

SYNERGON
INFORMATION
SYSTEMS PLC.

ANNUAL REPORT
2004

 SYNERGON



Infinity a.s. – Czech Republic and Slovakia

Infinity mainly focuses on the integration of Hewlett Packard, Microsoft and Alcatel solutions, proprietary software solutions, call centre hardware and software availability and system monitoring services. The company is the top Czech partner for HP networking devices and one of the most important partner of Microsoft. Its major customers include industry leading corporations, financial institutions, public utility companies and government institutions.

Fibex Kft. – Hungary

Fibex specialises in the distribution of modern cabling materials, optical and other special cables and supplementary equipments used for the construction of information networks and the manufacturing and the distribution of patch cables.

SAO–Synergon Ltd. (SAO) – Hungary

SAO specialises in establishing long-term co-operation schemes for the operation and management of IT systems and solutions. Since the 1st of April 2004, SAO has performed the outsourcing and operating tasks of the Synergon Group, ensuring a service based operation using uniform methodologies for the Group's customers. The company's Hungarian customers include the subsidiaries of large international enterprises as well as Hungarian businesses.

Span d.o.o. – Croatia

Its core business includes Microsoft and Cisco system integration, providing Microsoft support services, software customisations, Internet-based e-learning services and Microsoft and Cisco-related training services. Span's customers include medium- and large sized companies and government institutions. Span's operation is based on three main pillars. The first pillar is project management, i.e. the establishment of the IT system in accordance with customers' requirements. The second pillar includes the maintenance services provided during the operation of the implemented system. The third pillar is conveying the experience required for the use of the products supplied and the training of users.

The company's philosophy is to provide a comprehensive service to its customers.

Synergon Information Systems Plc. – Hungary

Synergon Information Systems Plc. owned largely by Hungarian investors, is a leading regional solution provider. The company shares are listed on the Budapest Stock Exchange and on the London-based SEAQ electronic Stock Exchange. Synergon, as a parent company within the Group, organises the regional profile and operations of the Group in Central and Eastern Europe. With the help of its wide product and service portfolio, the company in Hungary successfully established the foundation for its solution driven provisions.

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NOTES TO THE INVESTORS

The Synergon Group delivered on its plans for 2004. Recession on the IT market stopped at the beginning of 2004, and in the second half of the year a slow upward trend began, which nevertheless proved to be weaker than projected, and remained well below the actual rate of inflation in different countries. The Group's continuing profitability was therefore primarily due to improved internal efficiency and an increase in the proportion of income with greater collateral content.

A conscious reorganization process, which started earlier within the Group, has brought good results. Our Hungarian member companies work more efficiently and generate more income, while the restructuring of our foreign companies, which started in 2004, is expected to show results first in 2005.

The organizational and professional integration of SAO-Synergon Ltd, a 2003 acquisition, has been successfully completed, and as a result, revenues the company generated together with Synergon Plc have increased by eight percent. Reorganization of Fibex Ltd began in 2003, and the fact that by 2004 the company became the most dynamically expanding member of the group shows that the process was successful. 2004 was a year of development in Croatia: Span reinforced its organizational structure, and started major business expansion, which is expected to bring results in 2005. The Czech member company's reorganization started in the middle of the year, and involved the appointment of a new management, an efficient restructuring of the organization and reinforcement of customer relations.

We delivered on our strategic plans in 2004, which means that we restored the Group's profitability, restructured and developed our sales activities along with the changes in the market, and created a firm basis for future growth. 2005 is going to be a year of regional thinking for the Synergon Group. The Group management believes that time has come to bring international cooperation and dialogue between member companies to a higher level. The Group is planning to build on this cooperation in establishing new partnerships and making new acquisitions, and as a result, expand its international footprint to the rest of the countries in the region. Our regional management structure has been re-defined; cross-border communication and work will continue on a wider operative basis and with a project-based approach.

Plans of the group for 2005 include enhancing regional integration, increasing the share of recurring revenues with high service content and further regional expansion. Our aim is to achieve effective and efficient operation at member company level, and to ensure predictable growth and a trend of shareholder value improvement. Risk factors include primarily the consolidation of the market environment, and especially the situation of the state administrative sector.

Synergon is aiming at establishing group-level operations in order to ensure the same service quality in all Central and Eastern European countries, and at the same time wishes to play a significant role in creating social and cultural value.

Lorant Száray
CEO

THE PREVIOUS 15 YEARS

1990

The year Optotrans* was founded, the company soon becomes a leader on the Hungarian IT communications market. In the same year, Rolitron** diversifies from manufacturing to the distribution of office automation products, particularly PC systems and associated softwares.

1992

Foundation of Infinity a.s.

1993

Foundation of Fibex Kft. and Span d.o.o.

1995

Optotrans and Rolitron become major IT suppliers on their respective markets.

1997

In September, through the involvement of several venture capital investors, Synergon raises its capital by \$5 million; and by that, the venture capital investors acquire 26 percent of Synergon's share capital. The merger of Optotrans and Rolitron is announced under the name Synergon. Thus, one of the largest system integrator enterprises on the Hungarian IT market is created. Synergon implements its ISO 9001 compliant quality assurance system.

1998

In April, through an acquisition Synergon adds the SAP systems to its product range, thus completing its ERP portfolio. In July, there is another \$3-million private capital increase: venture capital investors now hold 30 percent of the company.

1999

In April, a domestic public offering takes place, accompanied by an international private offering. As the first Hungarian IT company to do so, the securities of the Company are listed on the Budapest Stock Exchange and on the London Stock Exchange SEAQ service. Synergon's shareholders' equity exceeds HUF 9 billion; registered capital is almost HUF 2 billion.

* Optotrans Kommunikációs Rt.

** Rolitron Informatikai Rt.

2000

The Company begins to set up its international appearance. Synergon acquires a majority interest in Span d.o.o., Croatian leader in the fields of Microsoft technology and IT education. By obtaining majority ownership in the Czech company Infinity a.s., Synergon acquires one of the major IT system integrators on the Czech market.

2001

The start of the consolidation of the two members.

2002

The integration of the foreign affiliates are continued to a higher level with Synergon increasing its interests in these companies. The group implements a major extension to its business and information consulting services. It enters a new market segment by offering solutions to the rapidly growing SME market.

2003

The opening of the Infinity Slovakia office. The Synergon Group now operates on markets in four countries. Under a co-operation agreement, the Company acquires the Hungarian subsidiary of Atos Origin, a global leader in IT services, so forming SAO—Synergon Ltd.

2004

In order to expand its portfolio, Infinity a.s. acquires the Czech IT company BrnoData-IS spol. s.r.o., specialising in the distribution and implementation of Microsoft Business Solutions — Navision, which continues to operate under the name InfinityData s.r.o.

Near Future

Synergon Group's strategic objective is to become the most successful IT solution provider in Central and Eastern Europe, playing a major role in the development of the region's e-economy.

CROSSING THE BORDERS

The Group's customers only need to select a single partner, capable of servicing their advanced and complex IT requirements on a regional basis.

The Synergon Group is capable of offering competence to its customers without borders getting in the way. The Group, through its six companies, now provides complex business and information solutions in four countries; Croatia, Czech Republic, Hungary and Slovakia. The Group aims to operate regionally, on an integrated basis, intending to provide the latest business information services at the same quality to its customers throughout the region of its operation.

The integration of the European Union, globalisation and increasing competition in each sector of the economy are driving the market beyond the national borders, toward regional operation. Regional business presence increasingly requires partners to be able to offer cross-border services. Synergon Group's customers clearly benefit from only having to select a single point of solution provider, capable of servicing their needs as a regional business partner. Through its regional presence, the Group provides services in multicultural environment to its multilingual customers on a region-wide basis. In terms of obtaining manufacturer qualifications, Synergon aims to expand to all of its affiliates, while continuously extending its existing local agreements.

Synergon Group's highly diversified international service portfolio enables its customers to use high-quality services of equal standard on each market. In order to achieve that regional knowledge centres have been established, which integrates the quality of the region-wide services, providing solutions using the same methodology and a common database, yet in the local language and in accordance with the local and cultural expectations. For customers, the benefits of economies of scale, arising from the regional operation of Synergon Group, results in the reduction of their IT expenses.

Apart from co-operating in an integrated way, offering their services on a regional level, the members of the Synergon Group also support one another in the implementation of their local projects. The knowledge transfer carried out by the Company, helps to put new technologies in focus, which enables customers not only to base their business requirements and processes on the latest technological solutions, but also to operate with greater efficiency, develop new products and obtain a competitive advantage.

The most important challenge of the Hungarian-owned regional company is to continue to step up its role on the Central European market. In that spirit, it intends to offer its services in other countries of the region.

OPERATIONAL PROFIT

There was no significant improvement in the information technology market in 2004 with world market uncertainty remaining. The Synergon Group operates on the regional level with activities in four countries. The most revenue is generated in Hungary, by Synergon Plc., SAO Ltd. and Fibex Ltd. The Group is represented on the Czech and Slovakian market by Infinity and on the Croatian market by Span.

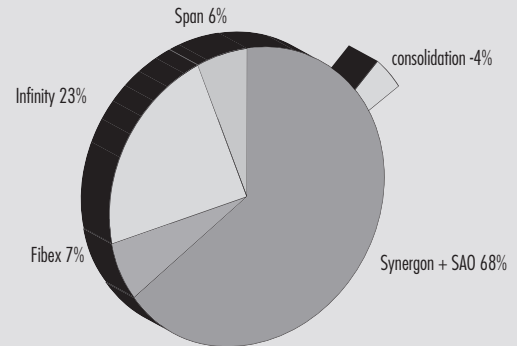
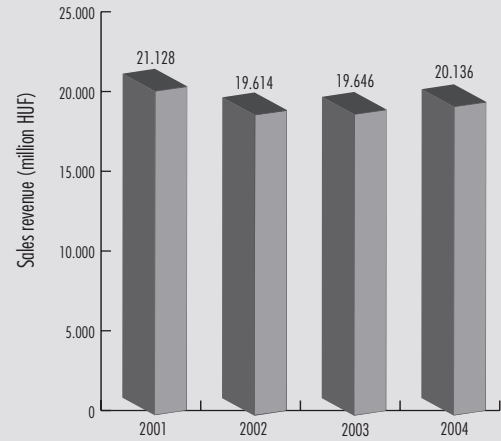
The degree of ICT market development is different in the four countries, and as a result, there are structural differences. The Hungarian market is the most sophisticated: customer needs in the large company sector concentrate on solutions with significant added value. Corporate managers and public administration are open to information technology, and they understand its role in optimizing efficiency, but very often, mainly in the small and medium sized enterprise segment and among institutions, limited resources seriously hinder investments. The Czech and Slovakian market are developing at a similar pace. The Czech market is a little more sophisticated, but the Slovakian government's investment-friendly policy may soon bring about a change. There is significant potential in infrastructure (communication networks, hardware, software) and enterprise resource planning solutions for the large company segment in these countries, but companies are also open to systems that are critical to business. Compared to the other countries, the Croatian market is less developed. Current investment needs primarily concern infrastructure development.

Demand patterns in EU-member countries may change depending on the countries' participation in European Union funded projects – this factor does not affect Croatia, but here extra funds may be available for investment through pre-accession funds.

The Synergon Group undertakes activities beyond the above mentioned geographical scope on a project-by-project basis. The partnership agreement signed with Atos Origin will create further opportunities in these markets: already in 2004, this cooperation marked the launch of a few projects that did not only involve outsourcing. The Group is also looking for further sales opportunities in other countries, either through partnerships or acquisitions.

Revenue comparisons in the Group by divisions

Consolidated revenue in the Group totalled HUF 20,136 million in 2004; 2.5% more than in the previous year. Compared to the base year, Synergon managed to increase revenues in line with the rate of IT market expansion, while Fibex reached an outstanding increase in revenues of 56% (HUF 485 million). The increase accounted for by SAO-

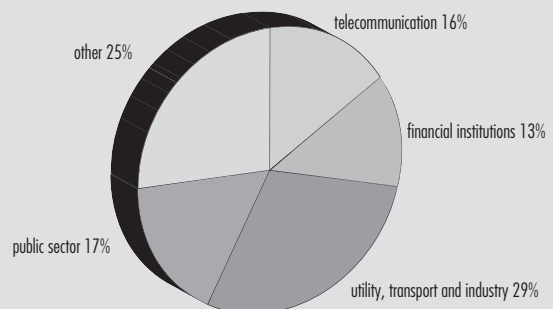


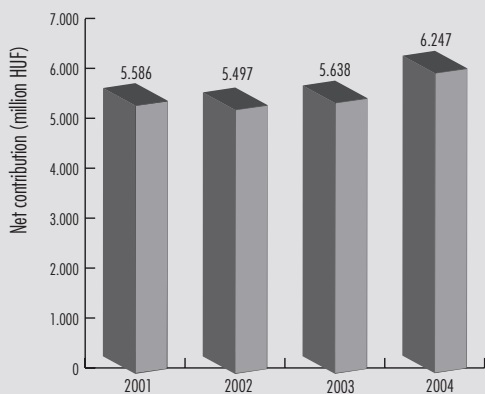
Synergon Ltd. (SAO, formerly Synergon Atos Origin Ltd.) is also impressive, 352%, but in order to get a valid picture this figure has to be considered together with the performance of Synergon Plc, as there were major organisational reforms undertaken during the year to separate activities that influence base-year comparability. Looking at foreign subsidiaries, the Span d.o.o. generated revenues close to the previous year's figure, while sales revenue at Infinity a.s. decreased by 12%. Despite this fact, the Czech subsidiary Infinity still represents a significant proportion (23%) in Group total sales. 66% of Group sales revenue, calculated before the elimination of redundancies, was generated by Synergon and SAO.

Ensuring a continuous and increasing flow of income through long-term contracts is the company's strategic priority. Market needs during the year turned more towards new technologies than we had expected. The proportion of associated services in sales increased, because an increasing number of customers signed maintenance contracts with us for systems installed by Synergon Plc.

Revenue comparisons in the Group by sectors

In 2004 there were no significant performance changes as compared to the previous year in any of the sectors, only minor structural changes caused by general market dynamics.



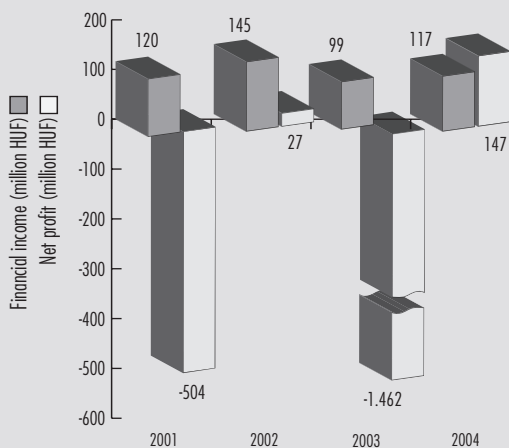


Cost of sales – net contribution

Between 2003 and 2004 Group consolidated cost of sales decreased from HUF 14,008 million to 13,889 million, which is a 1% decrease. The amount of contribution, calculated as the difference between Group income and cost of sales, showed an 11% increase.

Net profit

Mainly as a result of a 30% decrease in other expenses, a 22% decrease in depreciation and a 7% increase in personnel expenses, other operational

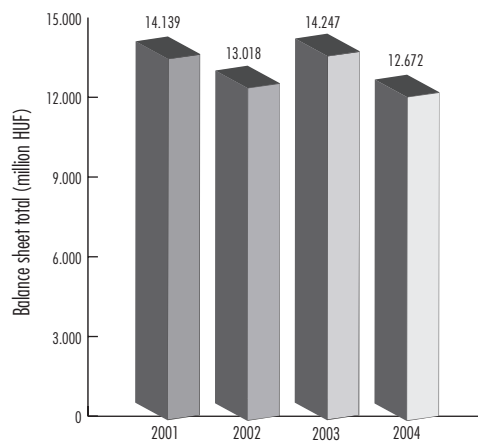


costs decreased by 11%. In the base year provisions were made for other expenses – not directly related to activities – which resulted in a significant decrease in the current year's figure.

As opposed to a HUF –1,351 million loss generated in the base year, in 2004 the Group made a profit of HUF 114 million, which was due to increasing sales revenues, decreasing expenses related to activities, and the fact that in 2004 no provisions not directly related to activities were made. Net profit from financial operations and exchange rate profit together amounted to HUF 117 million in 2004, as opposed to HUF 100 million in 2003, and included interest received, exchange rate gain on sales, and investment revaluation loss. Net loss after tax in 2003 was HUF –1,462 million, whereas in 2004 the Group made a net profit of HUF 147 million.

Balance sheet

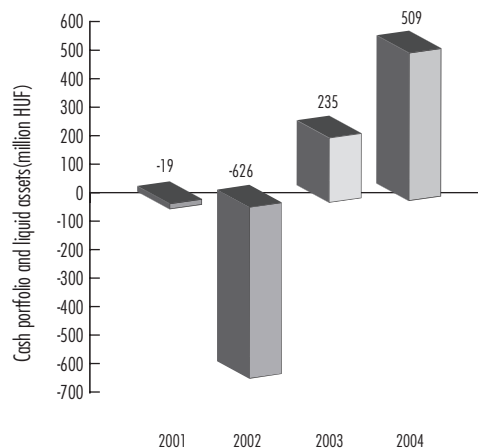
The Group consolidated balance sheet total on December 31st (HUF 12,672 million) was 11% lower than the closing value of the previous year due to the following factors:



The decrease in asset value compared to the previous year was primarily due to the loss of value of current and fixed assets. Current assets decreased by 9% (HUF 926 million), primarily because of the decrease in the customer portfolio and inventories recorded primarily in the parent company's books. On the liabilities side, there was a 2% increase in shareholders' equity, and a HUF 88 million decrease in provisions, a 28% decrease in bank loans and accounts payable, and a 5% decrease in other liabilities and accrued expenses.

Cash Flow

The value of cash and equivalents (overdraft facilities deducted) held by the company as of December 31st 2004 was HUF 1,848 million. The company had a continuously sound liquidity position in the period under review. The stability of Synergon's cash and equivalents ensured steady operation for the Group. Operations generated a positive cash flow of HUF 610 million. The closing value of net operating cash flow at the end of the period was HUF 688 million, including the positive financial result. The change in the value of the Group's investments during the period amounted to HUF –212 million. The value of the Net cash flow from financial operations (HUF 33 million) was chiefly affected by the recording of minority interest and the payment of dividends. As a result, liquid cash assets increased by HUF 509 million as compared to December 31st 2003.





SYNERGON

INFORMATIKA RT.
AND ITS SUBSIDIARIES

AUDITED
CONSOLIDATED
FINANCIAL STATEMENTS

DECEMBER 31, 2004



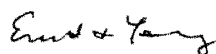
Report of Independent Auditors

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, 2004 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 31. 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, 2004 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 23, 2005

Statement of Liability

We hereby sign in accordance with the provisions of Act CXX of 2001 the present Annual Report of Synergon Information Systems Plc, presenting the business management of the Company during the 12 months between January 1 and December 31, 2004. The data and statements contained in the Report are true and audited, and no fact has been withheld which might be significant for the assessment of the Company.

Ferenc Czakó
Chairman
Synergon Information Systems Plc.

Loránt Száray
CEO
Synergon Information Systems Plc.

CONSOLIDATED BALANCE SHEET

| | Note | December 31, 2004 | December 31, 2003 |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 2,186,188 | 2,425,754 |
| Investments | | 15,561 | 19,017 |
| Goodwill | 4 | 530,072 | 662,018 |
| Available-for-sale financial assets | 5 | 300,076 | 601,578 |
| Negative goodwill | 6 | (106,416) | (134,178) |
| Total non-current assets | | 2,925,481 | 3,574,189 |
| Current assets: | | | |
| Inventory | 7 | 848,962 | 1,071,947 |
| Trade accounts receivable, net | 8 | 5,919,065 | 7,208,515 |
| Other current assets | 10 | 945,031 | 840,773 |
| Income tax receivable | | 140,457 | 142,392 |
| Cash and short term deposits | 11 | 1,892,908 | 1,409,222 |
| Total current assets | | 9,746,423 | 10,672,849 |
| TOTAL ASSETS | | 12,671,904 | 14,247,038 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent: | | | |
| Issued capital | 12 | 1,910,926 | 1,910,926 |
| Treasury shares | 12 | (87,600) | (109,330) |
| Share premium | | 5,643,179 | 5,643,179 |
| Capital reserve | | 28,685 | 28,685 |
| Retained losses | | (1,162,292) | (1,287,735) |
| Cumulative translation adjustment | | 40,076 | 57,269 |
| Total shareholders' equity | | 6,372,974 | 6,242,994 |
| Minority interest in consolidated subsidiaries | 13 | 177,668 | 242,882 |
| Long-term liabilities | | 6,316 | 32,863 |
| Current liabilities: | | | |
| Interest-bearing loans and borrowings | 14 | 527,724 | 472,744 |
| Trade accounts payable | 15 | 3,223,813 | 4,711,470 |
| Other payables and accruals | 16 | 1,929,047 | 2,021,232 |
| Provision for liabilities and charges | 17 | 434,362 | 522,853 |
| Total current liabilities | | 6,114,946 | 7,728,299 |
| TOTAL LIABILITIES AND EQUITY | | 12,671,904 | 14,247,038 |

See accompanying notes to the consolidated financial statements.

STATEMENT OF CONSOLIDATED INCOME

| | Note | Year ended December 31, 2004 | Year ended December 31, 2003 |
|---|------|------------------------------|------------------------------|
| Sales | 18 | 20,135,929 | 19,646,580 |
| Cost of Sales | 19 | (13,888,792) | (14,008,277) |
| Gross profit | | 6,247,137 | 5,638,303 |
| Selling, general and administration expenses | 20 | (6,302,218) | (7,109,157) |
| Operating loss | | (55,081) | (1,470,854) |
| Other income: | | | |
| Financial income, net | 21 | 81,806 | 65,026 |
| Foreign exchange gains | | 34,909 | 34,794 |
| Other income | 22 | 52,597 | 20,122 |
| | | 169,312 | 119,942 |
| Income (loss) before income tax and minority interest | | 114,231 | (1,350,912) |
| Income tax expense | 23 | (10,243) | (75,356) |
| Income (loss) before minority interest | | 103,988 | (1,426,268) |
| Minority interest | 13 | 43,185 | (36,203) |
| Net income (loss) | | 147,173 | (1,462,471) |
| Income (loss) per share: (HUF per share) | | | |
| - basic | 24 | 16 | (157) |
| - diluted | | 15 | (153) |

See accompanying notes to the consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

| | Share Capital | Treasury Shares | Share Premium | Capital Reserve | Retained Earnings (Losses) | Cumulative Translation Adjustment | Total |
|---------------------------------|---------------|-----------------|---------------|-----------------|----------------------------|-----------------------------------|-------------|
| Balance at December 31, 2003 | 1,910,926 | (188,565) | 5,643,179 | 28,685 | 253,978 | (5,388) | 7,642,815 |
| Sale of treasury shares | – | 212,265 | – | – | (79,242) | – | 133,023 |
| Purchase of treasury shares | – | (133,030) | – | – | – | – | (133,030) |
| Currency translation adjustment | – | – | – | – | – | 62,657 | 62,657 |
| Net loss | – | – | – | – | (1,462,471) | – | (1,462,471) |
| Balance at December 31, 2003 | 1,910,926 | (109,330) | 5,643,179 | 28,685 | (1,287,735) | 57,269 | 6,242,994 |
| Sale of treasury shares | – | 133,030 | – | – | (21,730) | – | 111,300 |
| Purchase of treasury shares | – | (111,300) | – | – | – | – | (111,300) |
| Currency translation adjustment | – | – | – | – | – | (17,193) | (17,193) |
| Net income | – | – | – | – | 147,173 | – | 147,173 |
| Balance at December 31, 2004 | 1,910,926 | (87,600) | 5,643,179 | 28,685 | (1,162,292) | 40,076 | 6,372,974 |

See accompanying notes to the consolidated financial statements.

STATEMENT OF CONSOLIDATED CASH FLOWS

| | Note | December 31, 2004 | December 31, 2003 |
|---|-------|-------------------|-------------------|
| Cash flow relating to operating activities: | | | |
| Net income (loss) before taxation and interest | 31 | 75,610 | (1,452,141) |
| Depreciation and amortisation | | 780,073 | 1,182,192 |
| Minority interest | 13 | (43,185) | 36,203 |
| Exchange gain on translation | | (84,922) | (34,794) |
| Loss on sale of fixed assets | | 3,107 | 31,971 |
| Loss on sale of treasury shares | 12 | 21,730 | 79,242 |
| Changes in assets and liabilities: | | | |
| Accounts receivable and other current assets | | 1,301,378 | (1,288,271) |
| Inventory | | 225,382 | 181,650 |
| Payables and accruals | | (1,669,626) | 2,845,781 |
| Cash from operating activities | | 609,547 | 1,581,833 |
| Returns on investment and servicing of finance: | | | |
| Interest received | | 133,786 | 117,554 |
| Interest paid | | (46,504) | (52,528) |
| Income tax paid | | (8,308) | (164,138) |
| Net cash flows from operating activities | | 688,521 | 1,482,721 |
| Cash flow relating to investing activities: | | | |
| Purchase of fixed assets | | (643,085) | (709,207) |
| Sale (purchase) of short term investments | | 301,502 | (88,886) |
| Sale (purchase) of other long term assets | | 3,456 | (90,001) |
| Acquisition of subsidiary, net of cash acquired | 25(a) | (27,830) | (32,297) |
| Proceeds on disposal of fixed assets | | 153,642 | 64,064 |
| Net cash flow used in investing activities | | (212,315) | (856,327) |
| Cash flow relating to financing: | | | |
| Increase (decrease) in loans payable | | 54,980 | (312,197) |
| Dividends paid to minority interests | 13 | (22,029) | (79,001) |
| Net cash flow from (used in) financing activities | | 32,951 | (391,198) |
| Increase in cash and cash equivalents | | 509,157 | 235,196 |
| Cash and cash equivalents at the: | | | |
| Beginning of the year | 11 | 1,338,978 | 1,103,782 |
| End of the period | 11 | 1,848,135 | 1,338,978 |

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, 2004 were authorised for issue by the directors on March 23, 2005. 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 and the provision of related maintenance services.

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention. The financial statements of the Group are presented in thousands of Hungarian Forints (HUF 000).

Statement of compliance

The consolidated financial statements of Synergon Informatika Rt and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS).

The International Accounting Standards Board (IASB) introduced many changes to the binding accounting standards and issued new standards during 2004 that will be valid from 1 January 2005. Therefore, it is possible that the IFRS financial statements for the year ended 31 December 2005 will contain comparative data for the year 2004 that will differ from the data presented in these financial statements. The Company is currently assessing the impact that new or revised standards will have on the Group accounting policies and financial data presented.

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).

Accounting policies

The accounting policies have been consistently applied by Synergon Informatika Rt and its subsidiaries and are consistent with those used in the previous year.

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 as at December 31, 2004. All intercompany balances and transactions, including unrealised profits arising from intercompany transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Synergon Informatika Rt has control. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, are maintained in accordance with the accounting regulations of the country in which they are registered and are translated into Hungarian Forints using the policy as described. Minority interests represent the interests in Infinity a.s., Infinity Data s.r.o and Span d.o.o, not held by the Group.

Foreign currency translation

The functional and presentation currency of Synergon Informatika Rt and its Hungarian subsidiaries is the Hungarian Forint. Transactions in foreign currency are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

The functional currency of those entities operating in the Czech Republic, the Slovak Republic and in the Republic of Croatia is the Czech Crown (CZK), the Slovak Crown (SK) and the Croatian Kuna (HRK) respectively. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Synergon Informatika Rt at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost (or production cost) less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated economic useful life of the asset. 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.

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.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication exists and where the carrying value exceeds the recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to

their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the selling, general and administration expenses line item.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Borrowing costs

Borrowing costs are recognised as an expense for the period when incurred in accordance with the benchmark accounting treatment under IAS 23.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities of the acquired subsidiary/associated undertaking at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated amortisation or impairment losses, 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.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount an impairment loss is recognised. The annual amortisation and any impairment losses are recognised in the income statement in the selling, general and administration expenses line item.

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 five years, being the estimated remaining average useful life of the identifiable assets acquired.

For business combinations after March 31, 2004, according to IFRS 3 (Business Combinations) goodwill is assessed for impairment on an annual basis. Any excess of fair value of acquired assets and liabilities over the cost of acquisition is recognised as income immediately. Remaining negative goodwill from business combinations before March 31, 2004 will be derecognised at the beginning of the first annual period beginning on or after March 31, 2004, with a corresponding adjustment to the opening balance of retained earnings.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Investments

acquisition costs associated with the investment. After initial recognition, investments, which are classified as held for trading and available for sale, are measured at fair value. Gains or losses on investments held for trading are recognised in income.

For investments where there is no market price or the market price is considered to be an unreliable indicator, fair value is estimated on the basis of the market price of comparable investments or by reference to the expected future cash flows. Where fair value cannot be reliably measured for certain investments, such investments are measured at amortized cost. 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.

All regular way purchases and sales of financial assets are recognised on the trade date ie the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Inventory

Inventory is stated at the lower of cost, on a first-in first-out basis, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Work in progress is valued by reference to the stage of completion of the transaction at the balance sheet date.

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 when identified.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. 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.

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.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

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.

Pensions

All pensions are either funded privately by employees or the state via certain social security charges included in the gross cost of the employees wage.

Leased assets

Finance leases, which 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. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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. Stage of completion is measured on a contract basis by reference to the services provided as a percentage of total services to be performed and applies this percentage to total revenue expected. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Revenue is recognised as the interest accrues using the effective interest method that is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Segment reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services within different markets. The main activities associated with Information Systems Services (ISS) are in the development and installation of information system infra-structures. The Business Solution Development (BSD) division is largely responsible for the maintenance and on-going upgrades of previously installed information system infra-structures. Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group 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. 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. Unallocated items mainly comprise corporate, general and administrative expenses that relate to the group as a whole, assets not directly attributable to the operations of the segments such as short and long term investments and liabilities that are incurred for financing rather than operating purposes. Segment results are determined before any adjustments for minority interest. Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period. Geographical segment revenue is based on the geographical location of customers and geographical segment assets and capital expenditure are disclosed by the geographical location of the assets.

Issued capital

Issued share capital is recorded at the nominal value of shares outstanding at the balance sheet date. The excess of proceeds from issuance of share capital over nominal value is recognised as share premium.

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.

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.

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 is 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.

Financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other liabilities approximate their fair value due to their short term to maturity. The Group has no significant concentrations of credit risk. Loans and borrowings are initially recognised at cost. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. As all loans bear variable rate interest, their fair value approximates the book value. In determining estimates of the fair value of financial instruments, the Group makes assumptions regarding current market interest rates, considering the term of the instrument and its risk. Current market interest rates are generally selected from a range of potentially acceptable rates and, accordingly, other effective rates and/or fair values are possible. The de-recognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Estimates

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current event and actions, actual results may differ from those estimates.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Comparatives

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

3. Property, Plant and Equipment

Activity in property, plant and equipment for the year ended December 31, 2004 was as follows:

| | Technical Equipment, Vehicles & Machinery | Capital Projects | Land & Buildings | Computer Software | Total |
|---|---|------------------|------------------|-------------------|-------------|
| January 1, 2004, net | 987,708 | 63,797 | 939,363 | 434,886 | 2,425,754 |
| Additions | 397,126 | 29,253 | 9,022 | 180,162 | 615,563 |
| Transfer | 489 | — | — | (489) | — |
| Acquisitions | 4,474 | — | — | — | 4,474 |
| Disposals and write-offs | (124,631) | (321) | (6,146) | (25,651) | (156,749) |
| Depreciation charge for the year | (373,922) | — | (53,170) | (225,749) | (652,841) |
| Exchange adjustment | (44,947) | (16) | 454 | (5,504) | (50,013) |
| December 31, 2004, net | 846,297 | 92,713 | 889,523 | 357,655 | 2,186,188 |
| January 1, 2004 | | | | | |
| Cost | 2,567,710 | 63,797 | 1,242,348 | 976,052 | 4,849,907 |
| Accumulated depreciation and impairment | (1,580,002) | — | (302,985) | (541,166) | (2,424,153) |
| Net carrying amount | 987,708 | 63,797 | 939,363 | 434,886 | 2,425,754 |
| December 31, 2004 | | | | | |
| Cost | 2,549,501 | 92,713 | 1,244,728 | 1,037,764 | 4,924,706 |
| Accumulated depreciation and impairment | (1,703,204) | — | (355,205) | (680,109) | (2,738,518) |
| Net carrying amount | 846,297 | 92,713 | 889,523 | 357,655 | 2,186,188 |

Acquisitions

Acquisitions as shown above refer to assets acquired following the purchase of Infinity Data s.r.o on March 25, 2004 (see Note 25 a).

Fully depreciated assets

Included within property, plant and equipment at December 31, 2004 is technical equipment with a cost value of HUF 1,177,092 (2003: HUF nil) which is fully depreciated, but remains in use.

Secured assets

Included within property, plant and equipment at December 31, 2004 are assets with a net book value of HUF 113,346 (2003: HUF 120,114) that are used for the purpose of securing certain bank loan financing (see Note 14).

Finance leases

The carrying value of plant and equipment held under financial leases at December 31, 2004 is HUF 10,392 (2003: HUF 21,768). Leased assets are pledged as security for the related finance lease.

Activity in property, plant and equipment for the year ended December 31, 2003 was as follows:

| | Technical Equipment, Vehicles & Machinery | Capital Projects | Land & Buildings | Computer Software | Total |
|---|---|------------------|------------------|-------------------|-------------|
| January 1, 2003, net | 962,109 | 123,188 | 971,625 | 322,316 | 2,379,238 |
| Additions | 315,075 | 278,886 | 19,638 | 210,310 | 823,909 |
| Transfer | 157,990 | (314,827) | — | 156,837 | — |
| Acquisitions | 55,068 | — | — | 42,262 | 97,330 |
| Disposals/write-offs | (68,032) | (23,450) | (69) | (4,484) | (96,035) |
| Depreciation charge for the year | (434,502) | — | (51,831) | (292,355) | (778,688) |
| December 31, 2003, net | 987,708 | 63,797 | 939,363 | 434,886 | 2,425,754 |
| January 1, 2003 | | | | | |
| Cost | 2,255,078 | 123,188 | 1,222,779 | 692,398 | 4,293,443 |
| Accumulated depreciation and impairment | (1,292,969) | — | (251,154) | (370,082) | (1,914,205) |
| Net carrying amount | 962,109 | 123,188 | 971,625 | 322,316 | 2,379,238 |
| December 31, 2003 | | | | | |
| Cost | 2,567,710 | 63,797 | 1,242,348 | 976,052 | 4,849,907 |
| Accumulated depreciation and impairment | (1,580,002) | — | (302,985) | (541,166) | (2,424,153) |
| Net carrying amount | 987,708 | 63,797 | 939,363 | 434,886 | 2,425,754 |

Acquisitions as shown above refer to assets acquired following the purchase of Synergon Atos Origin Kft on November 1, 2003.

4. Goodwill

Activity in goodwill (purchased as part of prior business combinations) was as follows for the years ended December 31:

| | 2004 | 2003 |
|---|-------------|-------------|
| Net book value at the beginning of the year | 662,018 | 1,022,444 |
| Additions (see Note 25 a) | 23,048 | 47,705 |
| Amortisation charge for the year | (94,282) | (142,820) |
| Impairment charge for the year | (60,712) | (265,311) |
| Net book value at the end of the year | 530,072 | 662,018 |
| Cost (gross carrying amount) | 1,723,018 | 1,699,970 |
| Accumulated amortisation and impairment | (1,192,946) | (1,037,952) |
| Net book value | 530,072 | 662,018 |
| Being: | 2004 | 2003 |
| Infinity a.s. | 487,137 | 567,214 |
| Span d.o.o. | 20,751 | 94,804 |
| Infinity Data s.r.o. | 22,184 | – |
| | 530,072 | 662,018 |

For the year ended December 31, 2004, goodwill arising on acquisitions is being amortised evenly over the directors' estimate of useful economic life of 10 years (2003; 10 years).

The impairment charge represents the write down of goodwill to the recoverable amount, following an assessment of the recoverable amount of the business segments to which the goodwill relates (see below). The impairment charge has been recognised in the income statement in the selling, general and administration expenses line item.

Impairment testing of goodwill

The Company has engaged an independent professional advisor to determine the fair values of the investments of Infinity a.s and Span d.o.o and of the associated purchased goodwill. For the purposes of impairment testing, the goodwill acquired through these business combinations has been allocated to two individual cash generating units – each entity being considered as a separate cash generating unit. The recoverable amounts of both cash generating units have been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five year period. The discount rate applied to cash flow projections for both cash generating units is 16% (2003; 10%). Given the recent acquisition of Infinity Data s.r.o. (on March 1, 2004) no impairment testing of this associated goodwill was performed at December 31, 2004.

Key assumptions used in the value in use calculation of Infinity a.s. and Span d.o.o for December 31, 2004 and December 31, 2003.

The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill.

Budgeted sales growth – management have estimated annual sales growth (after elimination of one-off items) to be between 9-15% which is consistent with the norms estimated within the IT sectors in which the business units operate. Operating profit margin – management have estimated a profit margin of between 2-4% which is consistent with the norms estimated within the IT sectors in which the business units operate. Purchase price inflation – the basis used to determine the value assigned to the purchase price inflation is the forecast price indices during the budget year. The values assigned to key assumptions are consistent with external information sources.

5. Available-for-sale financial assets

Available for sale financial assets at December 31, 2004 comprised treasury bonds earning average interest of 9.5% per annum payable upon maturity.

6. Negative goodwill

On November 1, 2003 Synergon Informatika Rt acquired 100% of the shares of Synergon Atos Origin Kft., a company operating in the same business and registered in the Republic of Hungary, for a net purchase price of HUF 179,618. As the fair value of the net assets acquired exceeded the net purchase price, negative goodwill in the amount of HUF 138,805 was recorded and is being released to income evenly over the directors' estimate of useful economic life of five years (2003; five years)

Activity in negative goodwill was as follows for the years ended December 31:

| | 2004 | 2003 |
|---|----------|---------|
| Net book value at the beginning of the year | 134,178 | – |
| Additions | – | 138,805 |
| Released to income in the current year | (27,762) | (4,627) |
| Net book value at the end of the year | 106,416 | 134,178 |
| Cost (gross carrying amount) | 138,805 | 138,805 |
| Accumulated release to income | (32,389) | (4,627) |
| Net book value | 106,416 | 134,178 |

7. Inventory

| | 2004 | 2003 |
|---|-----------|-----------|
| Demonstration inventory | 13,901 | 35,641 |
| Goods for resale | 767,092 | 852,844 |
| Maintenance inventory | 255,451 | 302,596 |
| | 1,036,444 | 1,191,081 |
| Less, provision for obsolete inventory | (187,482) | (119,134) |
| Total inventories at lower of cost and net realisable value | 848,962 | 1,071,947 |

8. Trade accounts receivable, net

| | 2004 | 2003 |
|---|-----------|-----------|
| Trade receivables | 5,815,714 | 7,005,719 |
| Less, reserve for doubtful accounts | (81,308) | (118,674) |
| | 5,734,406 | 6,887,045 |
| Gross amount receivable from customers for contract work (see Note 9) | 184,659 | 321,470 |
| Trade accounts receivable, net | 5,919,065 | 7,208,515 |

Trade receivables are non-interest bearing and are generally on 60-day terms.

9. Contract work-in-progress

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

| | 2004 | 2003 |
|--|-----------|-----------|
| Contract revenue recognised as revenue in the period | 910,112 | 1,053,928 |
| Contract costs incurred and recognised profits (less losses) to date | 1,004,639 | 969,624 |
| Progress billings | (819,980) | (648,154) |
| | 184,659 | 321,470 |
| Gross amount due from customers for contract work (see Note 8) | | |
| Gross amount due to customers for contract work | — | — |

10. Other current assets

| | 2004 | 2003 |
|-----------------------------|---------|---------|
| Un-invoiced contract work | 583,234 | 519,985 |
| Prepayments | 63,716 | 65,606 |
| Deposits | 80,595 | 80,595 |
| Customer advances | 93,110 | 84,106 |
| Employee advances | 9,396 | 22,053 |
| Deferred tax | 13,381 | 12,506 |
| Accrued interest receivable | 2,878 | 8,354 |
| Short term loans given | 20,553 | — |
| Other | 78,168 | 47,568 |
| Total other current assets | 945,031 | 840,773 |

Short term loans have been provided to independent parties at market rates and are due for repayment in 2005.

11. Cash and short term deposits

| | 2004 | 2003 |
|------------------------------------|-----------|-----------|
| Cash at bank and in hand | 487,334 | 294,043 |
| Short term deposits | 1,405,574 | 1,115,179 |
| Total cash and short term deposits | 1,892,908 | 1,409,222 |

Cash at bank and in hand earns interest at floating rates based on the daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending upon the immediate cash requirements of the Group. The majority of the deposits earn interest based on daily bank deposit rates and are held in Hungarian Forints. The fair value of the cash and cash equivalents is HUF 1,892,908 (2003: 1,409,222).

At December 31, 2004, the Group had available HUF 187,600 (2003: HUF 242,000) of un-drawn committed borrowing facilities in respect of which all conditions precedent had been met.

For the purpose of the consolidated cashflow statement, cash and cash equivalents comprise the following at December 31:

| | 2004 | 2003 |
|-------------------------------|------------------|------------------|
| Cash at bank and in hand | 487,334 | 294,043 |
| Short term deposits | 1,405,574 | 1,115,179 |
| Bank overdrafts (see Note 14) | (44,773) | (70,244) |
| | <u>1,848,135</u> | <u>1,338,978</u> |

12. Issued capital and reserves

Issued capital

On December 31, 2004 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, 2004 the Company held 265,000 (2003; 265,000) ordinary shares of nominal value 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 21,730.

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

| Actual number of shares | Ordinary shares | Treasury shares | Total |
|-----------------------------|------------------|------------------|------------------|
| January 1, 2004. | 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, 2004 | <u>9,554,630</u> | <u>(265,000)</u> | <u>9,289,630</u> |

Cumulative translation adjustment reserve

The cumulative translation adjustment reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

13. Minority interest in consolidated subsidiaries

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

| | 2004 | 2003 |
|---|----------------|----------------|
| Opening balance | 242,882 | 285,680 |
| (Losses attributable) profit due to minority shareholders | (43,185) | 36,203 |
| Dividend paid by Infinity a.s. to minority shareholders | (19,871) | (73,801) |
| Dividend paid by SPAN d.o.o. to minority shareholders | (2,158) | (5,200) |
| Minority interest | <u>177,668</u> | <u>242,882</u> |
| Being: | 2004 | 2003 |
| Infinity a.s. | 123,533 | 158,869 |
| Span d.o.o. | 54,135 | 84,013 |
| | <u>177,668</u> | <u>242,882</u> |

14. Interest-bearing loans and borrowings

| | 2004 | 2003 |
|---------------------------------------|----------------|----------------|
| Bank overdrafts | 44,773 | 70,244 |
| Short-term loans | 482,951 | 402,500 |
| Interest-bearing loans and borrowings | <u>527,724</u> | <u>472,744</u> |

The estimated fair value of the Group's interest-bearing loans and borrowings approximates to its carrying value as at December 31, 2004. The weighted average interest rates are shown in Note 21.

As referred to in Note 3, the Company has a loan of HUF 80,800 (TCZK 10,000) which is secured by mortgage on related property of HUF 113,346. The remaining amount is made up of various unsecured loans the repayment of which are in 2005.

15. Trade accounts payable

| | 2004 | 2003 |
|--|------------------|------------------|
| Trade payables | 3,223,813 | 4,711,470 |
| Gross amount payable to customers for contract work (see Note 9) | — | — |
| Trade accounts payable | <u>3,223,813</u> | <u>4,711,470</u> |

Trade payables are non-interest bearing and are normally settled on 60-day terms.

16. Other payables and accruals

| | 2004 | 2003 |
|---------------------------------|------------------|------------------|
| Value added tax | 457,359 | 585,161 |
| Deferred service income | 875,818 | 583,669 |
| Accruals | 232,665 | 427,305 |
| Other taxes | 47,922 | 138,647 |
| Social insurance | 84,795 | 69,899 |
| Advance payments from customers | 8,129 | 93,696 |
| Other | 222,359 | 122,855 |
| | <u>1,929,047</u> | <u>2,021,232</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 2005.

17. Provisions for liabilities and charges

Activity in provisions for liabilities and charges for the year ended December 31, 2004 was as follows:

| | Tax penalties and interest | Warranty provisions | Total |
|-----------------------------|----------------------------|---------------------|----------------|
| January 1, 2004 | 509,576 | 13,277 | 522,853 |
| Arising during the year | 13,788 | 5,195 | 18,983 |
| Utilised | (107,474) | — | (107,474) |
| December 31, 2004 (current) | <u>415,890</u> | <u>18,472</u> | <u>434,362</u> |

Tax penalties and interest

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. In February 2004 the investigation relating to the years from 1999 to 2001 was closed and, in this regard, the Company paid fines and penalties totalling HUF 107,474. The Company continues to carry a provision of HUF 415,890 for probable fines and penalties associated with the on-going investigation.

Warranty provisions

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. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the warranty period for all products sold.

18 a. Segment information – business segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the years ended December 31, 2004 and 2003.

| Year ended 31 December, 2004 | ISS | BSD | Elimination | Total |
|--|-------------------|------------------|------------------|-------------------|
| <i>Revenue</i> | | | | |
| Sales to external customers | 14,215,118 | 5,920,811 | — | 20,135,929 |
| Inter-segment sales | — | 697,557 | (697,557) | — |
| Segment revenues | <u>14,215,118</u> | <u>6,618,368</u> | <u>(697,557)</u> | <u>20,135,929</u> |
| Segment result | 538,489 | (217,413) | — | 321,076 |
| Unallocated expenses | (249,507) | (74,053) | — | (323,560) |
| Profit before tax and finance costs | 288,982 | (291,466) | — | (2,484) |
| Finance costs | 167,036 | (50,321) | — | 116,715 |
| Profit before tax and minority interests | 456,018 | (341,787) | — | 114,231 |
| Tax | (10,243) | — | — | (10,243) |
| Profit before minority interests | 445,775 | (341,787) | — | 103,988 |
| Minority interest | 43,185 | — | — | 43,185 |
| Profit (loss) | <u>488,960</u> | <u>(341,787)</u> | <u>—</u> | <u>147,173</u> |
| <i>Assets and liabilities</i> | | | | |
| Segment assets | 7,562,404 | 1,735,236 | — | 9,297,640 |
| Unallocated assets | — | — | — | 3,374,264 |
| Consolidated total assets | | | | <u>12,671,904</u> |
| Segment liabilities | 2,387,557 | 947,937 | — | 3,335,494 |
| Unallocated liabilities | — | — | — | 9,336,410 |
| Consolidated total liabilities | | | | <u>12,671,904</u> |
| <i>Other segment information</i> | | | | |
| Capital expenditure | 421,408 | 196,950 | (2,780) | 615,578 |
| Depreciation | 531,000 | 121,841 | — | 652,841 |
| Amortisation | 57,385 | 36,897 | — | 94,282 |
| Impairment losses | 18,214 | 42,498 | — | 60,712 |
| Provisions | 434,362 | — | — | 434,362 |

| Year ended 31 December, 2003 | ISS | BSD | Elimination | Total |
|--|-------------|-----------|-------------|-------------|
| <i>Revenue</i> | | | | |
| Sales to external customers | 14,833,639 | 4,812,941 | – | 19,646,580 |
| Inter-segment sales | – | 477,132 | (477,132) | – |
| Segment revenues | 14,833,639 | 5,290,073 | (477,132) | 19,646,580 |
| Segment result | (868,820) | 124,397 | – | (744,423) |
| Unallocated expenses | (628,364) | (77,945) | – | (706,309) |
| Profit before tax and finance costs | (1,497,184) | 46,452 | – | (1,450,732) |
| Finance costs | 97,472 | 2,348 | – | 99,820 |
| Profit before tax and minority interests | (1,399,712) | 48,800 | – | (1,350,912) |
| Tax | (63,867) | (11,489) | – | (75,356) |
| Profit before minority interests | (1,463,579) | 37,311 | – | (1,426,268) |
| Minority interest | (36,203) | – | – | (36,203) |
| Profit (loss) | (1,499,782) | 37,311 | – | (1,462,471) |
| <i>Assets and liabilities</i> | | | | |
| 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 |
| <i>Other segment information</i> | | | | |
| Capital expenditure | 595,331 | 113,876 | – | 709,206 |
| Depreciation | 725,660 | 53,028 | – | 778,688 |
| Amortisation | 54,749 | 88,071 | – | 142,820 |
| Impairment losses | 80,697 | 184,614 | – | 265,311 |
| Provisions | 513,825 | 9,028 | – | 522,853 |

18 b. Segment information – geographical segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's geographical segments for the years ended December 31, 2004 and 2003.

| Year ended 31 December, 2004 | Hungary | Czech Republic | Croatia | Total |
|--|------------|----------------|-----------|------------|
| <i>Revenue</i> | | | | |
| Segment revenue | 14,300,585 | 4,590,427 | 1,244,917 | 20,135,929 |
| Segment result | 454,385 | (46,441) | (86,868) | 321,076 |
| Unallocated expenses | (162,610) | (86,897) | (74,053) | (323,560) |
| Profit before tax and finance costs | 291,775 | (133,338) | (160,921) | (2,484) |
| Finance income | 167,036 | (34,316) | (16,005) | 116,715 |
| Profit before tax and minority interests | 458,811 | (167,654) | (176,926) | 114,231 |
| Tax | (10,243) | – | – | (10,243) |
| Profit before minority interests | 448,568 | (167,654) | (176,926) | 103,988 |
| Minority interest | 43,185 | – | – | 43,185 |
| Profit (loss) | 491,753 | (167,654) | (176,926) | 147,173 |
| <i>Assets and liabilities</i> | | | | |
| Segment assets | 6,607,476 | 2,050,633 | 639,531 | 9,297,640 |
| Unallocated assets | – | – | – | 3,374,264 |
| Consolidated total assets | – | – | – | 12,671,904 |
| Segment liabilities | 645,330 | 1,676,804 | 489,484 | 2,811,618 |
| Unallocated liabilities | – | – | – | 9,860,286 |
| Consolidated total liabilities | – | – | – | 12,671,904 |
| <i>Other segment information</i> | | | | |
| Capital expenditure | 442,798 | 121,627 | 51,154 | 615,579 |
| Depreciation | 442,368 | 156,679 | 53,794 | 652,841 |
| Amortisation | 94,282 | – | – | 94,282 |
| Impairment losses | 60,712 | – | – | 60,712 |
| Provisions | 424,278 | 10,084 | – | 434,362 |

| Year ended 31 December, 2003 | Hungary | Czech Republic | Croatia | Total |
|--|-------------|----------------|-----------|-------------|
| Revenue | | | | |
| Segment revenue | 13,171,355 | 5,211,615 | 1,263,610 | 19,646,580 |
| Segment result | (853,461) | 101,422 | 7,616 | (744,423) |
| Unallocated expenses | (276,000) | (352,364) | (77,945) | (706,309) |
| Profit before tax and finance costs | (1,129,461) | (250,942) | (70,329) | (1,450,732) |
| Finance income | 100,767 | (6,948) | 6,001 | 99,820 |
| Profit before tax and minority interests | (1,028,694) | (257,890) | (64,328) | (1,350,912) |
| Tax | (13,029) | (61,409) | (918) | (75,356) |
| Profit before minority interests | (1,041,723) | (319,299) | (65,246) | (1,426,268) |
| Minority interest | (36,203) | – | – | (36,203) |
| Profit (loss) | (1,077,926) | (319,299) | (65,246) | (1,462,471) |
| Assets and liabilities | | | | |
| 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 | 2,281,179 | 396,328 | 3,703,888 |
| Unallocated liabilities | | | | 10,543,150 |
| Consolidated total liabilities | | | | 14,247,038 |
| Other segment information | | | | |
| Capital expenditure | 473,190 | 173,355 | 62,661 | 709,206 |
| Depreciation | 531,726 | 200,618 | 46,344 | 778,688 |
| Amortisation | 142,820 | – | – | 142,820 |
| Impairment losses | 265,311 | – | – | 265,311 |
| Provisions | 517,964 | 4,889 | – | 522,853 |

19. Cost of sales

| | 2004 | 2003 |
|----------------------|------------|------------|
| Material costs | 11,241,095 | 10,833,381 |
| Sub-contractor costs | 2,647,697 | 3,174,896 |
| | 13,888,792 | 14,008,277 |

20. Selling, general and administration expenses

| | 2004 | 2003 |
|---------------------------------|-----------|-----------|
| Wages and salaries | 3,567,796 | 3,331,452 |
| Depreciation and amortisation | 719,361 | 916,881 |
| Impairment of intangible assets | 60,712 | 265,311 |
| Tax penalties and interest | 13,788 | 509,576 |
| Marketing and advertising | 373,868 | 406,114 |
| Rental and lease fees | 288,530 | 329,922 |
| General administration | 131,925 | 112,104 |
| Professional fees | 384,694 | 446,425 |
| Training | 71,791 | 82,955 |
| Travel | 114,294 | 110,736 |
| Motor expenses | 96,037 | 144,398 |
| Telephone | 143,877 | 159,035 |
| Customs and freight | 34,545 | 32,309 |
| Office expenses | 96,202 | 104,788 |
| Stationary | 46,395 | 40,158 |
| Fuel costs | 99,244 | 77,253 |
| Miscellaneous | 59,159 | 39,740 |
| | 6,302,218 | 7,109,157 |

The average number of persons employed by the Group during the year was 567 (2003: 544).

21. Financial income, net

| | 2004 | 2003 |
|--|---------------|---------------|
| Investment income from available-for-sale financial assets | 106,970 | 104,085 |
| Bank interest income from cash at bank | 21,340 | 13,469 |
| Bank interest expense | (46,504) | (52,528) |
| | <u>81,606</u> | <u>65,026</u> |

Costs associated with borrowings, to finance ongoing working capital requirements are set out below.

| Weighted average interest rate | PRIBOR = Prague Inter-bank Offering Rate |
|--|--|
| Average margin as at December 31, 2004 | PRIBOR+1,5 |
| Average margin for the year 2004 | 2,29 |

22. Other income

| | 2004 | 2003 |
|--|---------------|---------------|
| Support services | 6,433 | 11,691 |
| Guarantees, damage reimbursement and other | 46,164 | 8,431 |
| | <u>52,597</u> | <u>20,122</u> |

23. Income taxes

The Company's income tax expense is as follows:

| | 2004 | 2003 |
|--------------------------|---------------|---------------|
| Current year tax expense | <u>10,243</u> | <u>75,356</u> |

Synergon Informatika Rt. and most of its significant subsidiaries are subject to income tax at the Hungarian statutory rate of 16% on taxable income, except Infinity s.r.o., located in the Czech Republic, where the tax rate is 28%. From January 1, 2004, the Hungarian statutory tax rate was reduced from 18% to 16%.

The reconciliation of income tax computed on statutory tax rules to income tax expense is as follows:

| | 2004 | 2003 |
|--|---------------|---------------|
| Income (loss) before tax | 114,231 | (1,350,912) |
| Income tax at statutory rate of 16% (and 18% respectively) | 18,277 | (243,164) |
| Current year taxable losses carried forward that cannot be utilised with certainty against future taxable profit | 23,862 | 244,902 |
| Tax effect of timing differences for which no deferred tax has been recognised | (21,564) | 44,280 |
| Other | (10,332) | 29,338 |
| Current year tax charge | <u>10,243</u> | <u>75,356</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 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.

Deferred tax assets (at the 16% tax rate in Hungary and 26% in the Czech Republic) 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 285,457 which are available to be carried forward and offset against taxable income over the next five 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:

| | Recognised | | Not recognised | |
|-------------------|---------------|---------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Infinity a.s. | 13,381 | 12,506 | — | — |
| Unused tax losses | — | — | 285,457 | 434,594 |
| | <u>13,381</u> | <u>12,506</u> | <u>285,457</u> | <u>434,594</u> |

The Group has no significant deferred tax liabilities.

24. 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 are calculated by dividing the net income/(loss) attributable to the ordinary shareholders by the weighted average number of shares outstanding during the year adjusted for the number of ordinary shares purchased by the Company and held as treasury shares.

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

| | 2004 | | 2003 |
|--|-----------|--------------|-------------|
| Net income (loss) attributable to ordinary shareholders for basic and diluted earnings per share | 147,173 | | (1,462,471) |
| | | <i>piece</i> | |
| Weighted average number of ordinary shares in issue during the year for basic earnings per share | 9,289,630 | | 9,289,630 |
| Effect of dilution – treasury shares (see Note 12) | 265,000 | | 265,000 |
| Weighted average number of ordinary shares in issue during the year for diluted earnings per share | 9,554,630 | | 9,554,630 |
| Income (loss) per share (HUF only) | | | |
| | 2004 | | 2003 |
| - basic | 16 | | (157) |
| - diluted | 15 | | (153) |

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

25 a. Acquisition – Infinity Data s.r.o.

On March 25, 2004, Synergon Informatika Rt, through its 67% holding in Infinity a.s, acquired 100% of the share capital of Infinity Data s.r.o., an unlisted company in the same business, registered and operating in the Czech Republic. The acquisition was affected by a cash payment of HUF 27,830. The identifiable fair value of the net assets acquired as at the date of purchase was HUF 4,782 and accordingly goodwill of HUF 23,048 has been recognised in the Group financial statements. The acquired business contributed revenues of HUF 30,133 and an operating loss of HUF 10,903 to the Group for the period from March 1, 2004 to December 31, 2004.

The following additional terms were agreed as part of the acquisition of Infinity Data s.r.o and represent the maximum contingent liability associated with the purchase:

- (i) in the event that the operating profit of the "Navision" division of Infinity a.s. for the year ended December 31, 2005 exceeds CZK 7.66m (HUF 57,456), Synergon Informatika Rt will be required to pay an additional CZK 1.2m (HUF 9,072) by March 31, 2006, for the acquisition of Infinity Data s.r.o
- (ii) in the event that the operating profit of the "Navision" division of Infinity a.s. for the year ended December 31, 2006 exceeds CZK 14.27m (HUF 107,881), Synergon Informatika Rt will be required to pay an additional CZK 0.8m (HUF 6,048) by March 31, 2007, for the acquisition of Infinity Data s.r.o
- (iii) a further payment of CZK 0.4m (HUF 3,024) will be paid in consideration of the acquisition of Infinity Data s.r.o following the resolution of the on-going legal dispute with Kovosrot a.s.

25 b. Acquisition – Infinity a.s.

The following options (as set out in the original acquisition agreement) regarding the purchase of the remaining 33% of the share capital of Infinity a.s were valid during 2004 and represented 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 Informatika Rt 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 |

This option was not exercised by seller during 2004 and has now lapsed.

- (ii) by the exercise of a further call options, Synergon Informatika Rt is entitled to purchase the remaining shares of the company. The price paid by Synergon Informatika Rt for the acquisition of those remaining shares would be dependent upon the year in which the option was exercised by Synergon Informatika Rt and is shown in the table below.

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

These options were not exercised by Synergon Informatika Rt and have now lapsed.

Infinity a.s contributed revenues of HUF 4,590,427 (2003: HUF 5,221,615) and operating loss of HUF 35,538; (2003; operating income of HUF 169,778) to the Group for the year to December 31, 2004.

25 c. Acquisition – Span d.o.o.

The following options (as set out in the original acquisition agreement) regarding the purchase of the remaining 32% of the share capital of Span d.o.o were valid during 2004 and represented the maximum contingent liability associated with the acquisition:

(i) in the event of the exercise of a call option by Synergon Informatika Rt (in the period between May 1, 2003 and December 31, 2004), Synergon Informatika Rt 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 Informatika Rt 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. This option was not exercised by Synergon Informatika Rt during 2004 and has now lapsed.

(ii) In consideration of (i) above, the shareholders of Span d.o.o. agree to render to Synergon Informatika Rt the pre-emption right with respect to sale or any disposition of share interests in the company.

(iii) In consideration of (i) above, should Synergon Informatika Rt 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 Informatika Rt 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 1,244,917 (2003; HUF 1,263,652) and operating loss of HUF 86,868 (2003; HUF 39,639) to the Group for the year to December 31, 2004.

26. Commitments and contingencies

Operating lease commitments

The Group has entered into commercial leases on building rental where it is not in the best interest of the Group to purchase these assets. These leases have an average life of between 5 and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions upon the lessee by entering into these leases.

At December 31, 2004 the company had minimum lease rental commitments under non-cancellable operating leases as set out below:

| | Land and Buildings | | Other | |
|---|--------------------|------------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Operating leases which expire: | | | | |
| within one year | 78,258 | 83,445 | 188,573 | 239,708 |
| After one year but not more than five years | 313,031 | 333,778 | 346,147 | 660,831 |
| After more than five years | 1,095,609 | 1,251,670 | — | — |
| | <u>1,486,898</u> | <u>1,668,893</u> | <u>534,720</u> | <u>900,539</u> |

Rental expense (principally for offices and motor vehicles) was HUF 288,530 (2003; HUF 329,922).

Guarantees

At December 31, 2004 a number of commercial banks have provided performance guarantees to the value of HUF 790,000 (2003; HUF 314,651) on behalf of the Company.

27. Related party disclosures

The consolidated financial statements include the financial statements of Synergon Informatika Rt and the subsidiaries listed in the following table.

| Name of the Company | Country of Incorporation | % equity/voting interest | |
|---|--------------------------|--------------------------|------|
| | | 2004 | 2003 |
| Fibex Kft. | Republic of Hungary | 100% | 100% |
| Synergon Officium Kft. (see Note (i)) | Republic of Hungary | 100% | 100% |
| Synergon Atos Origin Kft. | Republic of Hungary | 100% | 100% |
| Synergon Information Systems UK Ltd (see Note (ii)) | United Kingdom | 100% | 100% |
| Infinity a.s. | Czech Republic | 67% | 67% |
| Infinity Data s.r.o (see Note 25 a) | Czech Republic | 67% | - |
| Infinity Slovakia s.r.o (see Note (iii)) | Slovak Republic | 67% | 67% |
| Span d.o.o. | Republic of Croatia | 68% | 68% |

(i) As at December 31, 2004, Synergon Officium Kft was in the process of being wound up. For the year to December 31, 2004, the company contributed revenues of HUF 1,131 (2003; HUF 39,374) and an operating loss of HUF 3,586 (2003; HUF 13,179) to the Group.

(ii) As at December 31, 2004, Synergon Information Systems UK was in the process of being wound up. For the year to December 31, 2004, the company contributed revenues of HUF 257,377 (2003; HUF 515,582) and an operating loss of HUF 11,061 (2003; HUF 27,051 (profit)) to the Group.

(iii) In 2003, Infinity Slovakia s.r.o was founded as a 100% subsidiary of Infinity a.s. Infinity Slovakia s.r.o is in the same business as Infinity a.s and operates in the Slovak Republic. The net book value of the assets of the company as at December 31, 2004 was HUF 44,545 and the company contributed revenues and operating profits of HUF 325,744 and HUF 340 respectively to the Group.

Span d.o.o Rijeka is a 51% subsidiary of Span d.o.o operating in the Republic of Croatia. The activities of the company are not material to the group.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the years ended December 31, 2004 and 2003, the Group has not raised any provision for doubtful debts related to amounts owed by related parties as the payment history has been good. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

| | 2004 | 2003 |
|---|---------|---------|
| Short term employee benefits | 203,216 | 193,080 |
| Termination benefits | 7,266 | — |
| Total compensation paid to key management personnel | 210,482 | 193,080 |

Directors' and Supervisory Board remuneration

The executive members of the Board of Directors' received remuneration totalling HUF 14,744 (2003; HUF 9,600). The total remuneration of the Supervisory Board was HUF 8,168 (2003; HUF 7,340).

Directors' loans and other interests

At December 31, 2004 loans of HUF 4,556 (2003; HUF 4,811), bearing interest at 6% per annum, have been provided by the Group, to the directors of Span d.o.o and Infinity a.s.

28. Retained earnings

Retained earnings available for distribution are based on the statutory financial statements of Synergon Informatika Rt 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, 2004 are HUF 286,437 (2003; deficit of HUF 2,292,352).

29. 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.

30. Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are currency risk, credit risk and interest rate risk. The Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the year in review, the Group's policy that no trading in financial instruments shall be undertaken. The Directors review and agree the policies for managing each of these risks and they are summarised below:

Foreign currency risk

The financial instruments that potentially subject the Group to currency risk consist principally of foreign currency payables and short and long term borrowings denominated in foreign currency. The Group does not use foreign currency hedging contracts or any other derivative products. As a result of investment operations in the Czech Republic, the Slovak Republic and the Republic of Croatia, the Group's balance sheet can be affected by the movements in the HUF exchange rate with the CZK, SK and HRK. The Group does not seek to hedge this exposure. The Group also has transactional currency exposures. Such exposures arise from sales or purchases by entities within the Group in currencies other than that entities measurement currency. Approximately 90% of the Group's sales are denominated in currencies other than the reporting currency of the entity making the sale, whilst almost 70% of the costs are denominated in that entities reporting currency. The Group does not seek to hedge this exposure.

Credit Risk

Financial instruments that subject the Group to significant concentrations of credit risk consist principally of excess cash holdings and accounts receivable. The Group places its excess cash in high quality Hungarian and Western financial institutions and limits the amount of credit exposure to any one institution. There are no significant concentrations of credit risk within the Group. The credit risk associated with trade accounts receivable is limited due to the credit-worthiness of the Group's customers. Management monitors this concentration of credit risk on a regular basis and follows up immediately on any past due collections.

Interest rate risk

The Group's borrowings are provided on interest bases as set out in Notes 14 and Note 21 and are not considered to be significant.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and shareholder loans. At the balance sheet date the Group had undrawn funding amounting to 27% of total available and agreed facilities.

Fair values

At 31 December 2004 and 2003 the carrying amounts of cash, short-term investments, accounts receivable, short term borrowings and accounts payable approximated their fair values due to the short-term maturities of these assets and liabilities. Receivables are stated after making allowance for doubtful debts.

31. Cash flow reconciliations

| | 2004 | 2003 |
|--|----------|-------------|
| Net income (loss) | 147,173 | (1,462,471) |
| Net interest received (see Note 21) | (81,806) | (65,026) |
| Income taxes (see Note 23) | 10,243 | 75,356 |
| Net income (loss) before interest and taxation | 75,610 | (1,452,141) |

Informations for Investors

Board of Directors

Árpád Barta
Ferenc Czákó Chairman
Ákos Kozák
László Oláh
Zoltán Radnóty
dr. Sándor Szalay

Supervisory Board

Zoltán Bajor
Miklós Jeszenszky dr. Chairmen
Gábor Korompay
Kuller József
László Szalma

Management of Subsidiaries

Nikola Dujmovič
Attila Kovács
Zoltán Pintér
Loránt Száray
Hanus Weisl

Managing Director, Span d.o.o.
Managing Director, SAO-Synergon Ltd
Managing Director, Fibex Kft.
CEO, Synergon Information Systems plc
CEO, Infinity a.s.

Stock informations

The company's subscribed capital is formed by 9,554,630 "T" series ordinary shares of a nominal value of HUF 200 each. The company's shares can be purchased 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 SEAQ system attached to the London Stock Exchange.

Stock Exchange Symbols:

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

Stock Registration:

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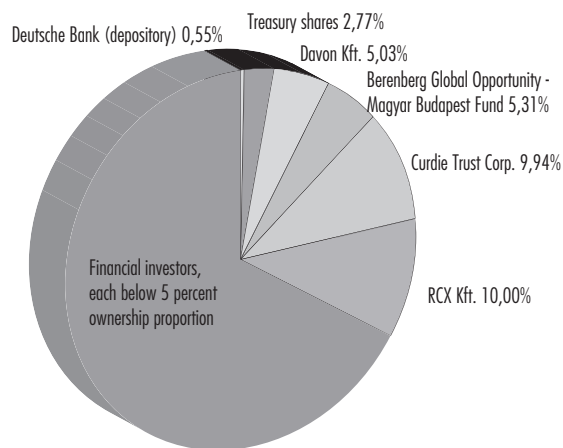
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Synergon's ownership structure, December 31, 2004



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