)	21,127,809
Segment result	1,496,978	1,926,649	1,773,464	329,906	58,778	5,585,775
Selling, general and administration expenses	2,249,627	2,146,266	1,378,717	264,101	(29,249)	6,009,462
Operating (loss) income	(752,649)	(219,617)	394,747	65,805	88,027	(423,687)
Interest income, net	166,693	8,366	(37,427)	(636)	–	136,996
Other income (expense)	255,013	(9,238)	(10,071)	5,002	(88,027)	152,679
Minority interest	–	–	(153,202)	(34,214)	–	(187,416)
Income taxes	–	(18,479)	(148,960)	(15,303)	–	(182,742)
Net income (loss)	(330,943)	(238,968)	45,087	20,654	–	(504,169)
Segment assets	7,451,593	1,120,812	3,157,856	540,870	–	12,271,131
Unallocated assets						1,867,715
Consolidated total assets						14,138,846
Segment liabilities	1,665,747	722,541	3,157,856	540,870	–	6,087,014
Unallocated liabilities						8,051,832
Consolidated total liabilities						14,138,846

#### 14(b). Segment information – geographical segments

The following table shows the distribution of the Company's consolidated sales by geographical market and the carrying amount of segment assets by the geographical area in which the assets are located.

Year ended December 31, 2002	Hungary	Czech Republic	Croatia	Total
Segment revenues	11,964,762	5,875,288	1,773,959	19,614,009
Segment result	3,284,157	1,782,017	430,935	5,497,109
Selling, general and administration expense	3,786,182	1,480,551	433,976	5,700,709
Operating (loss) income	(502,025)	301,466	(3,041)	(203,600)
Interest income, net	111,640	(50,969)	(1,625)	59,046
Other income (expense) net	345,507	22,481	15,247	383,235
Minority interest	–	(91,741)	(9,247)	(100,988)
Income taxes	(7,264)	(95,844)	(7,748)	(110,856)
Net profit (loss)	(52,142)	85,393	(6,414)	26,837
Segment assets	5,961,458	2,704,437	636,639	9,302,534
Unallocated assets				3,715,849
Consolidated total assets				13,018,383
Segment liabilities	1,738,136	2,704,437	636,639	5,079,212
Unallocated liabilities				7,939,171
Consolidated total liabilities				13,018,383

Year ended December 31, 2002	Hungary	Czech Republic	Croatia	Total
Segment revenues	12,624,381	7,247,267	1,256,161	21,127,809
Segment result	3,482,405	1,773,464	329,906	5,585,775
Selling, general and administration expense	4,366,644	1,378,717	264,101	6,009,462
Operating income (loss)	(884,239)	394,747	65,805	(423,687)
Interest income, net	175,059	(37,427)	(636)	136,996
Other income (expense) net	157,748	(10,071)	5,002	152,679
Minority interest	–	(153,202)	(34,214)	(187,416)
Income taxes	(18,479)	(148,960)	(15,303)	(182,742)
Net profit (loss)	(569,911)	45,087	20,654	(504,169)
Segment assets	8,572,405	3,157,856	540,870	12,271,131
Unallocated assets				1,867,715
Consolidated total assets				14,138,846
Segment liabilities	2,388,288	3,157,856	540,870	6,087,014
Unallocated liabilities				8,051,832
Consolidated total liabilities				14,138,846



## 15. Selling, general and administration expenses

	2002	2001
Wages and salaries	2,958,578	3,093,066
Depreciation and amortisation	823,681	788,956
Marketing & advertising	280,779	391,901
Rental and lease fees	401,226	457,934
General administration	157,848	136,471
Professional fees	424,587	375,376
Training	72,561	85,145
Travel	104,399	102,972
Motor expenses	119,799	128,663
Telephone	157,983	172,661
Exhibitions	791	4,303
Customs and freight	32,934	48,464
Office expenses	97,540	78,563
Stationary	35,469	40,104
Fuel costs	11,845	7,791
Miscellaneous	20,689	97,092
	<u>5,700,709</u>	<u>6,009,462</u>

The average number of persons employed by the Group during the year was 440 (2001: 537).

## 16. Financial income

	2002	2001
Investment income	104,747	119,083
Bank interest	13,340	33,034
Other	–	35,801
	<u>118,087</u>	<u>187,918</u>

## 17. Financial expense

	2002	2001
Bank interest	59,041	48,457
Factoring of trade receivables	–	2,465
	<u>59,041</u>	<u>50,922</u>

## 18. Income taxes

The Company's income tax expense is as follow:

	2002	2001
Current year tax expense	<u>110,856</u>	<u>182,742</u>

Taxation has been provided at 18% of the profit, adjusted for taxation purposes.

The reconciliation of income tax calculated on the basis of Hungarian statutory tax rules to income tax expense is as follows:

	2002	2001
Income (loss) before tax	<u>238,681</u>	<u>(134,011)</u>
Income tax at statutory rate of 18%	42,962	–
Tax associated with gain on sale of treasury shares	–	19,171
Tax effect of temporary timing differences, net	38,646	85,749
Higher income tax rates of other countries	32,755	67,115
Miscellaneous	(3,507)	10,707
Current year tax charge	<u>110,856</u>	<u>182,742</u>

The Hungarian companies within the group are subject to periodic audit by the Hungarian Tax Authority ("APEH"). Because the application of tax laws and regulations to several types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities. The tax authorities have completed and finalised tax inspections for all years up to and including 1998.

Deferred tax assets (at 18% tax rate) are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised. The group has tax losses of HUF 268,631 which are available to be carried forward and offset against taxable income over the next five 5 years. Deferred tax assets have not been recognised in respect of these losses as they may not be used with certainty to offset future taxable profits

Deferred taxation provided and not provided are as follows:

	Provided		Not provided	
	2002	2001	2002	2001
Infinity a.s.	22,285	21,930	–	–
Unused tax losses	–	–	268,631	272,243
	22,285	21,930	268,631	272,243

The Group has no significant deferred tax liabilities.

## 19. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of shares outstanding during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares:

	2002	2001
Net income (loss) attributable to shareholders	26,837	(504,169)
Weighted average number of shares in issue during the year	9,289,630	9,373,927
Income (loss) per share (HUF only)	3	(54)

There are no dilutive obligations on December 31, 2002 or 2001.

## 20 (i). Acquisition – Infinity a.s.

On April 24, 2002, subsequent to the initial acquisition terms agreed on February 1, 2001 when Synergon acquired 50% plus one share of Infinity a.s, a company in the same business and registered and operating in the Czech Republic, the terms of the purchase of the remaining shares of Infinity a.s. were re-negotiated. The following terms were agreed and represent the maximum contingent liability associated with the potential acquisition:

(i) under the revised terms of Option A, 480 shares (16%) may be sold (should the put option be exercised by the sellers during June 2002) for an amended price of CZK 145,806 per share.

(ii) in the event of the exercise of a put option by the seller (in the periods between June 1, 2002 and June 30, 2004), Synergon will be required to purchase the following number of shares, at a price dependent upon the financial result in the year prior to the option being exercised, but limited to that price shown in the table below.

Option	Number of shares	Max. option price (USD) per share
B	480	4,069
C	480	5,601
D	720	5,601

(iii) in the event of the exercise of a call option by Synergon (in the period between July 1 and July 31, 2003), Synergon is entitled to purchase further shares in the company, in order to achieve a total holding of 75% plus one share of all shares in issue by the company as at June 30, 2003. The maximum purchase price would be USD 4,069 per share.

(iv) by the exercise of a further call option, Synergon is entitled to purchase the remaining shares of the company (ie. those remaining shares owned by the seller following the acquisition by Synergon of those shares as outlined in (iii) above). The price paid by Synergon for the acquisition of those remaining shares would depend on the year in which the option was exercised by Synergon and is shown in the table below.

Option	Option price (USD) per share
2003	4,069
2004	5,601

On June 30, 2002, Option A, above, was exercised by the sellers requiring Synergon to acquire further 480 shares (16%) for a total purchase price of HUF 517m. On that date, the share of the net assets acquired was HUF 68m. Following the exercise of Option A, Synergon then owned 66% plus one share of Infinity a.s. and had no further exposure in this regard.

No further options, as regards the remaining aspects of the acquisition transaction and as detailed in (ii), (iii) and (iv) above, were exercised by either parties during 2002.

Infinity a.s. contributed revenues of HUF 5,875,288 (2001; HUF 7,247,267 (11 months)) and operating income of HUF 254,538; (2001; HUF 502,194 (11 months)) to the Group for the year to December 31, 2002.

## 20 (ii). Acquisition – Span d.o.o

On February 1, 2001 Synergon Informatika Rt. acquired 51% of the share capital of SPAN d.o.o, a company of the same sector of industry registered and operating in the Republic of Croatia. The following additional terms were agreed as part of the acquisition:

(i) the share capital of SPAN d.o.o would be increased by two share capital increases, one during the year 2002 (by USD 150,000) and the other in the year of 2003 (by USD 150,000). The share capital increases are to be made by Synergon on condition that the company, during the financial year preceding the respective capital increase, achieves the pre-determined levels of sales and profits.

(ii) in the period between January 1, 2001 and May 31, 2002, a current shareholder is granted a put option, whereby the shareholder shall be entitled to require Synergon to purchase all of that shareholders interest in SPAN. The price to be paid by Synergon shall equal 10 times the audited pro rata net profits of the financial year preceding the year in which the option is exercised, but at least USD 600,000.

(iii) in the period between May 1, 2003 and December 31, 2004, the sellers grant Synergon a call option, whereby Synergon shall require the sellers to sell their remaining interests in the Company, or portions thereof, in the aggregate nominal value of 25% of the share capital of the Company. The total price payable by Synergon for the acquisition shall amount to USD 816,000, but shall in no event exceed USD 2,040,000.

On March 31, 2002, the option outlined in (ii) above, was partially exercised by the seller to the extent that Synergon was required to purchase a further 17% of the shares of SPAN d.o.o, thus increasing its overall share holding to 68%. At the date of the exercise of the option, the share of the net assets acquired was HUF 56m. The purchase price paid by Synergon was HUF 165m. Following this transaction, Synergon had no further exposure in this regard.

The share capital increase as referred to in (i) above did not occur in 2002. This aspect of the initial acquisition contract is currently under renegotiation with the management of SPAN d.o.o.

In January 2003, Synergon provided a loan of USD 150,000 to SPAN d.o.o. The loan carries interest at LIBOR plus 1.5% and is repayable by March 2003.

SPAN d.o.o. contributed revenues of HUF 1,773,959 (2001; HUF 1,256,161 (11 months)) and operating income of HUF 19,449 (2001; HUF 80,763 (11 months)) to the Group for the year to December 31, 2002.

## 21. Commitment

Rental expense (principally for offices and motor vehicles) was HUF 401,226 (2001; HUF 457,934).

At December 31, 2002 the company had minimum lease rental commitments under non-cancellable operating leases as set out below:

	Land & Buildings		Other	
	2002	2001	2002	2001
Operating leases which expire				
within one year	75,048	61,725	140,784	273,390
within two to five years	300,191	246,219	508,228	410,085
in over five years	1,200,765	869,037	–	–
	<u>1,576,004</u>	<u>1,176,981</u>	<u>649,012</u>	<u>683,475</u>

## 22. Management and employee participation programs

### Group management

The Group, through its wholly owned subsidiary, Officium Kft, established a framework for a convertible bond option program for the benefit of management whereby up to 400,000 bonds of nominal value HUF 1 (only) may be converted to ordinary shares. Under the terms of the scheme, a bond, if offered to a participant, may be purchased at its nominal value and converted to an ordinary share, within certain stipulated guidelines, by the further payment of HUF 199 (only) per bond. The option to convert the bonds to ordinary shares remains valid for three years from the date of purchase.

As on December 31, 2002, while 200,000 bonds have been offered to Synergon group management, none have been purchased by the participants and no conversion to ordinary shares has taken place.

### 23. Directors' and Supervisory Board remuneration

Directors' remuneration totalled HUF 5,200 (2001; HUF 17,614). The total remuneration of the Supervisory Board was HUF 6,450 (2001; HUF 7,935).

### 24. Retained earnings

Retained earnings available for distribution are based on the statutory financial statements of the Company prepared in accordance with Hungarian Accounting Standards, as opposed to these financial statements which are prepared under International Financial Reporting Standards. The legally distributable reserves of Synergon Informatika Rt on December 31, 2002 show a deficit of HUF 792,942.

### 25. Dividends

The company is permitted to pay annual dividends out of the profits and profit reserves, determined on the basis of the Hungarian statutory accounting rules, following a declaration by the Annual General Meeting of the Shareholders, which must be held in the first five months following the end of the financial year. The Company is also permitted to pay interim dividends.

### 26. Concentrations of credit risk

Financial instruments that subject the Group to significant concentrations of credit risk consist principally of excess cash holdings and accounts receivable. The company places its excess cash in high quality Hungarian and Western financial institutions and limits the amount of credit exposure to any one institution. The credit risk associated with trade accounts receivable is limited due to the company's large domestic customer base and the credit-worthiness of customers. Management monitors this concentration of credit risk on a regular basis and follows up immediately on any past due collections.

### 27. Fair value of financial instruments

The fair values of financial instruments, consisting of cash, receivables, payables, and obligations under debt instruments, are considered to be equal to their carrying values. The fair values of the company's existing investments are not readily determinable as the underlying shares are not frequently traded in a well-established and organised market.

### 28. Contingencies

On December 31, 2002 a number of commercial banks have provided guarantees to the value of HUF 487,617 (2001; HUF 565,803) on behalf of the Company.

### 29. Cash flow reconciliations

Net income

	2002	2001
Net income (loss)	26,837	(504,169)
Net interest received (see Note 16 and 17)	(59,046)	(136,996)
Corporation tax paid (see Note 18)	110,856	182,742
Net income (loss) before interest, taxation and minority interest	78,647	(458,423)

### 30. (i) Reconciliation of total consolidated shareholders equity from the Hungarian statutory consolidated financial statements to the accompanying financial statements is as follows:

	2002	2001
Total consolidated loss per Hungarian statutory consolidated financial statements	7,900,662	8,165,437
Contract work-in-progress	(12,662)	(76,583)
Treasury share transactions	240	78,750
Capitalisation of subsidiary acquisition cost	–	88,814
Foreign exchange differences on consolidation	34,965	7,566
Depreciation and amortisation	25,525	(44,791)
Other adjustments	74,528	171,317
Total income (loss) per accompanying financial statements	7,770,519	7,793,958

(All amounts in HUF 000's)

**30. (ii) Reconciliation of total consolidated net income from the Hungarian statutory consolidated financial statements to the accompanying financial statements is as follows: (cont.)**

	2002	2001
Total consolidated loss per Hungarian statutory consolidated financial statements	(35,295)	(547,256)
Contract work-in-progress	(12,662)	(76,583)
Treasury share transactions	240	78,750
Capitalisation of subsidiary acquisition cost	–	88,814
Foreign exchange differences on consolidation	34,965	7,566
Depreciation and amortisation	25,525	(44,791)
Other adjustments	14,064	(10,669)
Total income (loss) per accompanying financial statements	26,837	(504,169)

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