

SYNERGON

SYNERGON

INFORMATION

SYSTEMS PLC.

ANNUAL

REPORT

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INFORMATIONS FOR INVESTORS

Board of Directors

Ferenc CZAKÓ Chairman
Árpád BARTA
Ákos KOZÁK
László OLÁH
Zoltán RADNÓTY
Dr. Sándor SZALAY

Supervisory board

Zoltán BAJOR
Miklós JESZENSZKY
Gábor KOROMPAY
József KULLER
László SZALMA Chairman

Management of Group Companies

Nikola DUJMOVIC Managing Director, Span d.o.o.
Jiří FANTA CEO, Infinity a.s.
Attila KOVÁCS Managing Director, Synergon ATOS Origin Kft.
Zoltán PINTÉR Managing Director, Fibex Kft.
Loránt SZÁRAY CEO, Synergon Information Systems plc.

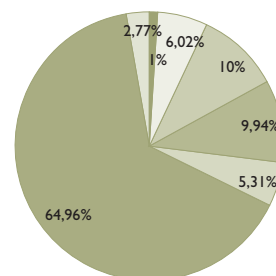
Registered Capital

The company's subscribed capital consists of 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, 2003

Shareholder's name

Deutsche Bank (depository)	1.00%
Davon Kft.	6.02%
RCX Kft.	10.00%
Curdie Trust Corp.	9.94%
Berenberg Global Opportunity-Magyar Budapest Fund	5.31%
Financial investors, each below 5 percent of shares	64.96%
Treasury shares	2.77%
Total	100%



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 Information Systems plc.

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Investor Relations

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SYNERGON INFORMATIKA RT AND SUBSIDIARIES

**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2003**

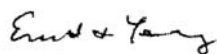
Report of Independent Auditors

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, 2003 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, 2003 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 26, 2004

Consolidated Balance Sheet

	Note	December 31, 2003	December 31, 2002
Assets			
Current Assets:			
Cash		1,409,222	1,103,782
Short-term investments	3	601,578	512,692
Accounts receivable, net	4	7,208,515	5,683,495
Inventory	6	1,071,947	1,249,072
Other current assets	7	983,165	976,237
Total current assets		11,274,427	9,525,278
Non-current Assets:			
Property, plant and equipment	8	2,308,425	2,376,611
Investments		19,018	16,702
Intangible assets	9	779,346	1,099,792
Negative goodwill	20(i)	(134,178)	–
Total non-current assets		2,972,611	3,493,105
Total assets		14,247,038	13,018,383
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term loans		472,744	730,063
Trade accounts payable	10	4,711,470	2,948,239
Other payables and accruals	11	2,034,509	1,323,844
Provisions for liabilities and charges	12	509,576	–
Total current liabilities		7,728,299	5,002,146
Long-term liabilities		32,863	87,742
Minority interest in consolidated subsidiaries	13	115,178	157,976
Shareholders' Equity:			
Share capital	14	1,910,926	1,910,926
Treasury shares	14	(109,330)	(188,565)
Share premium		5,770,883	5,770,883
Capital reserve		28,685	28,685
Retained (losses) earnings		(1,287,735)	253,978
Foreign currency translation		57,269	(5,388)
Total shareholders' equity		6,370,698	7,770,519
Total liabilities and equity		14,247,038	13,018,383

See accompanying notes to the consolidated financial statements.

Statement of Consolidated Income

	Note	Year ended December 31, 2003	Year ended December 31, 2002
Sales	15	19,646,580	19,614,009
Cost of sales		14,069,516	14,116,900
Gross profit		5,577,064	5,497,109
Selling, general and administration expenses	16	6,334,270	5,700,709
Tax penalties and interest	12	509,576	–
Impairment of intangible assets	9	265,311	–
Operating loss		(1,532,093)	(203,600)
Other income:			
Financial income, net	17	65,026	59,046
Foreign exchange gains		34,794	86,093
Other income		81,361	297,142
		181,181	442,281
(Loss) income before income tax and minority interest		(1,350,912)	238,681
Income tax expense	18	75,356	110,856
(Loss) income before minority interest		(1,426,268)	127,825
Minority interest		36,203	100,988
Net (loss) income		(1,462,471)	26,837
(Loss) income per share : (HUF per share)	19	(157)	3

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 (Losses)	Foreign Currency Translation	Total
Balance at 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 at December 31, 2002	1,910,926	(188,565)	5,770,883	–	28,685	253,978	(5,388)	7,770,519
Sale of treasury shares	–	212,265	–	–	–	(79,242)	–	133,023
Purchase of treasury shares	–	(133,030)	–	–	–	–	–	(133,030)
Exchange gain on translation	–	–	–	–	–	–	62,657	62,657
Net loss	–	–	–	–	–	(1,462,471)	–	(1,462,471)
Balance at December 31, 2003	1,910,926	(109,330)	5,770,883	–	28,685	(1,287,735)	57,269	6,370,698

Statement of Consolidated Cash Flows

	Note	Year ended December 31, 2003	Year ended December 31, 2002
Cash flow relating to operating activities:			
Net (loss) income before taxation and interest	29	(1,452,141)	78,647
Depreciation and amortisation		1,182,192	823,681
Minority interest		36,203	100,988
Exchange gain (loss) on translation		62,657	(34,965)
Gain on sale of fixed assets		31,971	–
Loss on sale of short-term investments		(79,242)	(240)
Changes in assets and liabilities:			
Accounts receivable and other current assets		(1,325,011)	447,283
Inventory		181,650	431,002
Payables and accruals		2,845,781	(1,022,363)
Cash from operating activities		1,484,060	824,033
Returns on investment and servicing of finance:			
Net interest received		65,026	59,046
Income tax paid		(75,356)	(110,856)
Net cash flows from operating activities		1,473,730	772,223
Cash flow relating to investing activities:			
Purchase of fixed assets		(709,207)	(888,032)
(Purchase) sale of short-term investments		(88,886)	122,011
Purchase of other long-term assets		(90,001)	(23,263)
Acquisition of subsidiary, net of cash acquired	20(i)	(32,297)	(681,815)
Proceeds on disposal of fixed assets		64,064	105,920
Net cash flow used in investing activities		(856,327)	(1,365,179)
Cash flow relating to financing:			
Sale of treasury shares		212,265	212,505
Purchase of treasury shares		(133,030)	(212,265)
(Decrease) increase in loans payable		(312,197)	123,655
Dividends paid to minority interests		(79,001)	(157,149)
Net cash flow used in financing		(311,963)	(33,254)
Increase (decrease) in cash and cash equivalents		305,440	(626,210)
Cash and cash equivalents at the:			
Beginning of the year		1,103,782	1,729,992
end of the period		1,409,222	1,103,782

See accompanying notes to the interim consolidated financial statements.



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, 2003 were authorised for issue by the directors on March 26, 2004. Synergon Informatika Rt is a public limited liability 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 they affect 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 those of the parent company, using consistent accounting policies, are maintained in the currencies as indicated and translated into Hungarian Forints using the policy as 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	Shareholding %	Currency	Country of incorporation
Fibex Kft.	100%	HUF	Republic of Hungary
Officium Kft.	100%	HUF	Republic of Hungary
Synergon Atos Origin 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 between 15% and 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 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 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 recognised directly 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 between five and ten years using the straight-line method.

Negative goodwill, not exceeding the fair value of acquired identifiable non-monetary assets, is recognised as a deduction from the amortisation charge, on a straight line basis over a period of between five and ten years, being the estimated remaining average useful life of the identifiable assets acquired.

Income taxes

Group uses the liability method in accounting for income taxes.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- (i) except where the deferred income tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised:

- (i) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currency translation

Foreign currency transactions

Non-monetary assets and liabilities denominated in foreign currencies are translated into Hungarian Forints at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated 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 translating the financial statements of subsidiaries whose transactions are recorded in foreign currencies. Under this method, on consolidation, assets and liabilities are translated at the exchange rates prevailing at the balance sheet date. Income and expense items are translated using average exchange rates which approximate to those prevailing during the period. Exchange differences arising on the translation of the financial statements of foreign subsidiaries are taken to exchange reserves.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.



Contract work-in-progress

Revenue is recognised by reference to the stage of completion of the transaction at 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.

Earnings per share

Basic earnings per share data are 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.

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, 2003 comprised treasury bonds earning average interest of 6.5% per annum payable upon maturity.

4. Accounts receivable

	2003	2002
Trade receivables	7,005,719	5,567,720
Less, reserve for doubtful accounts	(118,674)	(84,025)
	6,887,045	5,483,695
Gross amount receivable from customers for contract work (see Note 5)	321,470	199,800
Accounts receivable, net	7,208,515	5,683,495

5. Contract work-in-progress

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

	2003	2002
Contract revenue recognised as revenue in the period	1,053,928	521,296
Contract costs incurred and recognised profits (less losses) to date	969,624	385,406
Progress billings	(648,154)	(380,259)
Gross amount due from customers for contract work	321,470	199,800
Gross amount due to customers for contract work	–	194,653

6. Inventory

	2003	2002
Demonstration inventory	35,641	68,231
Goods for resale	852,844	835,111
Maintenance inventory	302,596	365,879
	1,191,081	1,269,221
Less, provision for obsolete inventory	(119,134)	(20,149)
Total inventories, net	1,071,947	1,249,072

7. Other current assets

	2003	2002
Uninvoiced contract work	519,985	525,392
Prepayments	65,606	89,294
Deposits	80,595	88,733
Customer advances	84,106	83,377
Tax receivable	142,392	53,610
Employee advances	22,053	33,426
Deferred tax	12,506	22,285
Accrued interest receivable	8,354	2,504
Other	47,568	77,616
Total other current assets	983,165	976,237

8. Property, Plant and Equipment

Activity in property, plant and equipment was as follows for the years ended December 31:

	Technical Equipment, Vehicles & Machinery	Capital Projects	Lands & Buildings	Computer Software	Total
Cost:					
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
Additions	315,075	278,886	19,638	95,608	709,207
Transfer	157,990	(314,827)	—	156,837	—
Acquisitions	199,983	—	—	98,969	298,952
Disposals/write-offs	(360,416)	(23,450)	(69)	(182,462)	(566,397)
December 31, 2003	2,567,710	63,797	1,242,348	858,723	4,732,578
Depreciation:					
December 31, 2001	1,143,138	—	213,206	221,281	1,577,625
Charge for the year	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
Charge for the year	434,502	—	51,831	292,355	778,688
Acquisitions	144,915	—	—	56,707	201,622
Disposals/write-offs	(292,384)	—	—	(177,978)	(470,362)
December 31, 2003	1,580,002	—	302,985	541,166	2,424,153
Net book value:					
December 31, 2002	962,109	123,188	971,625	319,689	2,376,611
December 31, 2003	987,708	63,797	939,363	317,557	2,308,425

Acquisitions as shown above, refers to assets acquired following the purchase of Synergon Atos Origin Kft on November 1, 2003 (refer Note 20. (i)).

9. Intangible assets

Activity in intangible assets was as follows for the years ended December 31:

	Goodwill
Cost:	
December 31, 2001	1,142,633
Additions	584,353
Disposals	–
December 31, 2002	1,726,986
Additions	87,685
Disposals	–
December 31, 2003	<u>1,814,671</u>
Amortisation:	
December 31, 2001	430,760
Charge for the year	196,434
December 31, 2002	627,194
Impairment	265,311
Charge for the year	142,820
December 31, 2003	<u>1,035,325</u>
Net book value:	
December 31, 2002	<u>1,099,792</u>
December 31, 2003	<u>779,346</u>

The impairment charge of HUF 265,311 represents the write-down of the goodwill associated with the Group investments in both Infinity a.s and SPAN d.o.o. The recoverable amount is based on projected discounted future cash flows (determined at the cash generating unit level) and approved by the Board of Directors.

10. Accounts payable

	2003	2002
Trade payables	4,711,470	2,753,586
Gross amount payable to customers for contract work (see note 5)	–	194,653
Accounts payable	<u>4,711,470</u>	<u>2,948,239</u>

11. Other payables and accruals

	2003	2002
Value added tax	585,161	401,272
Deferred service income	583,669	478,886
Accruals	427,305	148,895
Other taxes	138,647	78,059
Social insurance	69,899	51,669
Advance payments from customers	93,696	29,408
Warranty provisions	13,277	17,597
Other	122,855	118,058
	<u>2,034,509</u>	<u>1,323,844</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 2004.

12. Provisions for liabilities and charges

On November 30, 2003, the results of an earlier investigation into activities performed on behalf of the Company by Zsolt Szaloczy (a member of the Board of Directors) were concluded by the tax authority and a ruling made that the Company would be liable for fines and penalties totalling HUF 509,576. While the Company has challenged the legality of the investigation and is in the process of appealing the decision, a provision has been made for the full amount assessed.

13. Minority interest in consolidated subsidiaries

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

	2003	2002
Infinity a.s.	31,165	70,576
Span d.o.o	84,013	87,400
	115,178	157,976

14. Share capital

Ordinary share capital

On December 31, 2003 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, 2003 the Company held 265,000 (2002; 265,000) ordinary shares with a nominal value of HUF 200 (only) each as treasury shares. These shares were sold and repurchased on the open market place and resulted in a loss of HUF 79,235.

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

	Ordinary shares	Treasury shares	Total
Actual number of shares			
January 1, 2003	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, 2003	9,554,630	(265,000)	9,289,630

15. a Segment information – business segments

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

Year ended December 31, 2003	ISS	BSD	Elimination	Total
Segment revenues	15,310,771	4,812,941	(471,132)	19,646,580
Segment result	4,125,447	1,453,433	(1,816)	5,577,064
Selling, general and administration expenses	4,118,920	2,270,884	(55,534)	6,334,270
Tax penalties and interest	509,576	–	–	509,576
Impairment of intangible asset	265,311	–	–	265,311
Operating loss	(768,360)	(817,451)	53,718	(1,532,093)
Interest income (expense), net	146,176	(48,096)	1,740	99,820
Other income (expense)	92,175	47,421	(58,235)	81,361
Income taxes	(75,356)	–	–	(75,356)
Minority interest	(36,203)	–	–	(36,203)
Net loss	(641,568)	(818,126)	(2,777)	(1,462,471)
Segment assets	9,286,709	1,237,093	–	10,523,802
Unallocated assets	–	–	–	3,723,236
Consolidated total assets				14,247,038
Segment liabilities	3,381,178	1,062,874	–	4,444,052
Unallocated liabilities	–	–	–	9,802,986
Consolidated total liabilities				14,247,038
Capital expenditure	595,331	113,876	–	709,207
Depreciation	725,660	53,028	–	778,688

Year ended December 31, 2002	ISS	BSD	Elimination	Total
Segment revenues	16,835,529	3,194,598	(416,118)	19,614,009
Segment result	3,922,208	1,574,902	–	5,497,109
Selling, general and administration expenses	3,868,189	1,896,167	(63,646)	5,700,709
Operating loss	(54,020)	(321,265)	63,646	(203,600)
Interest income	54,259	4,787	–	59,046
Other income (expense)	399,067	47,814	(63,646)	383,235
Income taxes	(110,856)	–	–	(110,856)
Minority interest	(110,988)	–	–	(110,988)
Net income (loss)	295,502	(268,664)	–	26,837
Segment assets	8,078,158	1,224,376	–	9,302,534
Unallocated assets	–	–	–	3,715,849
Consolidated total assets				13,018,383
Segment liabilities	4,630,727	448,486	–	5,079,212
Unallocated liabilities	–	–	–	7,939,171
Consolidated total liabilities				13,018,383
Capital expenditure	881,161	6,871	–	888,032
Depreciation	620,975	6,272	–	627,247

15. 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, 2003	Hungary	Czech Republic	Croatia	Total
Segment revenues	13,171,355	5,211,615	1,263,610	19,646,580
Segment result	3,541,573	1,595,521	439,970	5,577,064
Selling, general and administration expense	4,299,615	1,491,085	543,570	6,334,270
Tax penalties and interest	509,576	–	–	509,576
Impairment of intangible asset	–	265,311	–	265,311
Operating (loss) income	(1,267,618)	(160,875)	(103,600)	(1,532,093)
Interest income, net	147,916	(46,005)	(2,091)	99,820
Other income (expense) net	38,067	39,057	4,237	81,361
Income taxes	(75,356)	–	–	(75,356)
Minority interest	–	(33,774)	(2,429)	(36,203)
Net loss	(1,156,991)	(201,597)	(103,883)	(1,462,471)
Segment assets	7,106,141	2,766,460	651,201	10,523,802
Unallocated assets	–	–	–	3,723,236
Consolidated total assets				14,247,038
Segment liabilities	1,026,381	2,766,470	651,201	4,444,052
Unallocated liabilities	–	–	–	9,802,986
Consolidated total liabilities				14,247,038
Capital expenditure	473,190	173,355	62,662	709,207
Depreciation	531,726	200,618	46,344	778,688

(All amounts in HUF 000's)

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	433,935	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
Income taxes	(7,264)	(95,844)	(7,748)	(110,856)
Minority interest	–	(91,741)	(9,247)	(100,988)
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
Capital expenditure	576,231	229,198	82,603	888,032
Depreciation	399,298	193,412	34,537	627,247

16. Selling, general and administration expenses

	2003	2002
Wages and salaries	3,331,452	2,958,578
Depreciation and amortisation	916,881	823,681
Marketing and advertising	406,114	280,779
Rental and lease fees	329,922	401,226
General administration	112,104	157,848
Professional fees	446,425	424,587
Training	82,955	72,561
Travel	110,736	104,399
Motor expenses	144,398	119,799
Telephone	159,035	157,983
Customs and freight	32,309	32,934
Office expenses	104,788	97,540
Stationary	40,158	35,469
Fuel costs	77,253	11,845
Miscellaneous	39,740	21,480
	6,334,270	5,700,709

The average number of persons employed by the Group during the year was 544 (2002: 440).

17. Financial income, net

	2003	2002
Investment income	104,085	104,747
Bank interest income	13,469	13,340
Bank interest expense	(52,528)	(59,041)
	65,026	59,046

18. Income taxes

The Company's income tax expense is as follows:

	2003	2002
Current year tax expense	75,356	110,856

Taxation has been provided at 18% of the profit, adjusted for taxation purposes. The reconciliation of income tax computed on Hungarian statutory tax rules to income tax expense is as follows:

	2003	2002
(Loss) income before tax	(1,350,912)	238,681
Income tax at statutory rate of 18%	(243,164)	42,962
Current year taxable losses carried forward that cannot be utilised with certainty against future taxable profit	244,902	–
Tax effect of temporary timing differences, net	44,280	38,646
Other	29,338	29,248
Current year tax charge	75,356	110,856

The Hungarian companies within the group are subject to periodic audit by the Hungarian Tax Authority ("APEH"). AS the application of tax laws and regulations to many 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.

From January 1, 2004, the enacted rates of corporate income tax were reduced to 16%. Deferred tax assets (at the 16% 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 434,594 which are available to be carried forward and offset against taxable income over the next 5 years. Deferred tax assets have not been recognised in respect of these losses as the Company believes they may not be used with certainty to offset future taxable profits.

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	2003	2002	2003	2002
Infinity a.s.	12,506	22,285	–	–
Unused tax losses	–	–	434,594	268,631
	12,506	22,285	434,594	268,631

The Group has no significant deferred tax liabilities.

19. Earnings per share

Basic earnings/loss per share is calculated by dividing the net income/loss attributable to the ordinary 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.

Diluted earnings per share is calculated by dividing the net earnings/loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive convertible bonds (see Note 23)). The effects of dilution are considered to be insignificant and accordingly a diluted earnings/loss per share is not presented.

The following reflects the (loss) income and share data used in the basic earnings per share computations:

	2003	2002
Net (loss) income attributable to ordinary shareholders for basic/diluted earnings per share	(1,462,471)	26,837
Weighted average number of ordinary shares in issue during the year for basic earnings per share	9,289,630	9,289,630
(Loss) income per share (HUF only)	(157)	3

There have been no other transactions involving ordinary shares since the reporting date and before the completion of these financial statements.

20. (i) Acquisition – Synergon Atos Origin Kft

On November 1, 2003, Synergon Informatika Rt acquired 100% of the share capital of Synergon Atos Origin Kft, an unlisted company in the same business, registered and operating in the Republic of Hungary. The acquired business contributed revenues of HUF 246,320 and operating income of HUF 102,220 to the Group for the period from November 1, 2003 to December 31, 2003.

The fair value of the identifiable assets and liabilities acquired and goodwill are as follows:

	HUF 000's
Total purchase consideration	179,618
Fair value of net assets acquired	(318,423)
Negative goodwill at date of acquisition	(138,805)
Less amortisation released to income for the period	4,627
Negative goodwill at December 31, 2003	(134,178)

The assets and liabilities acquired during the year and the cash flows arising can be analysed as follows:

	I November 2003
Property, plant and equipment	97,330
Inventories	4,525
Trade receivables	150,116
Other current assets	56,820
Cash	147,321
Trade payables	(137,689)
Fair value of net assets	318,423
Negative goodwill on acquisition	(138,805)
Total purchase consideration	179,618
Less : cash in subsidiary acquired	(147,321)
Cash outflow on acquisition	32,297

20. (ii) Acquisition – Infinity a.s

The following options (as set out in the original acquisition agreement) remain valid as regards the purchase of the remaining 33% of the share capital of Infinity a.s and represent the maximum contingent liability associated with the acquisition:

- (i) 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	Maximum option price (USD) per share	Maximum potential liability (USD)
B	480	4,069	1,953,120
C	480	5,601	2,688,480
D	720	5,601	4,032,720

- (ii) 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% and 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. This option was not exercised by Synergon during 2003 and has now lapsed.

- (iii) by the exercise of a further call option, Synergon is entitled to purchase the remaining shares of the company (i.e. 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 be dependent upon 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

* This option was not exercised by Synergon during 2003 and has now lapsed.

Infinity a.s contributed revenues of HUF 5,221,615 (2002; HUF 5,875,288) and operating income of HUF 169,778; (2002; HUF 254,538) to the Group for the year to December 31, 2003.

20. (iii) Acquisition – Span d.o.o

On December 3, 2003, subsequent to the initial acquisition terms agreed on February 1, 2001, when Synergon Informatika Rt acquired a 51% holding and subsequently on March 31, 2002 a further 17% share of Span d.o.o, a company in the same business and registered and operating in the Republic of Croatia, the terms of the purchase of the remaining shares in Span d.o.o were re-negotiated. The following terms were agreed and represent the maximum contingent liability associated with the acquisition.

- (i) within 21 days following the agreement of the revised acquisition terms, Synergon was to pay a further USD 200,000 to Span d.o.o. This amount was paid on December 18, 2003.
- (ii) in the event of the exercise of a call option by Synergon (in the period between May 1, 2003 and December 31, 2004), Synergon is entitled to purchase from the sellers their share interests in Span d.o.o or portions thereof up to a further 8% of the registered share capital. The total price payable by Synergon for the acquisition shall amount to at least USD 261,120 but shall in no event exceed USD 652,800, whereby in any case, each shareholder shall be entitled to receive only a portion of the total price relative to the share interest transferred to them on a pro-rata basis.
- (iii) The shareholders of Span d.o.o agree to render to Synergon the pre-emption right with respect to sale or any disposition of share interests in the company.
- (iv) Should Synergon choose not to exercise its pre-emptive right for the purchase of shares offered by the seller, the seller would be permitted to sell to a buyer, only if that prospective buyer offers to purchase from Synergon the same pro-rata shareholding in the company, at the same price, and on other terms that are not less favourable than those offered to the seller.

SPAN d.o.o contributed revenues of HUF 1,263,652 (2002; HUF 1,773,959) and operating loss of HUF 39,639 (2002; HUF 19,449 (profit)) to the Group for the year to December 31, 2003.

21. Commitments

Rental expense (principally for offices and motor vehicles) was HUF 329,922 (2002; HUF 401,226).

At December 31, 2003 the company had minimum lease rental commitments under non-cancellable operating leases as set out below:

	Land & Buildings		Other	
	2003	2002	2003	2002
Operating leases which expire within one year	83,445	75,048	239,708	140,784
within two to five years	333,778	300,191	660,831	508,228
in over five years	1,251,670	1,200,765	–	–
	1,668,893	1,576,004	900,539	649,012

22. Management and employee participation programs

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 with a nominal value of 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 at December 31, 2003, none of the 400,000 bonds have been purchased by the participants and no conversion to ordinary shares has taken place.

23. Directors' and Supervisory Board remuneration

The executive members of the Board of Directors' received remuneration totalling HUF 9,600 (2002; HUF 5,200). The total remuneration of the Supervisory Board was HUF 7,340 (2002; HUF 6,450).

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 at December 31, 2003 show a deficit of HUF 2,292,352.

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

At December 31, 2003 a number of commercial banks have provided performance guarantees to the value of HUF 314,651 (2002: HUF 487,617) on behalf of the Company.

29. Cash flow reconciliations

Net income

	2003	2002
Net (loss) income	(1,462,471)	26,837
Net interest received (see Note 17)	(65,026)	(59,046)
Income taxes (see Note 18)	75,356	110,856
Net (loss) income before interest, taxation and minority interest	(1,452,141)	78,647

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

	2003	2002
Total consolidated shareholders equity per Hungarian statutory consolidated financial statements	6,554,966	7,900,662
Contract work-in-progress	10,842	(12,662)
Provisions	8,836	(9,746)
Depreciation and amortisation	50,921	27,192
Capitalisation of acquisition costs	28,830	88,814
Treasury share transactions	(30,095)	(212,025)
Fair value adjustment	(129,429)	(86,244)
Other adjustments	(124,173)	74,528
Total shareholders equity per accompanying financial statements	6,370,698	7,770,519

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

	2003	2002
Total consolidated loss per Hungarian statutory consolidated financial statements	(1,302,898)	(35,295)
Contract work-in-progress	10,842	(12,662)
Tax penalties and interest	(162,412)	–
Treasury share transactions	79,235	240
Capitalisation of subsidiary acquisition cost	115,074	–
Foreign exchange differences on consolidation	(57,269)	34,965
Depreciation and amortisation	(110,957)	25,525
Sundry other adjustments	(34,086)	14,064
Total (loss) income per accompanying financial statements	(1,462,471)	26,837

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