SinnerSchrader

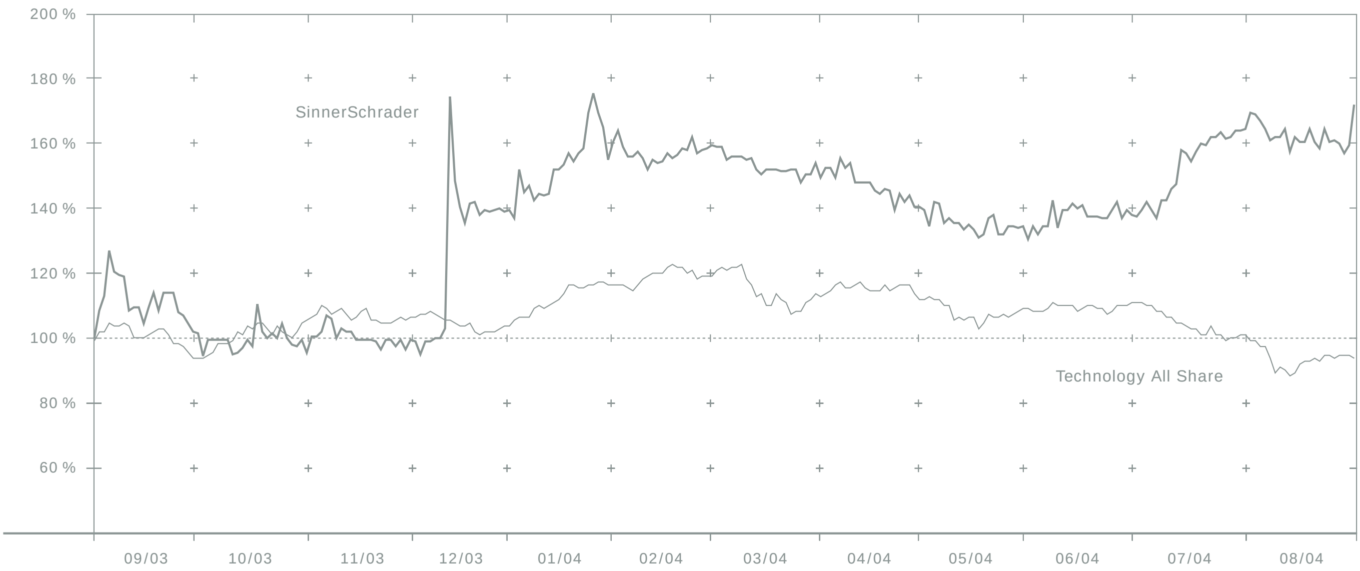
0304

ANNUAL REPORT 2003|2004 OF THE SINNERSCHRADER AKTIENGESELLSCHAFT

Key figures of the SinnerSchrader Group, 2 years in € 000s, in 000s resp. number of employees	01.09.2003 31.08.2004	01.09.2002 31.08.2003	Change in %
Revenues	12,325	12,359	0
Gross profit	3,649	3,000	22
EBITDA	- 752	- 929	19
EBITA	- 1,384	- 1,621	15
Net loss	- 531	- 923	42
Net loss per share[1)]	- 0.05	- 0.08	39
Shares outstanding[1)]	10,933	11,165	- 2
Cash flows from operating activities	2,291	- 1,637	240
Employees – full time equivalents	139	169	- 18
	31.08.2004	31.08.2003	Change in %
Liquid funds and marketable securities	27,038	24,603	10
Shareholders´ equity	8,054	29,375	- 73
Balance sheet total	31,252	31,473	- 1
Employees – end of period	145	166	- 13

1) Weighted average shares outstanding (diluted).

SinnerSchrader share price performance (index-linked)



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The New SinnerSchrader

interactivate

your

business

New Strategy

Since 1996 SinnerSchrader has been developing interactive communications and transaction solutions to increase customer retention, supplement existing sales channels and optimise business processes. Even under the difficult market conditions of the last three years, we have been able to continuously expand our market position. Today, SinnerSchrader is one of the five largest interactive service providers in Germany.

This success is the result of a high level of orientation towards the market, towards customers and towards employees. Ongoing optimisation of our processes, a passionate commitment to the day-to-day progress of projects and constant advanced development of employee qualifications form the basis of this orientation. In the spring of 2004 we adapted the structure of the Group to today’s market needs in order to continue on this course and to develop a growth perspective again, once consolidation in our sector is complete. The aim of reorganisation was to position our service portfolio on the market in a more differentiated and transparent manner. We have essentially separated development services for the production of interactive software from agency services for the management of brands through digital channels. A third pillar, services in the areas of media, operations and analysis, round off the SinnerSchrader portfolio of offerings.

Matthias Schrader, CEO of SinnerSchrader Aktiengesellschaft, on the new positioning of SinnerSchrader Group.

» Eight years after its founding and five years after its IPO, SinnerSchrader is reinventing itself. What are the reasons behind it?

There are many important reasons, but a central one is that: we want to – and we will – grow again. The new structure fits current market conditions better – both in terms of the needs of customers and the positioning of our competitors. Added to this is an important psychological moment for us: just when everyone else steps on the brakes, someone has to forge ahead and achieve something. In the new business year we would like to launch an offensive with our new structure.

» So isn’t this a move to reduce costs?

We have been doing our homework in a deliberate manner where costs are concerned. The main issue in our service segment is decreasing margins. Even in 2003, it was once again about 10 % – that means about € 1 million less in revenues while project volume remained constant! With the daily rates and fixed costs that we must realise as a company listed on the stock exchange, we will need considerably more than € 10 million in billings. In addition to greater efficiency, we will need a growth strategy once again.

» What has changed?

Today, companies prefer to buy their services from specialists. For this reason, SinnerSchrader is positioning its areas separately. We combine our competencies in five segments. Each one represents a clear service pledge: projects at fixed prices and unalterable deadlines that create value. Neue Informatik (New IT) develops web applications and individual software with high serviceability. The Studios are the creative agency for interactive brand management. In short, Neue Informatik brings the processes to the user, while the Studios take the brand to the consumer.

» Will SinnerSchrader remain an e-business provider?
Since 1996 we have used the claim “interactivate your business”. Our focus has paid off: today, SinnerSchrader is the fourth-largest interactive service provider in Germany. Well over a million people use our applications every day. The reason for our success is our clear focus on e-business. In the banking, commerce and tourism sectors, our customers are leaders in their respective markets. One other thing is clear, however: the term e-business has become too narrow. The age of projects “on a greenfield side” is long gone; the interactive channels have penetrated all departments and specialist disciplines. Companies are now purchasing their services in a different manner – the trend is clearly towards specialisation. We can see that in the areas of media, operations and analysis as well. In the past year, running counter to the trend, they have grown in their key business and are now also independently positioned.

» What does Neue Informatik do differently from other IT service providers?
Neue Informatik is the first technology service provider to focus on an application's utility value as actually experienced by the user. In the IT world, this is a paradigm shift. The requirement that a solution be fit for use in any circumstance and accepted by users is unique in this form. Consumers want software that is fun to use. But even employees in companies work more productively with our solutions.

» And what budgets are the Studios targeting?
Brand management in interactive media is a very complex matter. It reflects all communications disciplines, from branding and product presentation, dialogue and sales promotions all the way to customer relationship management (CRM) – it all comes across on the same channel. For the brand to be perceived in a consistent manner, however, you have to keep the entire interactive communications architecture of a brand in sight and manage it carefully. This is where big advertising networks have a hard time, because they have not yet internalised the grammar of the medium – and no one will entrust the new media hotshots with this task. Marketing is left to work itself out and then gets bogged down occasionally. SinnerSchrader Studios see themselves as the brands' sparring partners and bring to them the necessary depth and power to put them into action.

» Is this how you will compete directly with conventional advertising agencies?
It is not the agencies but the channels of communication that are in competition. What is obvious is that the Internet, despite all prophecies of doom, has fulfilled many predictions. One in two Germans is online, usage times are rising and transaction figures are exploding. Still, at the moment, fantastic opportunities for differentiation are going unused, despite the fact that, for many brands, the computer screen is the most important bridge to the consumer. The reason why interactive channels are still dramatically under-represented in the marketing mix is purely psychological. In the future, the medium will continue to gain relevance for consumers, and in almost all communications disciplines – from branding to dialogue – the Internet is already the leader in efficiency. In the end, interactive and classic are fighting for the same piece of the pie.

» But didn't SinnerSchrader represent a more technical orientation in the past?
When we launched SinnerSchrader Studios we added staff, particularly in the creative area. Fresh, surprising productions are an absolute must in the Studios. But great visuals alone do not produce efficiency, because pull channels have other mechanisms. We intend to develop platforms with pull that motivate consumers to deal intensively with the brand in question, as we have proven we can do with the coverage kings comdirect, HLX and Tchibo.

» Will the companies increase their budgets when the economy recovers?
Waiting for the upswing is like waiting for an apparition. We must create our own economy and impress customers with the efficiency of the media. That's why the situation reminds us of the mid-90s: it's time to roll up our sleeves and get customers excited again.

SinnerSchrader Group		
Interactive Software	Interactive Marketing	Interactive Services
SinnerSchrader Neue Informatik	SinnerSchrader Studios	SinnerSchrader Media SinnerSchrader Betrieb SinnerSchrader Analyse

Just imagine if people liked using your software.

Software. Design. Interfaces.

SinnerSchrader Neue Informatik

SinnerSchrader combines technology services in Neue Informatik. The focus is on developing interactive applications that are distinguished by particularly high user acceptance.

"We are the first technology service provider to put the user's actual experience of the application's utility value first", says Dr Stefan Kunze, spokesman for the Management Board, summing up the way the unit sees itself. Neue Informatik is a concentration of eight years of know-how in the software business. The customers, above all those in the IT departments of large and mid-size companies, will find all the relevant qualifications there: expert consultants with specialised industry knowledge, design experts with know-how in user guidance and usability, and experienced software developers.

Neue Informatik's portfolio of services addresses three solution domains:

» Transaction-oriented websites like shops, self-service portals and reservation solutions,
» information systems such as intranets, extranets and company portals, as well as
» applications that optimise intra-company business processes using internet based solutions.

It develops robust and powerful systems on the basis of state-of-the-art technologies – with a focus on Java and open source. In addition to using well-known browser-based applications, Neue Informatik is gaining ground in the new field of developing mobile and desktop applications ("rich clients").

Teams, methods and deployed technologies are optimised to generate the greatest possible useful functionality euro for euro. To do this, the project teams concentrate from the very start on the main requirements and strive for simplicity and reduced complexity as a model for system design. Interdisciplinary teams and methods of user-centred software development help to design precisely what the user really needs.

Among the heavyweights in our list of customers are comdirect bank and Deutsche Bank. Both banking institutions operate extensive financial portals for private and business customers with online banking, online brokerage and comprehensive services providing information on international financial markets and their own product range.

Another focus is on the telecommunications sector. Neue Informatik works for two mobile service providers, Talkline and O_2, and manages their shop solutions, among other things.
The entire web application was developed for the isicall-by-call product line of DeTeCardService, a subsidiary of Deutsche Telekom, launched in mid-2004. Our integration of mobile terminals for all popular mobile phones by means of mobile-phone software developed in-house and based on Symbian/C++ and Java is unique.

Booking and reservation systems for the travel and tourism industry, such as car rental agencies Europcar and interRent and for various airlines of the TUI Group are also among our most important references.

Principal office: Hamburg
Management: Dr Stefan Kunze (spokesman), Holger Blank, Dr Thilo Horstmann

Just imagine,
if customers fell in love
with your products.

Creative Agency for Digital Brand Management

SinnerSchrader Studios

The Studios enable SinnerSchrader to strengthen its agency business within the Group. As a creative agency for digital brand management, SinnerSchrader Studios ensure both brand experiences that gain widespread attention and effective selling solutions via interactive channels. Their target group is marketing and sales decision-makers who expect high-quality communications campaigns that are ideally tailored to their needs.

"We are convinced that in future brands will be taken just as seriously on the Internet as they are in conventional channels. The quality of presentation is rising rapidly. Besides first-class design, this also includes high-quality communication", says Malte Blumenthal, spokesman of the Management Board, in explanation of the Studios' philosophy.

Brand management in interactive media today is much more complex than even just a few years ago. For tasks as widely varied as branding, product presentation, dialogue, transactions, customer service and relationship management (CRM), companies use the same channel. To ensure that a brand is perceived uniformly, the overall interactive communications architecture must be managed carefully. SinnerSchrader Studios dedicates itself to realising this task with the necessary depth and expertise.

The studios operate the agency business at the Hamburg and Frankfurt locations. This increases the flexibility of the units, allowing them to ideally expand their business on a regional basis as well. Since starting up in April 2004, both offices have added staff, above all in the areas of creation, communication and design. Hence the studios also employ staff with a conventional advertising background.

The Studios in Hamburg manage Hapag-Lloyd Express (HLX) in what is a model for excellent Internet brand management. The hlx.com website generates about 90 % of all bookings and, since their complete relaunch in summer 2004, has set new standards for clarity, simplicity and speed. Online and offline branding are logically connected to maximise brand recognition.

For Coca-Cola, a new client, the Studios have implemented a promotional campaign for the Coca-Cola light Lemon brand. High-quality design orientated towards the graphic style of lifestyle magazines, and elegantly programmed flash technology ensure that the visitor's experience of the product and brand is poised at the cutting edge.

The Studios in Frankfurt are pursuing an integrated communications approach with the pan-European campaign sites for Gore. The Studios are continuing its successful classic campaign "Happy Toes" on the Internet. Online and conventionally, the manufacturer of Gore-Tex communicates the same messages, but uses the Internet to respond much more precisely to its customers' information needs.

Principal office: Hamburg and Frankfurt
Management: Malte Blumenthal (spokesman), Stefan Schaub; Rainer Kiefer (Frankfurt)

Just imagine never wasting a single euro for marketing.

Advertise More Effectively

SinnerSchrader Media

Since its founding, SinnerSchrader has been a pioneer in innovative media services in interactive channels. SinnerSchrader Media has consistently dedicated itself to maximum effectiveness and an optimum price-performance ratio in online advertising. As one of the largest online media buyers, we know the market down to the smallest detail. We see ourselves as taking the neutral, independent role of a media buyer in the market.

This independence allows us to direct online marketing towards sales success without compromise and optimise it for direct sales. Since 1996, the media consultants of SinnerSchrader have measured and optimised campaigns on the basis of cost-per-order (CPO). They know the prerequisites that allow media services to be billed based solely on success-dependent models. They create the conditions that give both the advertiser and the marketer a stake in a long-term partnership.

“The media business strives for and lives from efficiency. Online media still have a significant edge over conventional advertising because efficiency is eminently measurable”, explains Ralf Scharnhorst, head of SinnerSchrader Media. Media planners work closely with the creative division in the studios so that the campaign idea, advertising and advertising environment interact optimally. Co-operation management generates partner sites that link the websites of media customers to user flows over the long term. The range of services also covers search engine marketing to ensure that a website can be found.

What is most important is that the advertising is effective. SinnerSchrader Media’s Media Controlling hands marketing decision-makers a tool for monitoring campaigns daily while running and controlling them optimally.

For customers like Tchibo, which, after Amazon, is the most successful e-commerce provider in Germany, SinnerSchrader finds media partners for co-operative sales efforts on a CPO basis. As part of this, media experts manage negotiations and provide tracking and reporting, bill commissions and create advertising, all from a single source. Thanks to the growing affinity of users for e-commerce, these co-operative efforts bring in six-figure annual revenues for some online marketers.

Principal office: Hamburg
Management: Ralf Scharnhorst

Just imagine your systems managing 1 million customers per day.

Everything up to Scratch

SinnerSchrader Betrieb

Successful transactions can only be done on the Internet when e-business solutions run smoothly. Downtimes do not just mean short-term drops in sales turnover, but also lost customers and damage to your image. E-business systems are known for the profusion of individual components and thus a high degree of complexity.

SinnerSchrader Betrieb (Operations) offers a modular range of services for all relevant aspects of system operation: infrastructure, security, maintenance and recovery. Round-the-clock service is a given. The system operations experts develop operating schemes tailored to the special usage requirements and the individual customer's situation.

» **Infrastructure:** Bandwidth, connectivity and housing are the elements of the flexible, modular infrastructure scheme of SinnerSchrader Betrieb. Together with capable partners, the Business Area provides a scalable high-performance infrastructure for e-business solutions.

» **Security:** Ensuring both passive and active security are such things as regular data backups, secure tape storage and regular data checks. Firewalls managed by SinnerSchrader Betrieb safeguard applications against unauthorised access from the Internet.

» **Maintenance:** To relieve our customers of the burden of routine work and maintenance of their systems, we offer a complete outsourcing package. This can range from set-up and configuration of systems and organisation of system access all the way to orientating support staff and updating documentation.

» **Recovery:** In the most serious situations our employees will reduce the downtime of systems and applications to a minimum: through automated, redundant monitoring, fast alarm systems and clearly defined recovery measures. At SinnerSchrader Betrieb, customers will find comprehensive expertise, from the hardware level to the applications level.

In managing operations, we concentrate on those hardware and software components most relevant to successful e-business. A flexible combination of individual service components and a simple pricing structure make it possible to meet specific customer requirements while maintaining an attractive price-performance ratio.

Since the operational services business started in 2001 a steadily growing number of companies have entrusted important operating functions to SinnerSchrader. Among our customers are well-known banks, tourism and telecommunications companies.

Principal office: Hamburg
Management: Christian Krämer

Just imagine knowing what your customers would buy tomorrow.

User Behaviour at a Glance

SinnerSchrader Analyse

Anyone who runs an e-business today cannot avoid using professional controlling tools. SinnerSchrader Analyse provides well-researched key figures updated daily from business operations and helps its customers recognise and correctly interpret the benefit, costs and critical success factors in e-business.

The analysis business area offers an all-round service in the area of business intelligence (BI). The range of services covers the areas of web mining services, web intelligence consulting and development of business intelligence software. Our staff combine professional analytical procedures and high scalability customised for your task – all for one predictable price.

» **Web mining service:** From simple log file analyses to complex evaluations of transaction data, SinnerSchrader Analyse develops integrated web mining solutions specifically adapted to the customers' needs. Reporting, updated daily, is available as an online service. This affords customers professional analysis services at a reasonable price without requiring them to set up their own infrastructure. Thus they save not only on hardware and software costs but also on the payroll and operating costs of an in-house solution.

» **Web intelligence consulting:** SinnerSchrader Analyse advises its customers throughout the entire process, from generating data to interpreting information. Our consulting services – providing detailed analysis and systematic optimisation of e-business applications – target those customers who want to set up or expand their own analytical infrastructure and thus require sophisticated information solutions.

» **Business intelligence software development:** SinnerSchrader Analyse is also increasingly developing tailored business intelligence solutions, drawing on proven Java expertise from many years of experience in implementing high-performance J2EE-compatible software. As a SAS partner we specialise in the new web-based generation of SAS technology (SAS V9), supporting customers in setting up data warehousing solutions and web-based BI landscapes.

Several of the most successful e-business sites in Germany use the analysis services of SinnerSchrader. For comdirect bank, Germany's market leader in the area of online investment, SinnerSchrader Analyse is co-operating with Neue Informatik to develop a comprehensive tracking and analysis solution for evaluating user behaviour. Hapag-Lloyd Express (HLX) uses the web mining services to optimise booking processes and manage campaigns. jobpilot, one of the leading European career markets on the Internet, uses the web mining service to analyse usage. Yello Strom also cooperates with us on a continuing basis to optimise its online promotions and ordering processes.

Principal office: Hamburg
Management: Michael Roth

New Growth

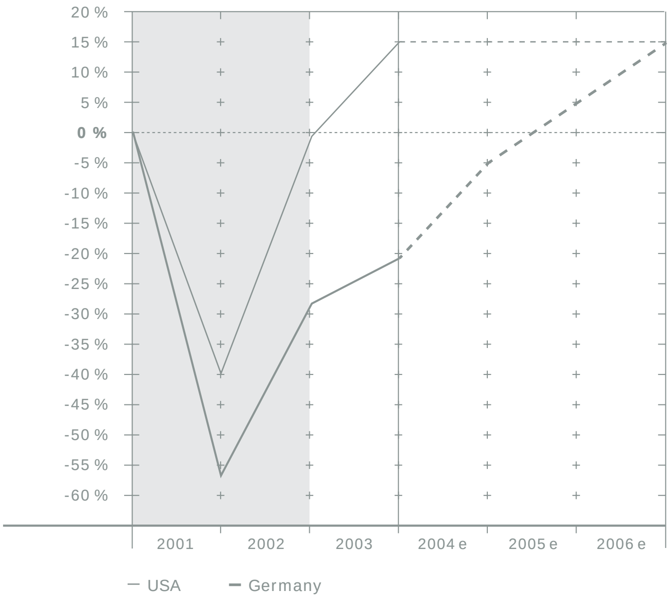
After the Internet bubble burst in 2000 companies slashed investment in Internet-related projects. This had a disproportionately large impact on major interactive service providers like Sinner-Schrader, which also rely on large project budgets. As a result, sales volume among the top ten service providers dropped by over 60 % from 2000 to 2003. Whereas the market in the United States picked up again in 2003, the sales volume of German interactive specialists fell by another 20 % during the same period (Fig. 1).

However, there are strong indications that the market for interactive services will once again have attractive growth potential in Germany in the years to come. Awareness is growing that budget cuts in interactive channels were excessive in many cases. Investments in expanding new channels will pay off for many companies today. There are many reasons for this development:

» The importance of the medium continues to grow. Already, 38 million Germans use the Internet – particularly to find out more about products and services or to purchase them (Fig. 2). Although purely quantitative growth is slowly weakening, the quality of online use is currently undergoing rapid change. The upsurge of broadband connections, flat rates and WLANs in households is fast changing the way media are used – in favour of the Internet. People are online more frequently and for longer periods, and are using the net more intensively.

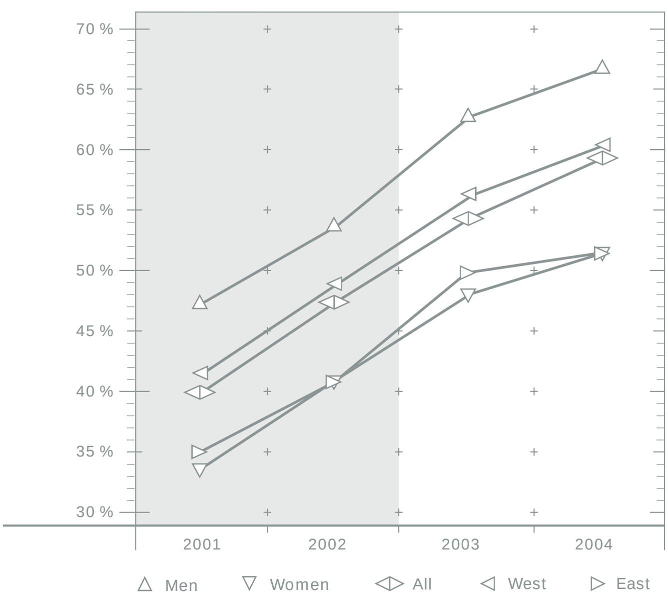
» With a reach of more than 80 % in young target groups, the Internet is increasingly outstripping television and print media in terms of media relevance. But for many brands – and not just in the young target groups – the Internet is now the efficiency leader in the communications mix in terms of winning and retaining customers.

Fig. 1: Market Collapse and Recovery in Germany vs USA



Growth in sales volume of top 20 interactive service providers in the USA (Source: AdAge 2004) and in Germany (New Media Service Ranking 2004)

Fig. 2: Internet Coverage Growth Unabated



Data in percent of population
Source: Forschungsgruppe Wahlen 06/2004

» The meltdown of Internet budgets in many companies over the past few years overlapped with comprehensive cost-cutting programmes. By now, all the potential has been exhausted. The bottom line can only be improved through increases in revenue. For many companies today, the Internet is the sales channel with the highest growth, proportionately speaking. Additional investments in this channel are the most efficient way to make better use of existing customer relationships and to tap into new customer segments.

» The websites of US providers that have undergone consistent, ongoing development – like the “AEG trio” Amazon, Ebay and Google – have accustomed Internet users to extremely user-friendly and highly functional web applications. Against this back-drop – because of the low investment levels of past years – many websites in Germany are no longer competitive and need considerable investment to catch up.

Over the past years SinnerSchrader was able to steadily strengthen its market position. We boosted our position in the New Media Service Ranking from 16th place in the year of our IPO to 4th place in the reporting year (Fig. 3). SinnerSchrader now has a good starting position to benefit heavily from the renewed growth of Internet budgets.

Fig. 3: SinnerSchrader Continues to Improve Its Market Position

1999		2003	
1	GFT Technologies	1	T-Systems Multimedia Solutions
2	USWeb/CKS	2	GFT Technologies AG
3	Pixelpark AG	3	Tomorrow Focus Technologies
4	I-D Media AG	4	SinnerSchrader AG
5	Concept! AG	5	syzygy Deutschland GmbH
6	Kabel New Media AG	6	M. I. T. newmedia
7	WWL Internet AG	7	Pixelpark AG
8	Die Argonauten	8	Atkon
9	infoMedia Gruppe	9	Elephant Seven AG
10	M. I. T.	10	I-D Media AG
11	Iqena GmbH	11	dmc digital media center GmbH
12	BBDO Interactive GmbH	12	Skytec AG
13	artemedia ag	13	]init[AG
14	berens/partner	14	Antwerpes Gruppe
15	United Media GmbH	15	Plan.Net Gruppe
16	SinnerSchrader AG	16	imc AG
17	mindfact interaktive medien ag	17	Planetactive GmbH
18	BlueOrbit AG	18	Blue Pier GmbH
19	PopNet Internet AG	19	hanke multimediahaus AG
20	Antwerpes & Partner AG	20	Bassier, Bergmann & Kindler

Source: New Media Service Ranking 1999 and 2003

2

Business Year 2003|2004

Matthias Schrader
(CEO)

Matthias Schrader studied Computer Science and History and worked as an editor for several trade journals during his studies. Together with Oliver Sinner he founded sinner+schrader interactive marketing GbR in 1996, which was later brought into Sinner-Schrader GmbH. In 1999, SinnerSchrader AG was founded, which was jointly headed by Matthias Schrader and Oliver Sinner as Chief Executive Officers (CEO) and which went public in November 1999.

Since 1 September 2002 Matthias Schrader has been the sole CEO and responsible for Sales, Marketing and Strategy. He is also Executive Director of SinnerSchrader Deutschland GmbH.

Thomas Dyckhoff
(CFO)

Thomas Dyckhoff studied Computer Science in Karlsruhe and earned an MBA degree in Washington DC, USA. From 1991-1998 he worked for Daimler-Benz AG in Stuttgart in the Group Treasury, Risk Management, Group Controlling departments and was Head of Group Reporting before he moved to debis Systemhaus GmbH as Head of Acquisitions.

As Chief Financial Officer Thomas Dyckhoff is responsible for the Finance, Controlling, Investor Relations and Human Resources segments. He is also Executive Director of SinnerSchrader Deutschland GmbH.

Letter to Shareholders

Dear Shareholder,

The end of the 2003/2004 business year marks SinnerSchrader's fifth year as a listed company. Following huge ups and, in the last few years, downs, all indications are positive at the end of this fifth year.

Drawing on the 1998/1999 business year as a comparison, the last business year before the company went public in November 1999, we have achieved sales growth of 146 %, from € 5 million to € 12.3 million, in the 2003/2004 business year. Deloitte's index of Germany's fastest growing high-tech companies puts SinnerSchrader in 36th place. There is no other interactive service provider in the "Fast 50" companies ahead of us. And, on the basis of 2003 sales figures, the New Media Service ranking lists SinnerSchrader as Germany's fourth biggest service provider.

We have seen the development of numerous customer relationships with reputable German companies, whose Internet success we feel bound to guarantee and for whom we have designed and set up the applications still operated by us and which are used by millions of people in Germany on a daily basis. Deutsche Bank, Tchibo, Hapag-Lloyd Express, comdirect, Deutsche Telekom, Talkline and Europcar head the list of our broad base of customers, some of whom we have been working with for many years.

But we also realise that we aimed to do more and that, in our efforts to reach the goals with the speed of the Internet age, we undertook additional expenditure in some areas and made investments in others that have not paid off under the difficult market conditions; this had already become evident by the 2000/2001 business year. Following a highly profitable first business year as a listed company in 1999/2000, with an operating margin of 23 %, SinnerSchrader slipped into the red in the 2000/2001 business year as the dotcom crisis struck.

Thanks to an altogether more cautious approach to the resources entrusted to us, the sometimes crisis-like conditions in the market for interactive services in the last few years did not result in financial crisis for SinnerSchrader. Throughout, this has given us the room to manoeuvre, not only through cost-reduction and reorganisation measures, but also through targeted investment in human resources and customer relations, in order to effect and maintain a return to profitability and to become a leading independent German interactive service provider.

Revenues since 1998/1999 in € m

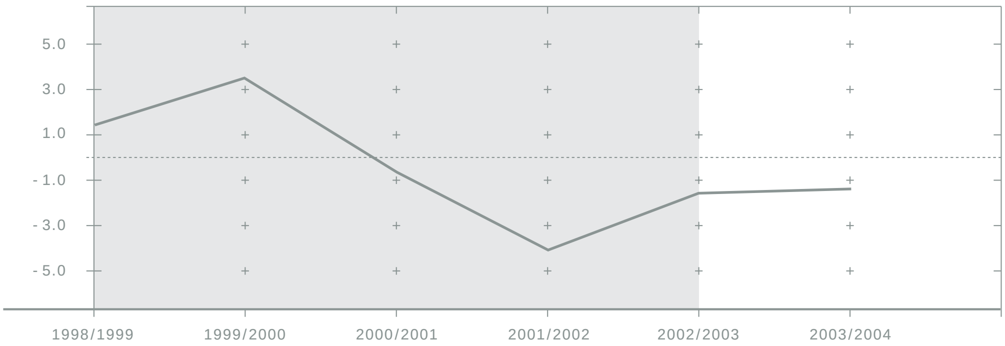
We are convinced that we progressed decisively toward that goal in the 2003/2004 business year. We have achieved the operative targets we set ourselves for 2003/2004:

» The negative sales trend was halted in the second half-year and kept at the previous year's levels for the year as a whole.
» Further capacity reductions and cost-cutting exercises helped achieve the break-even point in the fourth quarter of 2003/2004 and with it a slim positive operating result (EBITA). Despite the charges taken due to the cost-cutting measures, EBITA again improved over the previous year albeit still at a huge loss.
» The key operative indicators of utilisation and effective daily rate continued to improve.
» Cash flow was well into the black, once again raising liquid reserves.

Equally important to the achievement of these goals is the realignment of our operative business, which has given SinnerSchrader all it needs to be one of the most dynamic competitors in the changing market for interactive service providers:

» Separating the technology-oriented from the marketing-oriented service components and offerings, has given them a clearer profile on the market. At the same time, the new units have created a broader front in the market for interactive services, albeit focused on each service offering.
» The newly created units will each cover a more clearly delineated service spectrum and so can better optimise their processes and leverage the potential to raise productivity and quality.
» Hiving off the new operative units into independent companies has strengthened the frontline management and has encouraged entrepreneurship by directly linking management remuneration to the success of their units.
» The modular structure of the operative business facilitates the establishment of new business areas under the aegis of SinnerSchrader AG, thus creating the openings to achieve new growth.

EBITA since 1998/1999 in € m



The adoption of the new operative business structure on 1 April 2004, had already become noticeable through a clear upturn in business from new customers in the second half of the 2003/2004 business year. Despite the initially slow market recovery, we generated € 0.5 million in extra business from new customers in 2003/2004 in comparison to the preceding year.

In April 2004, following the successful conclusion of the reorganisation and the transfer of operative business to the new, independent units, Detlef Wichmann, who had until then been a member of the SinnerSchrader AG Management Board and Chief Operating Officer (COO), left the company. Mr Wichmann had worked for the company since 1997 and became a member of the Management Board in 1999. The establishment of SinnerSchrader's technological competencies is entirely due to him.

The new structure has come about against the backdrop of a growth strategy that above all stresses the organic growth of its existing business units and their supplementation by new ones. To achieve this perspective, we believe that SinnerSchrader requires neither liquid funds nor shareholder capital in the amounts of previous years.

The Management and Supervisory Boards therefore proposed a special dividend to all shareholders, a measure which was approved overwhelmingly at the shareholders' meeting in January 2004. Following expiry of the trade protection period at the beginning of November 2004, approx. € 20.8 million – or € 1.82 for each outstanding share – was paid to shareholders from the liquid reserve. The announcement of, and resolution to disburse, the special dividend had a positive effect on the share price in the previous business year and has strengthened interest in the SinnerSchrader share among investors. As a result, the value of our operative business has again become visible on the stock market.

Liquid funds and marketable securities since 1998/1999 in € m

Five years after our IPO, we look to the future with cautious optimism. Our recent achievements have created an excellent foundation for a return to growth.

We therefore forecast sales growth of 5 – 10 % over the previous year for the 2004/2005 business year and a balanced operating result for the year as a whole.

Hamburg, November 2004

The Management Board

The 514190 Share

Price Performance on the Stock Market

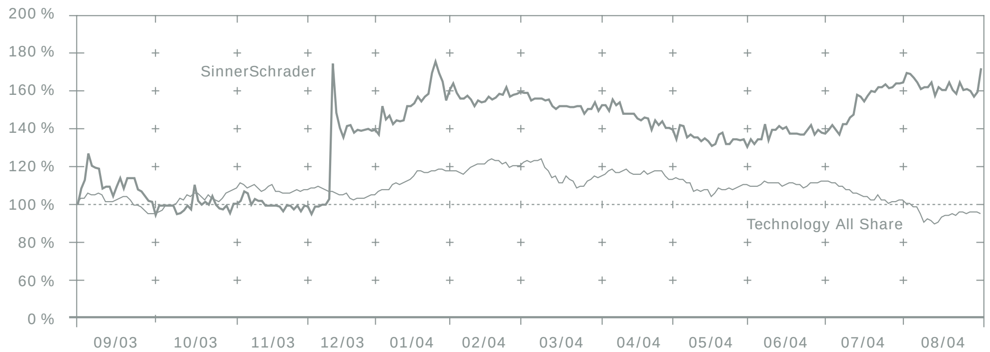
The share performance in the German stock market was on the whole positive during SinnerSchrader's 2003/2004 fiscal year (from September 2003 to August 2004) with an overall performance of almost 10 %. The industry-wide stock market barometers, the DAX and Prime All Share, increased from the closing rate on 29 August 2003 to the closing rate on 31 August 2004 by 8.6 % and 9.5 % respectively. The expectation of a general revitalisation of the economic situation for the year 2004 led to a continuous increase of prices up to February 2004 following the lowest rates in October 2003. Since then, the overall market has essentially progressed sideways with some volatility, due to the feared negative effect on the economy of the high oil prices and the low value of the dollar, among other things.

In contrast to the overall market, the technology segment, to which SinnerSchrader is assigned, has continually become weaker since February 2004 and finished the reporting period with a negative performance. The TecDax and Technology All Share indices on 31 August 2004 were 9.3 % and 6.3 % respectively below the position on 29 August 2003. A closer look shows that this downturn during the second half of SinnerSchrader's fiscal year was mainly attributable to companies in the semiconductor sector, the computer hardware sector, and the like. The Prime Software industry index, to which SinnerSchrader belongs, developed sideways since February, similar to the broader market, and as a result attained a performance of 6.5 % in the whole year under review. Consequently, the stock market situation for the performance of the SinnerSchrader share in 2003/2004 was generally restrained but beningn.

Performance of the SinnerSchrader Share

With a price increase of more than 70 % from € 2.01 in Frankfurt floor trading on 29 August, 2003 to € 3.45 on 31 August 2004, the SinnerSchrader share considerably outperformed the market in the reporting period. The essential driver of this development was the readiness of the Management Board and the Supervisory Board to pay out a large portion of the liquidity held by the Company to the shareholders by lowering the equity capital. With the announcement on 9 December 2003 that the Management Board and Supervisory Board would present the respective resolutions for such a special distribution of funds for approval to the Annual General Meeting, the price of the SinnerSchrader share jumped from a level of around € 2 to a level of around € 3.

SinnerSchrader share price performance 2003 / 2004 (index-linked)



SinnerSchrader share[1]:	
Previous business year closing price:	2.01 €
High share price:	3.66 €
Low share price:	1.91 €
Closing price:	3.45 €
Performance:	71.6 %

[1] Frankfurt Stock Exchange.

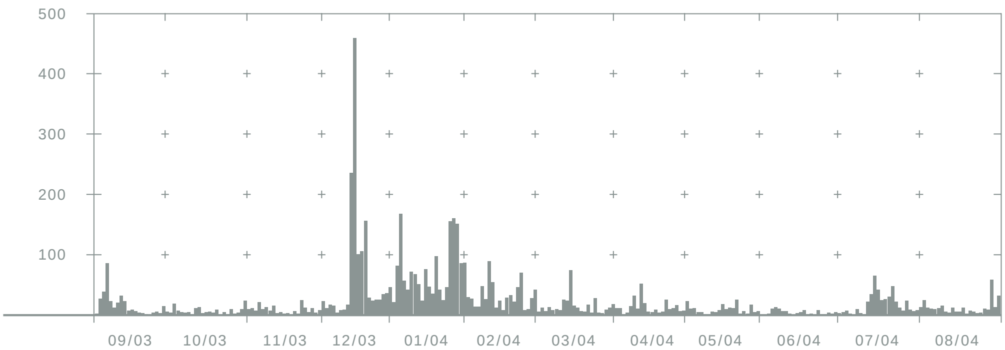
Then, in July 2004, SinnerSchrader was able to use the announcement of the trading figures for the third quarter of 2003/2004 to show that the negative turnover trend had been stopped during the first 6 months of 2004, that the reorganisation and restructuring measures had led to considerably improved operating results, and that the liquidity development in the course of the fiscal year was holding steady in the positive. The stock market received these figures very positively. After announcing the figures, the price of the SinnerSchrader share went up to a level of € 3.30 and reached a year end price of € 3.45 on 31 August 2004.

The special distribution of funds, the improvement to the operating performance, and the renewed growing interest of the stock market in the subject matter of the Internet – supported above all by companies like Amazon, Ebay, and Google – together with the improved price performance also led to a significant increase in the average trading volume. Measured in units, the average daily trading volume of all German stock markets in which SinnerSchrader shares are traded more than doubled from 10,551 shares to 22,547 shares. Due to the increases in prices that occurred in parallel, this meant almost a quadrupling of the average daily trading volume measured in transaction equivalent values from just under € 18,000 to € 66,000.

Special Distribution of Funds

The price jump at the announcement of the special distribution of funds in December 2003 clearly shows the degree of scepticism with which the capital market rates high cash reserves in companies of the former new market since the stock market bubble burst. The amount of cash and cash equivalents on hand for each share in circulation has never been below € 2.20 since SinnerSchrader's IPO. Nevertheless, except for only a few short phases, the share had been traded below this value from the summer of 2002 up to 9 December 2003. It is quite apparent that the capital market linked holding high liquidity reserves to the expectation of continued negative cash flow due to operating losses, or to risky growth aspirations aimed at acquisitions.

Sales Volume 2003 / 2004 in 000s[1]



Average sales volume per day[1]:
22,547 shares / € 66.098

Market capitalisation[2]:
€ 37,7 million

Free-float market capitalisation[3]:
€ 15,7 million

[1] Xetra, Frankfurt, Hamburg, Stuttgart, Munich, Düsseldorf, Hannover, Berlin-Bremen. [2] Outstanding shares × closing price Frankfurt stock exchange 31.08.2004.
[3] Free Float × closing price Xetra 31.08.2004, according to Deutsche Börse AG.

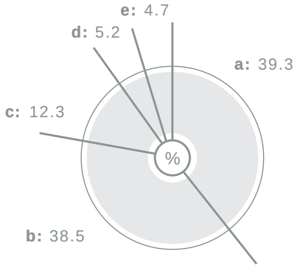
This structural underrating was one of the most important reasons for the Management Board and the Supervisory Board to recommend to the Annual General Meeting a special distribution of funds in the amount of € 20.8 million or just under 85 % of the liquid assets held on 31 August 2003. Through this decision, the Management Board and Supervisory Board have made it clear that they are essentially planning an organic growth strategy and liquid assets are only required to a limited extent in view of the positive cash flow that was already expected for 2003/2004. As described, the market received the announcement in an extremely positive way.

Holdings of Our Own Shares

The fact that the Management Board regarded a price-per-share valuation below the cash reserves as being underrated was made very clear, above all when it used the revenue reserves that it formed in the boom years to repurchase its own shares on the market. It started doing so in the summer of 2002 and continued up to the autumn of 2003 following approval by the Annual General Meeting. The shares were acquired for the purpose of using them for the employee stock option programmes and for acquisitions that can be managed with this volume. When the repurchasing concluded at the beginning of October 2003, SinnerSchrader had established holdings of 611,827 shares for an average price of € 1.53.

Key figures SinnerSchrader and shareholder structure 31.08.2004 in %

Germ. securities code No.:	514190
ISIN:	DE0005141907
Symbol:	SZZ
Segment:	Prime Standard/ Geregelter Markt
Indices:	Prime All Share, Prime Software, Technology All Share, CDAX
Designated sponsors:	Berenberg Bank
Shares issued:	11,542,764
Outstanding shares:	10,937,164



a: Free float
b: Oliver Sinner, Matthias Schrader and families
c: Strategic investor
d: Treasury stock
e: Employees of SinnerSchrader from pre-IPO shareholding

Due to the encouraging price development of the SinnerSchrader share as of December 2003, the employee options that were issued in October 2001 at an exercise price of € 2.76 were in the money for the first time during two exercising windows in January/February 2004 and in July/August 2004. A volume of 6,227 shares was purchased by employees under this option. On 31 August 2004 the Company's holdings of its own shares amounted to 605,800 which stood unchanged in the books at the average purchase price of € 1.53.

Investor Relations

The investor relation's work in fiscal year 2003/2004 was marked by the special distribution of funds. The increased interest in the share and the demand for information caused by the special distribution of funds led to numerous contacts between the company and shareholders. However, even more important to future price performance was the fact that during the course of the second half of the fiscal year, professional interest in shares in the Internet environment in general and in SinnerSchrader in particular increased noticeably - especially after the successful reorganisation and return to profitability. The development of the trading volume and the reaction of the market to the third quarter figures showed that the SinnerSchrader share is still drawing positive attention.

Transparency and openness in communication, which is required in SinnerSchrader´s mainly implemented corporate governance code, remained unchanged as the guideline for taking care of the shareholders. The investors area of the SinnerSchrader website at www.sinnerschrader.de moved more and more into their midst.

Shareholder Structure

According to our sources, the shareholder structure has changed little over the reporting period. On 31 August 2004, SinnerSchrader AG held 605,600 of its own shares, which corresponds to approximately 5.3 % of the share capital. The founder's families and pre-IPO investors held a total of 55,5 % of the shares on 31 August 2004. No obligatory stock exchange notices in accordance with Article 21 of the German Securities Trading Act (WpHG) were made during the course of fiscal year 2003/2004.

Corporate Governance

In 2002, a specially appointed government commission passed the German Corporate Governance Code, a set of recommendations for responsible corporate management and monitoring aimed at creating value, particularly for quoted firms. When the Transparency and Disclosure Act entered into force on 26 July 2002, the German Stock Corporation Act (AktG) was amended to include Article 161, which requires executive boards and supervisory boards to issue an annual declaration of conformity with the latest version of the German Corporate Governance Code, currently the version amended on 21 May 2003.

SinnerSchrader AG and its executive bodies have always considered themselves bound by clear, transparent and understandable corporate management principles and as such we welcome this embracing of corporate governance in Germany. On 17 December 2002 and 11 November 2003 the Management Board and Supervisory Board submitted the requisite declarations of conformity. The declaration of conformity for 2004 will be submitted in December 2004. The declarations are permanently accessible to all shareholders and interested parties via the SinnerSchrader AG website at www.sinnerschrader.de /Investoren /Mitteilungen & Berichte /Corporate Governance

In the declaration of conformity submitted in November 2003, the Management and Supervisory Boards declared that SinnerSchrader AG complied with the recommendations of the Corporate Governance Code as amended on 21 May 2003 with very few exceptions:

Management Board:

» Due to CEO Matthias Schrader's high stake in the company, neither a variable compensation component nor a stock option plan was included in his compensation package. (Code 4.2.3)

» The stock options allocated to Board members thus far were allocated in accordance with the stock option programmes established at the general shareholders' meetings in 1999 and 2000. These permit the exercise of the options if there is a 20 % increase in the average price of the SinnerSchrader share determined over the ten trading days prior to the date of allocation; vesting periods of two, three and four years and a term of six years. The option provisions do not have a cap for extraordinary, unforeseen developments. (Code 4.2.3)

Supervisory Board:

» As the Supervisory Board consists of only three members, it did not form any separate committees. (Code 5.3.1 f.)

» In view of the low remuneration package of € 18,000 p.a. in accordance with the Articles of Association, Supervisory Board members receive no variable remuneration components and there is no set deductible level for D&O insurance. (Code 5.4.5 and 3.8, respectively)

Beyond the above-mentioned exceptions, SinnerSchrader was in compliance with the recommenda-tions of the German Corporate Governance Code in the 2003/2004 business year.

3

Joint Status Report

1. General

The SinnerSchrader Group (“SinnerSchrader” or “Group”) is mainly made up of SinnerSchrader Aktiengesellschaft (“SinnerSchrader AG” or “AG”), and its wholly owned subsidiary SinnerSchrader Deutschland GmbH (“SinnerSchrader DTL”) as well as its wholly owned subsidiaries SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH located in Hamburg and Frankfurt am Main, respectively.

SinnerSchrader Neue Informatik GmbH (SinnerSchrader New IT), SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH were established by SinnerSchrader DTL in April 2004 with commercial effect as of 1 April 2004 as new spin-off companies. The domestic operations of the SinnerSchrader Group, which had been handled solely by SinnerSchrader DTL thus far, were divided up among all four spin-off companies.

Furthermore, SinnerSchrader UK Limited, London, and SinnerSchrader Benelux BV, Rotterdam belong to the Group as subsidiaries of SinnerSchrader AG. Neither company was operational during the reporting year; however, they both continue to be included in the consolidated accounts.

Through its operative units, the SinnerSchrader Group provides an extensive range of services for the development, design, implementation and operation of interactive, primarily Internet-based communications and transaction systems. SinnerSchrader AG performs the functions of a management holding company. The consulting and services business is handled by the subsidiaries. Therefore, the situation of SinnerSchrader AG is presented together with the report for the Group. Unless the AG is referred to expressly, the following information refers to the Group.

The Consolidated Financial Statements are drawn up on the basis of the Generally Accepted US Accounting Principles (“US-GAAP”) with a discharging effect in accordance with Article 292 a of the German Commercial Code (HGB). The individual accounts of the AG are prepared in accordance with German accounting principles. Fiscal year 2003/2004 for the Group and the AG, which is the basis for this Management Report, extended from 1 September 2003 to 31 August 2004.

The following charts are not part of the audited condensed management report.

2. Market and Competitive Environment

After the German economy more or less stagnated in the three years from 2001 to 2003, as measured by gross domestic product with real change rates of 0.8 %, 0.2 %, and - 0.1 % respectively, the overall economic development in the year 2004 picked up pace again. Growth of around 1.8 % is presently being expected for the current year. It is true that this is considerably far removed from the 2.9 % growth that was achieved in the year 2000 – especially if you take into consideration that growth in 2004 is driven by a high number of working days on an yearly basis – however, the downwards trend of the past few years appears to have stopped.

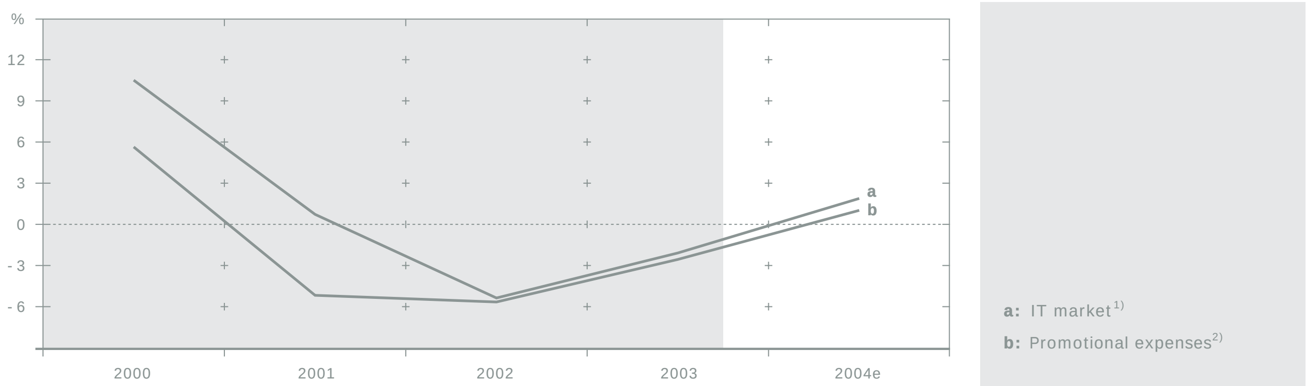
A look at the overall development of the markets in which SinnerSchrader operates with its business portfolio emphasises the impression that the market conditions have improved in 2004.

» In its forecast for the year 2004, published in October 2004, the German Association for Information Technology, Telecommunications, and New Media (BITKOM) assumes growth of 1.9 % for the IT market in Germany. After the boom year of 2000, with a growth rate of 10.5 %, the market volume on the whole fell off considerably in the years 2001 to 2003.

» The development of investments in advertising in Germany is very similar. For the first time after three extremely difficult declining years – 2001 to 2003 – the Central Association of the German Advertising Industry (ZAW) is now once again forecasting growth of approximately 1 % for the current year of 2004.

The proliferation of the medium is particularly important for the business development and the business outlook of SinnerSchrader as a service provider that has oriented its range of services in the submarkets around Internet-centric themes, or alternatively the Internet technology platform as well as the development of utilisation intensity and utilisation diversity. Unswayed by the general economic difficulties, the proportion of the German population that uses the Internet increased from around 40 % to just short of 60 %. Turnover from transactions with merchandise, services, and information over the Internet increased in Germany in the same time period from € 5 billion to a projected € 13 billion in 2004, according to surveys by the Association of the German Retail Industry (HDE) in the 2004 figures and data. And the breakthroughs of multinationals Amazon, Ebay and Google stand firm as prototypes for the fact that there is money to be made in and with

Development of IT market and promotional expenses in Germany in %



Quellen: [1] BITKOM, key data on the IT market develpment, autumn 2004 (IT market = hardware, office technology, data communications hardware, software, IT services).
[2] ZAW year books.

the Internet. These developments are reflected in the findings of the e-business yearbook published under the auspices of the German Industry Association (BDI) and BITKOM:

» More than 60 % of the companies interviewed attach high importance to e-business for the year 2004; and for the year 2007, the proportion is 90 %.

» The proportion of the companies interviewed that are expecting to make increased e-business investments is more than one third in 2004, and considerably more for 2005. Last year, the share of increasing investment budgets was still less than 25 %.

Overall, the signals from the environment analysis by SinnerSchrader in 2004 are once again clearly positive for the first time in three years. However, both in the IT market as well as the advertising market, the market volume in 2004 will be well below the volume of the years 2000 and 2001 in spite of the return of positive growth rates. Long decision cycles, small orders, a price level that has stabilised at a low level and high value awareness on the part of the customers were and remain signs of a demanding market.

A development in the past few years that has been especially important to the strategy and structure of SinnerSchrader is the build-up of Internet expertise on the part of the customers and its proliferation in all functional areas of the companies. With the growing amount of in-house know-how among the prospective customers, Internet expertise is no longer the only crucial decision criterion when choosing a service provider partner. Rather, focused consulting and flawless implementation of the functional purpose is being sought. Accordingly, the ability to identify this function-specific expertise in the service provider has gained importance at the expense of full-service capabilities.

3. Development and Position of the Group

Due to SinnerSchrader's staggered fiscal year (1 September – 31 August), it was only possible for the positive dynamic of 2004 to affect the last two quarters of the year under review, from March to August 2004. As expected, the first two quarters, from September 2003 to February 2004, were still in the time of a declining market and of SinnerSchrader's efforts to improve the conditions for a sustainable return to profitability by further cost reductions and above all by reorganising the day-to-day business.

Consequently, there were still considerable operating losses in the first two quarters. In the third quarter, the break-even point was only missed by a narrow margin and in the fourth quarter it was exceeded. Altogether, SinnerSchrader achieved gross revenues of € 12.3 million in fiscal year 2003/2004, which approximately corresponded to the previous year's level. The EBITA – the benchmark value for day-to-day business – amounted to just short of € -1.4 million, an improvement of approximately € 0.2 million compared to the previous year. With it, SinnerSchrader achieved its objectives for fiscal year 2003/2004 - an improvement in the operating profit with turnover that continued to be slightly declining.

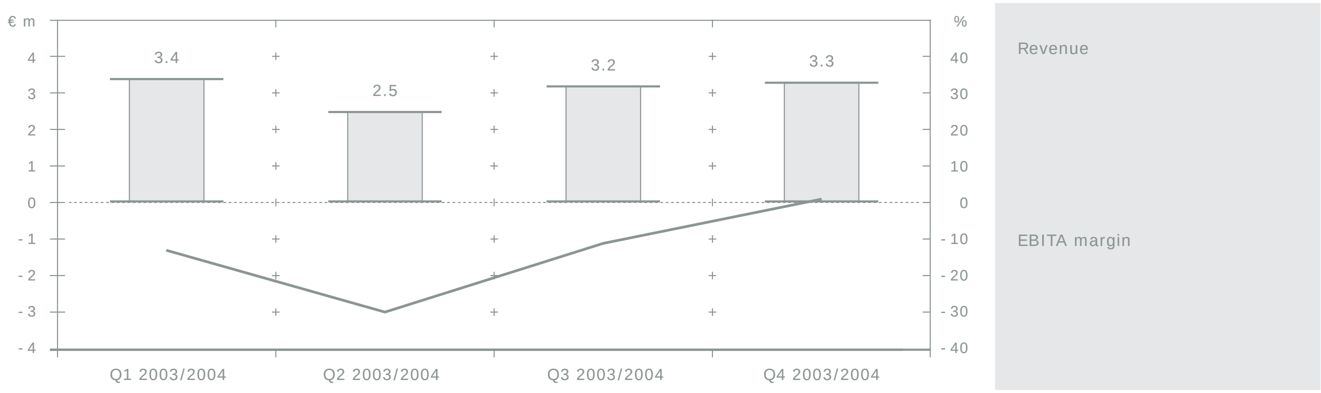
In like manner, the operating cash flow moved clearly into the positive, supported by tax refunds. With further restrictive spending and investment habits, the liquidity reserves increased (the amount of cash and cash equivalents and marketable securities) from € 24.6 million at the end of the previous year to € 27.0 million by 31 August 2004.

Against the background of this planned development, the Management Board and Supervisory Board recommended to the General Shareholders' Meeting on 28 January 2004 a repayment of shareholders' equity amounting to € 20.8 million. After adoption of this resolution, all provisions were made for a payout of this amount to the shareholders in November 2004. Under the assumption that the respective outflow of cash and cash equivalents would be completed by 31 August 2004, the remaining liquidity reserves would have amounted to € 6.2 million and the equity ratio would have been just short of 77 %.

3.1 Reorganisation

Guided by the conviction that cost-lowering measures alone would not bring SinnerSchrader permanently back onto the path of success and in view of the change in the market for interactive services, SinnerSchrader reorganised the day-to-day business in fiscal year 2003/2004. Based on

Development of revenues and EBITA margin 2003/2004 per quarter in € m and in %



the realisation that “full service”, the central theme of the organisation’s structure, would no longer meet the differentiated customers’ demands, the new structure was oriented around the various performance characteristics of different types of projects. Fundamental here was the separation of the primarily technical services for the development of interactive software and systems from the interactive marketing services in which brand management and market communication were in the foreground. Both service bundles had been integrated as project services, developed by the industry-oriented solution centres and then marketed to the various contact partners on the customer side.

The supplementary interactive services in the online media business, in systems operations and administration, as well as in the analysis of user behaviour in Internet applications, which had already been provided by separate units in the old structure but had been marketed by the Solution Centres, received is own market mission and the corresponding responsibility through the reorganisation.

Furthermore, to reinforce the corporate responsibility of the operating management levels, new organisational units for interactive software and systems development, on the one hand, and for interactive brand management and market communications on the other, were spun off into newly founded, independent companies and the management now holds a direct interest in the respective units. SinnerSchrader Neue Informatik GmbH (SinnerSchrader New IT) has taken over the interactive software business; SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH run the interactive marketing business. The interactive services that appear in the market under SinnerSchrader Media, SinnerSchrader Betrieb (SinnerSchrader Operations) and SinnerSchrader Analyse (SinnerSchrader Analysis) continue to be grouped in SinnerSchrader Deutschland GmbH.

With the reorganisation of day-to-day business, SinnerSchrader is aiming to

» clearly address the market and focus on developing the market,
» have greater efficiency in providing services,
» have more entrepreneurship in managing day-to-day operations and
» have greater flexibility in expanding the range of services.

After intensive preparations in the first half of fiscal year 2003/2004, the new organisation was launched with commercial effect as of 1 April 2004. As of this date, the respective assets and liabilities passed over to the new companies and the operating responsibility for the respective areas passed over to selected managers. After successfully completing the reorganisation and transferring responsibility to the new, independent units, Detlef Wichmann – up until then a member of the Management Board of SinnerSchrader AG and responsible for the operating business (COO) – left SinnerSchrader.

Through the reorganisation, SinnerSchrader incurred one-off costs of just short of € 0.2 million for consulting, notary fees and court costs, primarily in the first half of the fiscal year.

3.2 Revenues

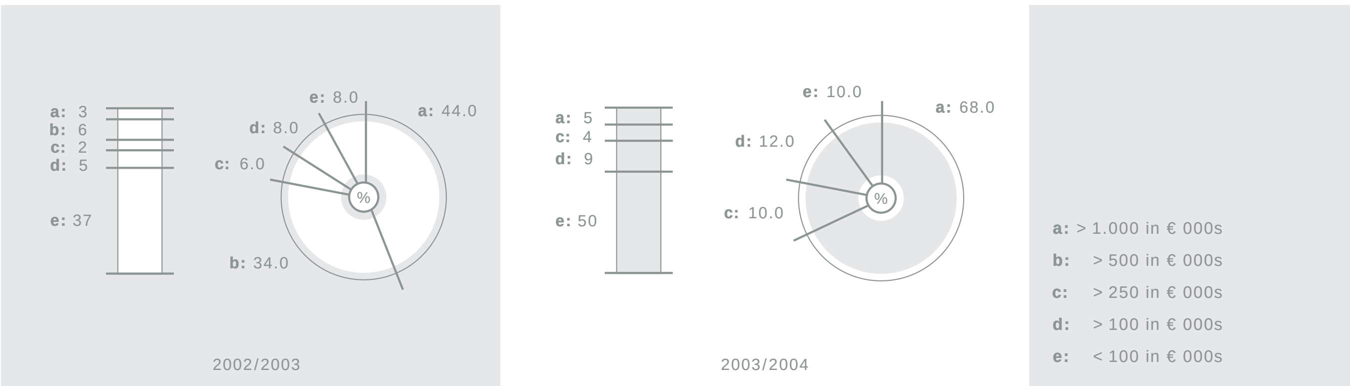
In fiscal year 2003/2004, SinnerSchrader stopped the negative turnover trend of the past few fiscal years and at € 12.3 million, only missed reaching the previous year's turnover of € 12.4 million by approximately 0.3 %. Here, repeated declines in the project services business were almost completely compensated for by encouraging growth, both in the media business as well as in the operations and data analysis services that are grouped under "others".

Turnover in the project services business diminished compared to the previous year by an additional 9 %, or € 0.9 million, to approximately € 9.2 million. Above all, the first two fiscal quarters were completely dominated by efforts to save costs, reserved investments among long-standing customers, continued price pressure, and sluggish new customer business. Furthermore, the time spent on the reorganisation in the first half-year tied up capacity and caused uncertainty in the operating teams, which had a temporary negative effect on market development and project performance. After successfully starting the new organisational structure and with the positive effects of the beginning of the market's revitalisation, the second half of fiscal year 2003/2004 progressed considerably better than the first half, and turnover was greater than in the previous year.

After considerable drops in the previous years, the media business was able to grow turnover in 2003/2004 by 44 % to approximately € 2 million. The fact that SinnerSchrader's media business developed considerably better than the market in general is attributable in particular to the expertise in the area called cost-per-order transactions. This mainly paid off in the encouraging development of turnover with the customer Tchibo. SinnerSchrader online media campaigns supported Tchibo's successful online shop on a cost-per-order basis. With an increase of 37 % to € 1.1 million, SinnerSchrader was able to further expand business with operations and analysis services in 2003/2004. As in the previous years, the business units were characterised by stable business with long-standing customers and continuous expansion of the customer base. The well-defined range of services in the ongoing Internet application business, SinnerSchrader's typical services orientation with its high level of quality, as well as simple and transparent price structures contributed to the success, even under difficult market conditions.

Consolidated across all divisions, new customer business with a volume of € 2.0 million in contrast to the previous year with € 1.5 million was clearly revitalised, above all in the second half of the fiscal year. This is the result of the intensified sales work in fiscal year 2002/2003, the first fruits

Customer structure by budget in No. and %

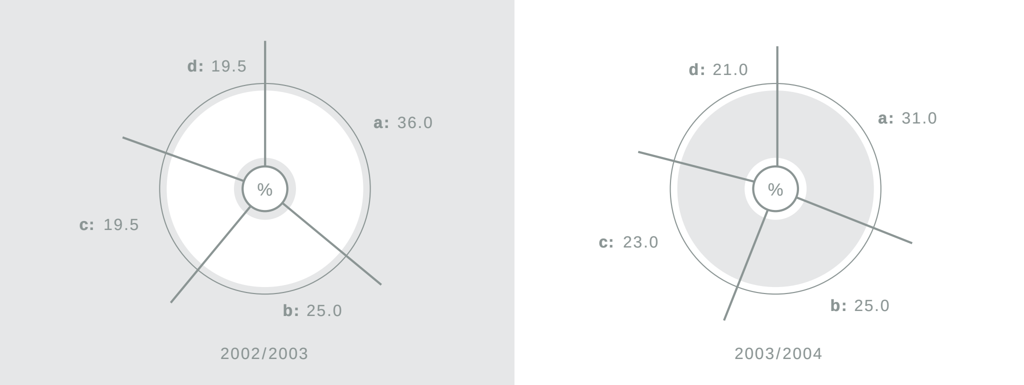


of diversified market development, as well as the slowly developing general business revitalisation in 2004. That way, we were able to compensate for the decline in existing customer relationships. Besides the generally reticent spending that prevailed in 2003, this was attributable to insourcing efforts by several customers and in one significant case to the poaching of important members in a customer team by a competitor.

Measured by the percentage of turnover that came from the ten largest customers, there has only been insignificant change to the customer structure. This amounted to 81 % in the previous year and 79 % in the year under review. However, a detailed look at the customer structure reveals major changes. Compared to the previous year, the peak of the customer structure has widened considerably with 5 customer relationships with an annual volume of more than € 1 million and a share of overall turnover of 68 % at the expense of the upper midfield with annual budgets between € 0.5 million and € 1.0 million. The customer base also expanded among smaller turnover volumes of less than € 0.25 million. In fiscal year 2003/2004, there were 59 customer relationships in this group with a total volume of € 2.8 million, while in the previous year there were only 42 customer relationships with a volume of € 2.0 million. On the one hand, this reflects the generally reduced budgets and awarding of smaller contracts. On the other hand, this shows the encouraging increase of new business with initial customer orders. It was possible to acquire them during the course of the third and fourth fiscal quarters, but on the whole, there is greater potential for the year.

Breaking down the turnover according to customer sectors, which had been the essential basis for the organisation of the operating business up to 1 April 2004, allows us to see a more balanced mix of industries compared to the previous year. The proportion of Financial Services customers dropped from 36 % in 2002/2003 to 31 %, mainly during the course of continued price-induced drops in turnover with Deutsche Bank. In return, the percentage of turnover in the Retail & Consumer Goods and Communication & Technology industry groups increased. These two sectors had had the greatest percentage drops in the previous year. In Retail & Consumer Goods, the development was driven mainly by the good business development with Tchibo, and in Communication & Technology, by gaining the Telekom subsidiary DeTeCardService. The portion of turnover from customers in the Travel & Transportation and Media & Entertainment sectors remained at the high level of 25 % that was reached last year thanks to good business with Hapag-Lloyd Express.

Development of revenues by industries in %



a: Financial Services
b: Travel & Transportation/ Media & Entertainment
c: Retail & Consumer Goods
d: Communication & Technology

A breakdown of turnover into the business segments that were reformed as part of the reorganisation – Interactive Software, Interactive Marketing, and Interactive Services – is only available as of the date when the new structure was introduced, 1 April 2004. The changes are too extensive for the breakdown to be applied before this date. Of the € 5.4 million in turnover earned in the five months leading up to the end of the year under review, € 2.4 million or 44 % was in the Interactive Software segment, € 1.7 million or 32 % was in the Interactive Marketing segment, and € 1.3 million or 24 % was in Interactive Services.

3.3 Operating Results

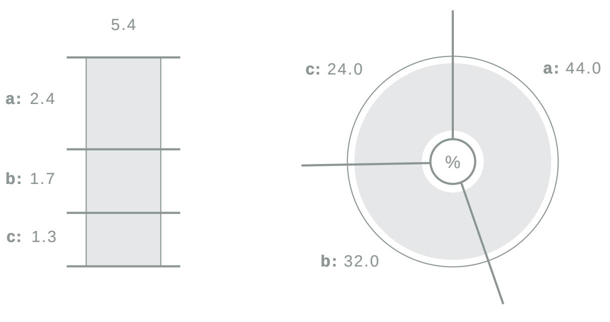
The EBITA, the earnings before interest, taxes and amortisation from acquisitions improved in fiscal year 2003/2004 compared to the previous year by a good € 0.2 million. This was mainly the result of reductions in productive personnel capacity carried out in the prior years and which continued in the year under review and the resulting decrease in the cost of sales.

It is true that gross revenue approximated the level of the previous year; however, it had a worse margin mix than in 2002/2003 due to the increased proportion of media business. This worsened margin mix caused the net revenue to drop € 0.5 million, from € 11.3 million in 2002/2003 to € 10.8 million in fiscal year 2003/2004. This is because the increased media costs resulting from the growth in the media business – the costs for purchasing advertising space – were deducted from the gross revenue for the derivation of the net revenue.

Based on the expectation of slightly declining turnover, above all in the personnel-intensive project services business, SinnerSchrader reduced the productive capacity once again in November 2004 through further personnel measures. The average capacity of fiscal year 2003/2004 amounts to 108 full-time employees compared to 130 in the prior year. As a result, and through the full effect of the measures carried out in the previous year, the cost of sales dropped by € 1.1 million. Consequently, gross earnings in 2003/2004 amounted to € 3.6 million compared to € 3.0 million last year. The relation between gross earnings and net revenue improved by 7 percentage points from just short of 27 % to just short of 34 %.

The additional improvement to operating ratios is also reflected in the net revenue per productive full-time employee which increased from € 87,000 to € 101,000. Here, the increase was

Development of revenues by segments 01.04.2004 – 31.08.2004 in € m and in %



a: Interactive Software
b: Interactive Marketing
c: Interactive Services

not as much the result of better productive utilisation during the course of the year, which remained essentially constant with three additional workdays; rather it was an improvement of the average effective hourly rate of each productive hour.

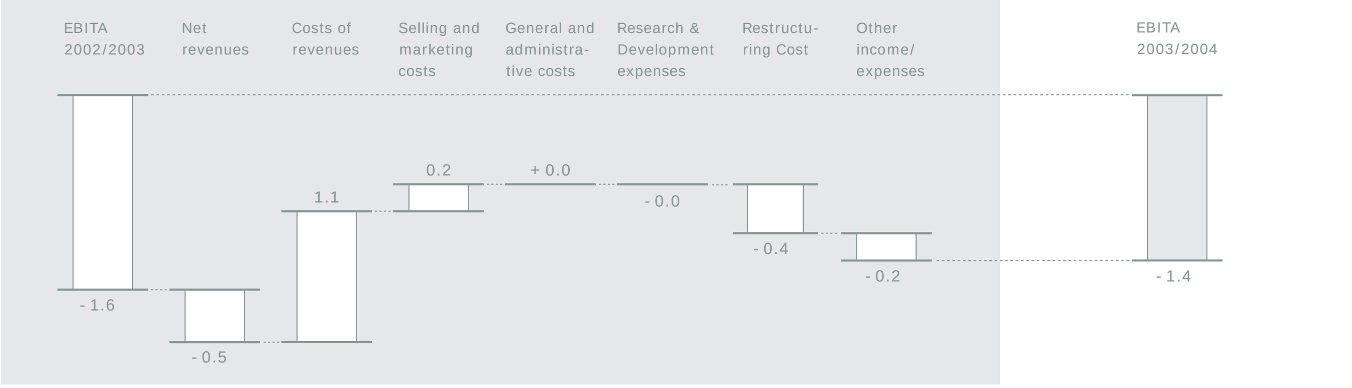
The selling and marketing expenses dropped by € 0.2 million compared to the previous year. This was mainly because along with the reorganisation, the centrally located sales team disbanded and sales responsibility for new customers and long-standing customers became the responsibility of the independent units. As a result, there was a reduction in the number of employees used for sales activities as of 1 April 2004 from four to two employees because a major portion of the associated jobs were also performed by the management levels of the new units.

In the area of administration costs, there was only a slight improvement in fiscal year 2003/2004. On the one hand, this is attributable to the one-off costs from the reorganisation. On the other hand, a certain increase in administration costs is an inevitable part of reinforcing management at the operating management level by creating new independent units. It was possible to compensate for these factors by achieving savings in all the administration cost centres of the head office, including reducing the size of the Management Board. Due to the more aggravated vacancy situation resulting from the personnel measures in 2003/2004 in the Hamburg office, which only had an effect on the administration costs, the ratio of administration costs to net revenue remained unchanged at an unfavourable level.

The cost reductions in cost of revenues, selling, marketing and administration were offset by higher costs for restructuring measures (€ - 0.4 million), the loss of the one-off earnings that occurred last year in miscellaneous earnings and expenses (€ - 0.2 million) as well as a slight increase in expenses for research and development projects (€ - 0.03 million).

When examining the cost elements, there is a decline in the personnel costs compared to the previous year of approximately € 1 million to € 7.8 million in 2003/2004, without taking into consideration the additional costs from the restructuring measures. The restructuring costs in the year under review of approximately € 0.6 million (€ 0.4 million more than last year), were almost entirely from the additional personnel measures, so that the total personnel costs amounted to € 8.3 million. Consequently, without the restructuring costs, in 2003/2004, there was a personnel cost ratio in relation to the net revenue of 72 % compared to 78 % in the previous year.

Transition of EBITA 2002 / 2003 to 2003 / 2004 in € m



Also in the area of depreciation and amortisation and other operating costs, SinnerSchrader achieved additional savings in the amounts of € 0.1 million and € 0.2 million respectively compared to the previous year. In contrast to this, the expenses for purchased goods and services were just over the level of the previous year. This development reflects SinnerSchrader's efforts to continue making the cost basis more flexible.

The full effect of the cost savings that have been carried out, together with a slight upturn in turnover development in the second half of the fiscal year, have helped SinnerSchrader break even in the fourth quarter of 2003/2004 with an EBITA of € 29,000.

3.4 Annual Result

Above and beyond operations, the net income for the year of the SinnerSchrader Group is mainly determined by the financial results from investing the liquidity reserve. In fiscal year 2003/2004, this remained unchanged compared to 2002/2003 at € 0.8 million. The successive increase of the liquidity reserve by a total of € 2.4 million during the course of the fiscal year was accompanied by a lower average interest level compared to the previous year with unchanged, conservative investment policies and short lock-in periods for interest rates.

Above and beyond this, for the last time, the amortisation of deferred income for employee shareholdings, a purchase price depreciation effect from the acquisition of Netmatic Internet/Intranet Solutions GmbH in the year 2000, reduced net income for the year. It amounted to € 22,000, or almost € 0.1 million less than in the previous year.

There was also a slight positive effect with income taxes of almost € 0.1 million compared to the previous year. By forming a tax group for all domestic companies, all deferred tax liabilities for the individual companies had to be written back in 2003/2004 due to the deferred tax assets from the taxable losses carried forward for SinnerSchrader AG, the parent of the tax group. This produced approximately € 0.1 million in deferred tax revenue for the Group. Continued deferred tax income, above all from capitalisation of the tax savings from the losses carried forward from the domestic tax group and the foreign subsidiaries, was once again not included in the balance sheets to reflect ongoing uncertainty as to the future earning power of SinnerSchrader.

Development of net result in € 000s	2003/2004	2002/2003	Changes
EBITA	-1,384	-1,621	237
Deferred compensation	-22	-85	63
Interest income and expenses	824	808	16
Provision for income tax	51	-12	63
Cumulative effect of changes in accounting principles	–	-13	13
Net loss	-531	-923	392

There was no earnings effect from the use of new accounting standards in fiscal year 2003/2004. In the previous year, expenses of € - 13,000 were reported.

As a result, the net loss for the year in fiscal year 2003/2004 improved almost € 0.4 million, from € - 0.9 million in the previous year to € - 0.5 million. For each share, the net loss for the year in 2003/2004 amounted to € - 0.05 compared to € - 0.08 last year.

3.5 Cash Flow

Not including the liquidity flows from the purchase and sale of marketable securities that are used to invest a varying portion of the liquidity reserve, the consolidated statements of cash flows show an inflow of cash and cash equivalents of € 2.4 million for the 2003/2004 business year. By contrast, 2002/2003 saw an outflow of funds amounting to € 2.8 million.

The inflow of funds from operating activities totalled € 2.3 million. Of that amount, € 1.8 million is attributable to a refund by the German revenue service of income tax paid in previous years, as opposed to only approx. € 0.1 million in capital and interest income tax payments derived from liquid investments. The claim on the German revenue office was previously carried in the balance sheets as other assets. In addition, we effectively further reduced the funds tied up both in accounts receivable and in unbilled revenues, releasing funds amounting to approx. € 0.6 million. Our efforts to make accounts receivable and billing management efficient are again proving to be effective.

The cash flow effect in liabilities and reserves was positive, especially since expenses from personnel reduction measures will not become due until after the balance sheet date and, in some instances, had not yet been specified.

The outflow of funds for investments in tangible assets fell far below that of the previous year. In fiscal 2003/2004, approx. € 0.1 million was invested predominantly in computer hardware and software replacements. The year before, investments had amounted to € 0.3 million.

Cash flow from financing activities shows a minor inflow of funds of € 14,000, as opposed to an outflow of funds of € 0.9 million the year before. In September, 2003, SinnerSchrader discontinued repurchasing its own stock, which had been the reason for the outflow of funds in the previous year. The repurchase of 1,404 stocks in September, 2003, caused another outflow of funds of nearly € 3,000 during the business year. At the same time, there were inflows of € 17,000 because employees for the first time exercised options under the employee share option programme in January/February 2004 and in July/August 2004. The exercised options were serviced from treasury stocks. The striking price paid by employees went to SinnerSchrader.

3.6 Earnings and Financial Position

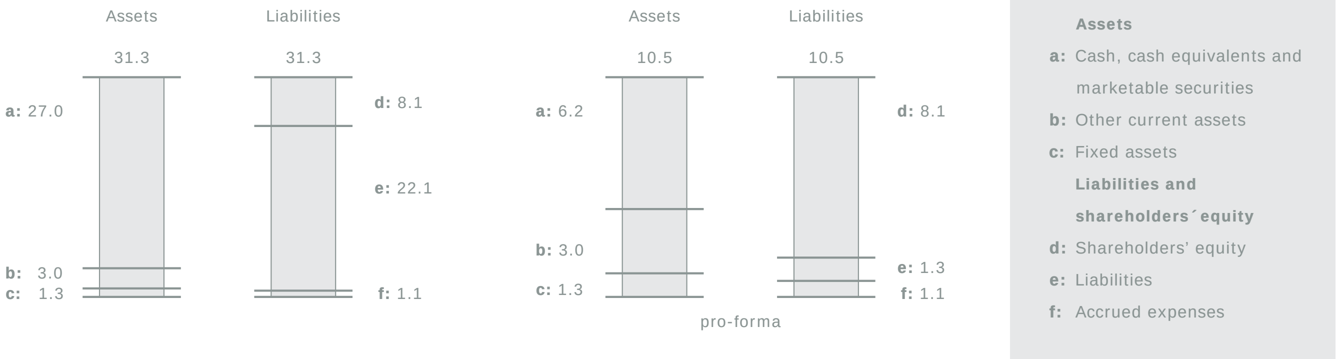
Cash flow, which – not including the purchase and sale of marketable securities – was positive, caused the liquidity reserve to grow from € 24.6 million on 31 August 2003 to € 27.0 million on 31 August 2004. These funds continued to be invested in fixed-term deposits, money market funds, and high-grade participation certificates of a money-market nature with an average duration of three months or less.

While cash and cash equivalents and marketable securities increased, accounts receivable and other assets – made up mainly by tax refund claims on the German revenue office – decreased. Furthermore, SinnerSchrader's continuing restrictive investment policy has reduced fixed assets by approx. € 0.5 million. This reduction involves primarily the depreciation of the tenant-built installations in the Hamburg office building. As a result, total assets fell overall by approx. € 0.2 million, to € 31.3 million, as of 31 August 2004.

While the asset structure is essentially unchanged, the liability side is beginning to show the impact of the annual general meeting's decision of 28 January 2004 to return about € 20.8 million of shareholders' equity to the shareholders as part of a special dividend. The Management Board and the Supervisory Board of SinnerSchrader AG had recommended this step as they believe that SinnerSchrader will best benefit from a predominantly organic growth strategy in the foreseeable future. The funding of this strategy will not require the level of equity capital that has been available to SinnerSchrader since its IPO. In light of SinnerSchrader's commitment to a conservative investment strategy for the cash and cash equivalents matched to surplus shareholders' equity, SinnerSchrader would not be able to obtain an adequate return on this shareholders' equity, either. At the Annual General Meeting of SinnerSchrader AG, a large majority approved the recommendation made by the Management Board and Supervisory Board and voted for the appropriate steps to effect the return of shareholders' equity to the shareholders.

Due to the creditor-protection period prescribed by German corporate law, the special dividend – which will effectively distribute about € 20.8 million among SinnerSchrader AG shareholders from the liquidity reserve – will not be paid until 8 November 2004, six months after the decisions were filed and officially published. Accordingly, the liquidity reserve in the balance sheets as of 31 August 2004 has not yet been modified by the special dividend. On the liabilities side, the reduction in shareholders' equity due to the repayment obligation in existence since the filing of the decisions

Balance sheet and pro-forma balance sheet after distribution 31.08.2004 in € m



has already been taken into account. It amounts to just under € 8.1 million as of 31 August 2004. Accordingly, current liabilities show an amount of approx. € 20.8 million as liabilities to shareholders.

Not including the liabilities to shareholders while simultaneously reducing the liquidity reserve by € 20.8 million produces the structure of the future SinnerSchrader balance sheet. Shareholders' equity of approx. € 8.1 million is offset by assets of approx. € 10.5 million, of which approx. € 6.2 million is still made up of cash reserves. These pro-forma balance sheets as of 31 August 2004 show an equity ratio of just under 77 %, still without financial liabilities.

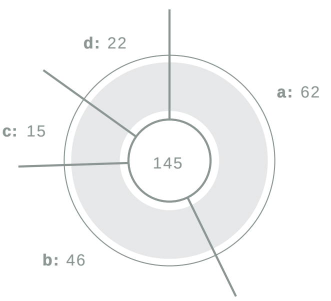
3.7 Employees

As of 31 August 2004, the total payroll of SinnerSchrader stood at 145 employees. This was 21 employees fewer than at the end of the previous business year, on 31 August 2003. Of these 145 staff members, 62 were employed in the Interactive Software segment. 46 employees worked in the Interactive Marketing segment, of which 36 employees worked at SinnerSchrader Studios GmbH in Hamburg, and 10 employees worked at SinnerSchrader Studios Frankfurt GmbH in Frankfurt. The Interactive Services segment employed 15 staff members. 22 individuals – including two Members of the Management Board – were employed at the managing company, SinnerSchrader AG.

Staff development was influenced considerably in the 2003/2004 business year by the need to reduce staffing levels. In November 2004, SinnerSchrader reached agreement on the termination of employment contracts with 24 employees. Furthermore, there were lay-offs and new hirings during the reorganisation and the associated development of certain areas of expertise. Overall, the staffing level has declined – calculated on the basis of average full-time employees – from 169 full-time employees in the 2002/2003 business year to 139 full-time employees in the 2003/2004 business year. Of those, 108 full-time employees were assigned to production; 31 full-time employees, including six trainees, worked in sales, administration and research and development.

The reorganisation that was triggered in connection with the personnel measures gave employees a clear outlook that went beyond the improvement in the cost situation. Culture workshops were held to involve all employees in the reorganisation process. The starting signal for the new organisation was given at a company-wide event held at the Hamburg planetarium at the end of March.

Employee Structure 31.08.2004



Empolyees, End of Period

a: Interactive Software
b: Interactive Marketing
c: Interactive Services
d: AG

4. Development and Position of the AG

SinnerSchrader AG ("AG") is the managing holding company of the SinnerSchrader Group. Its business activities focus on managing the immediate, wholly-owned subsidiaries, financing the Group companies, managing and controlling Group liquidity, directing the German tax reporting group, providing and managing the infrastructures shared by the Group companies – in particular the office facilities, centrally handling administrative tasks and performing central Group functions.

In December 2003, the AG entered into a profit and loss transfer agreement with its subsidiary SinnerSchrader Deutschland GmbH effective 1 September 2003. This agreement has come into force, having been approved by the Annual General Meeting of 28 January 2004 and entered into the commercial register.

In April 2004, in the course of reorganising the Group's operational business, the AG agreed to spin off parts of SinnerSchrader Deutschland GmbH to establish the companies SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH. This change became commercially effective on 1 April 2004. A large part of the operational business previously conducted by SinnerSchrader Deutschland AG has become the responsibility of the new wholly-owned subsidiaries of SinnerSchrader Deutschland GmbH. The Management Board of SinnerSchrader AG, responsible for managing SinnerSchrader Deutschland GmbH, will exercise supervisory control over the new, independently directed subsidiaries through the shareholders' meeting. Upon establishing the companies, a profit and loss transfer agreement was concluded between the companies and SinnerSchrader Deutschland GmbH. This agreement already showed its effectiveness in the first sub-period of the new companies from 1 April 2004 to 31 August 2004. In terms of providing the infrastructure and centrally handling administrative tasks, SinnerSchrader AG has direct business dealings with the new companies.

The AG's net loss shown in the statements of operations according to the German Commercial Code (HGB) shrank by approx. € 2.8 million from the previous year to just under € - 0.5 million in the 2003/2004 business year. The main factors for this decrease are that provisions were made last year for the high vacancy costs in the Hamburg offices (€ + 1.6 million), centrally provided services were fully on-charged following the establishment of the new SinnerSchrader Deutschland GmbH subsidiaries (€ + 0.4 million), and that from the operational business, after covering the remaining loss carry-forwards, SinnerSchrader Deutschland GmbH was able to transfer profits to the AG (€ + 0.8 million).

On the other hand, compared to the previous year, personnel expenses increased (€ - 0.1 million) due to one-off costs in connection with the reduction in the number of seats on the Management Board, higher depreciations from the shortened useful life of tenant-built installations in the Hamburg offices after a premature lease termination (€ - 0.1 million) and, for the first time, services received from the newly established operational subsidiaries (€ - 0.1 million).

From investing the Group's cash and cash equivalents, the AG generated income in the amount of about € 0.8 million in the 2003/2004 business year, of which € 0.3 million is other operating income and € 0.5 million is interest and similar income. This is roughly the same as income from the year before. Furthermore, from financing the subsidiaries, the AG generated income that, from interest income and expenses with affiliated companies, stood at about € 0.1 million on balance. Due to the improvement in the operational situation and the new operational companies' liquidity position, the average capital requirements of the AG's subsidiaries declined significantly in the 2003/2004 business year. As a result, this income component was essentially non-existent in 2003/2004.

The net loss was covered by a withdrawal from the capital reserve and by a withdrawal from the reserve for treasury stock. The withdrawal from the reserve for treasury stock came about in connection with servicing employee share options exercised by Group company employees for a subscription of a total of 6,227 shares against payment of the striking price of € 2.76 per share. The reserve was proportionately reduced according to the number of shares withdrawn from the holding of treasury stock. From issuing its treasury stock, the AG yielded a profit in the amount of just under € 8,000.

In addition, the statements of operations show income in the amount of € 20,768,780 arising from the reduction in capital voted on at the Annual General Meeting of SinnerSchrader AG on 28 January 2004. In keeping with the decision, this amount is earmarked to be fully paid back to the shareholders.

The capital reduction was immediately preceded by a capital increase out of retained earnings in the same amount, which, in preparation of the capital reduction, converted a major portion of the capital reserve into share capital. According to the provisions of the German Stock Corporation Act, the amount earmarked for repayment to shareholders can only be disbursed after a six-month creditor-protection period, on 8 November 2004; it was therefore shown as liabilities to shareholders in the balance sheets as of 31 August 2004. Accordingly, shareholders' equity was reduced by the repayment amount as of 31 August 2004.

Since the capital-reduction amount could not be disbursed by the balance-sheet date, due to the creditor-protection period the asset side of the balance sheets shows an essentially unmodified structure. The € 1.6 million tax refund provided by the German revenue office has reduced this item under other assets and increased the liquidity reserve from cash on hand and in banks as well as other securities. This increased to € 25.9 million, from its 31 August 2004 level of € 24.6 million. As of 31 August 2004, the AG's liquidity reserve differed more than in prior years from the consolidated liquidity reserve of the Group since the new subsidiaries were given their own liquidity instead of sharing a cash pool with SinnerSchrader AG.

Holdings of treasury stock went down in the 2003/2004 business year. By the end of the repurchase programme in October, only 1,404 treasury stocks were purchased for € 3,000. Over the remainder of the business year, 6,227 shares from the treasury stock holdings were issued to employees who had exercised their stock options. The stocks were withdrawn from treasury stock holdings at the average stock purchase price of almost € 1.53.

Intangible and tangible assets fell € 0.4 million in total as a result of the restrictive investment policies and the increased depreciation of tenant-built installations, which came on the reduction of the rental horizon.

The stake in SinnerSchrader Deutschland GmbH was still valued at € 8 million as of 31 August 2004. This valuation was confirmed by an appraisal review, which offset the upside trend of SinnerSchrader Deutschland GmbH in recent months during the 2003/2004 business year with a reduction to reflect the ongoing uncertainty about the sustainability of the trend.

5. Risks of Future Business

The future business development of SinnerSchrader is subject to risks which could negatively affect its earnings and financial position or could mean that SinnerSchrader fails to achieve the goals of future business development. The Management Board of SinnerSchrader Aktiengesellschaft considers it one of its key tasks to continuously evaluate the risks with regard to their possible impact on earnings and financial position and the probability of their occurrence, and also to define measures to limit these risks. As part of constantly improving the risk-management system, a financial expert from the AG was installed as the risk officer. He is responsible for regularly performing an in-house evaluation of the risk-management system and documenting his evaluation at least once per year.

The scope of risk changed only marginally in the past fiscal year. In particular, these risks are associated with the general economic developments, the intensification of competition in view of reduced growth expectations, the rapid rate of technological change as well as the relatively short business history of SinnerSchrader. For the most part, but not exclusively, they relate to the following:

» Economic risks

The general economic trend influences the volume of investment in IT and Internet services, outlays for online advertising and related services. A further deterioration in the economic environment could distinctly reduce the market volume addressed by SinnerSchrader – in terms of quantity and price. The capacity reduction measures necessary to respond to such a development could only be taken with a certain time delay and would lead to additional costs for restructuring measures.

» Competition

The competition in the market for IT and Internet services has constantly increased in the past years. In particular, IT service providers who offer a broader range of services than SinnerSchrader and some of whom have longer-term and better established customer relationships are operating in this market. As a specialised provider without the ability of temporary cross-subsidies, the future development of SinnerSchrader depends heavily on SinnerSchrader's success in realising market-adequate prices for its services.

» Operating risks

SinnerSchrader generates 18 % of its revenue with one client; five additional customers account for about 53 % of sales. A loss of business with one of these clients could only be compensated, if at all, after a time delay during which it would not be possible to reduce costs correspondingly.

Because revenues in the business conducted by SinnerSchrader are not secured by long-term contracts and generally arise on the basis of single orders with a limited time horizon, sales forecasts are subject to a high degree of uncertainty. The order backlog is below the level in the prior year particularly due to the increasing trend of SinnerSchrader's customers to subdivide orders in today's environment.

SinnerSchrader generates a considerable part of its revenue under fixed-price agreements. Due to the complexity and the highly technical requirements, the originally calculated costs may be exceeded, which could result in unforeseen losses. In addition, under project contracts SinnerSchrader takes on customary warranty and liability obligations from which considerable consequential costs could result for individual projects.

Projects that SinnerSchrader's implements for well-known customers are sometimes exposed to considerable publicity effects. Quality deficiencies in work delivered could therefore lead to negative publicity which could negatively affect the ability of SinnerSchrader to sell its services and consequently significantly impair the future development of business.

» Personnel risks
SinnerSchrader's success heavily depends on the qualifications and motivation of its employees. In this context, some key employees are particularly important. If SinnerSchrader does not manage to tie these employees to the company and to constantly win new qualified employees for SinnerSchrader, the company's success could be significantly adversely affected due to the loss of know-how.

» Technological risks
The market for IT and Internet services is characterised by a rapid rate of change with regard to the basic technologies used and a still low level of standardisation. SinnerSchrader's future market success depends on its ability to maintain an adequate level of technological competence in view of high training expenses and limited resources and to avoid technological dead ends.

6. Key Events after the Balance-Sheet Date

On 8 November 2004, the € 20,768,780.30 in 11,411,417 shares outstanding on 5 November 2004, from the capital reduction resolved on 28 January 2004, was paid out. € 1.82 per share was paid out. The actual amount paid out was € 20,768,778.94. The remaining € 1.36 was ploughed into shareholders' equity. The amount paid out was deducted from the AG's and Group's liquidity reserves.

7. Outlook

The 2003/2004 business year went more or less as planned for SinnerSchrader, in contrast to the two previous years. After a difficult first half-year with declining revenues and hefty operating losses, the second half-year saw the market gradually come out of its stupor, the Group beef up its operational power by finishing its operational reorganisation and the cost situation improve dramatically as the cost-cutting and efficiency programmes continued. As a result, SinnerSchrader broke even in the fourth quarter of 2003/2004 in terms of the Group's EBITA. The Group's liquidity improved much more than planned: after the special dividend, it still had more than € 6 million in cash and cash equivalents to fund its strategy of mainly organic growth.

After three years of decline and several proclamations of upturns that failed to materialise, SinnerSchrader's market environment in the IT and advertising/marketing industries improved appreciably in 2004. What is more, the Internet has become even more widely spread and heavily used in the past year. After the irrational exuberance of 1999 and 2000, which led, in succession, to poor investments, widespread disappointment and excessive caution, German boardrooms in 2004 rediscovered the Internet as a key issue in investment decisions. Indeed, Deloitte Touche Tohmatsu's Technology Fast 500 survey from this year revealed that Internet investments will represent the two strongest areas of growth over the next three years.

Since its founding, SinnerSchrader has succeeded in establishing itself as a pillar of the German Internet services market with a reputation for solution expertise and excellent customer service. While the past years have made SinnerSchrader cautious, it believes that this is a good environment that favours a return to growth. As such, it has budgeted in an 5 % to 10 % increase in sales year-to-year for the 2004/2005 business year. That would also enable the Company to achieve the break-even point in terms of its net income for the year.

4

Consolidated Financial Statements

Consolidated balance sheets

as of 31 August 2004 and 31 August 2003

Assets in €	31.08.2004	31.08.2003
CURRENT ASSETS:		
Cash and cash equivalents	1,334,258	3,325,443
Short-term investments/marketable securities	25,704,158	21,277,312
Accounts receivable, net of allowances for doubtful accounts of € 156,174 and € 159,437 at 31.08.2004 and 31.08.2003, respectively	1,779,577	2,374,101
Unbilled revenues	353,428	268,252
Other current assets and prepaid expenses	786,397	2,429,292
Total current assets	29,957,818	29,674,400
NON-CURRENT ASSETS:		
Property and equipment, net	1,293,835	1,798,320
Total non-current assets	1,293,835	1,798,320
Total assets	31,251,653	31,472,720

Liabilities and shareholders' equity in €	31.08.2004	31.08.2003
CURRENT LIABILITIES:		
Liability to shareholders	20,768,780	–
Trade accounts payable	428,171	395,731
Advance payments received	70,094	24,649
Accrued expenses	1,081,589	1,008,837
Deferred tax liabilities	–	52,559
Deferred income and other current liabilities	762,504	588,269
Total current liabilities	23,111,138	2,070,045
Non current liabilities	86,841	80,408
COMMITMENTS AND CONTINGENCIES (note 3.7)		
SHAREHOLDERS' EQUITY:		
Common stock, stated value € 1, issued: 11,542,764 and 11,542,764, outstanding: 10,937,164 and 10,932,341 at 31.08.2004 and 31.08.2003, respectively		
Additional paid-in capital	11,542,764	11,542,764
Treasury stock,	16,594,840	37,355,960
605,600 and 610,423 at 31.08.2004 and 31.08.2003, respectively	- 926,438	- 933,145
Accumulated deficit	- 19,176,937	- 18,645,785
Accumulated other comprehensive income/loss	19,445	24,246
Deferred compensation	–	- 21,773
Total shareholders' equity	8,053,674	29,322,267
Total liabilities and shareholders' equity	31,251,653	31,472,720

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of operations

for fiscal years 2003/2004 and 2002/2003

in €	2003/2004	2002/2003
Revenues:		
Project services	9,201,233	10,146,127
Media services	2,036,160	1,416,578
Other	1,087,647	796,562
Total revenues, gross	12,325,040	12,359,267
Media costs	- 1,476,246	- 1,069,330
Total revenues, net	10,848,794	11,289,937
Cost of revenues	- 7,200,063	- 8,289,938
Gross profit	3,648,731	2,999,999
Selling and marketing expenses	- 1,233,121	- 1,462,378
General and administrative expenses	- 3,162,289	- 3,168,512
Research and development expenses	- 89,880	- 57,868
Restructuring and other related costs	- 557,647	- 172,969
Amortisation of deferred compensation	- 21,773	- 84,896
Operating loss	- 1,415,979	- 1,946,624
Other income/expense, net	10,103	241,126
Interest income and expenses, net	823,724	808,536
Loss before provision for income tax	- 582,152	- 896,962
Income tax	51,000	- 11,732
Net loss before cumulative effect of changes in accounting principles	- 531,152	- 908,694
Cumulative effect of changes in accounting principles	–	- 13,279
Net loss	- 531,152	- 921,973
Net loss per share before cumulative effect of changes in accounting principles (basic and diluted)	- 0.05	- 0.08
Cumulative effect of changes in accounting principles per share (basic and diluted)	0.00	0.00
Net loss per share (basic and diluted)	- 0.05	- 0.08
Weighted average shares outstanding (basic and diluted)	10,933,405	11,165,099

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of shareholders' equity

for the fiscal year 2003/2004 and 2002/2003

in €	Number of shares outstanding	Nominal value	Additional paid-in capital
Balance at 31.08.2002	11,456,537	11,542,764	37,355,960
Net income/loss	–	–	–
Unrealised gains and losses on available-for-sale securities	–	–	–
Foreign currency translation adjustment	–	–	–
Last instalment of common stock issued for acquisition of Netmatic	36,227	–	–
Amortisation of deferred compensation	–	–	–
Purchase of treasury stock	- 560,423	–	–
Balance at 31.08.2003	10,932,341	11,542,764	37,355,960
Net income/loss	–	–	–
Unrealised gains and losses on available-for-sale securities	–	–	–
Foreign currency translation adjustment	–	–	–
Increase of common stock from additional paid-in capital	–	20,768,780	- 20,768,780
Reduction of common stock for the purpose of repayment to shareholders	–	- 20,768,780	–
Amortisation of deferred compensation	–	–	–
Purchase of treasury stock	- 1,404	–	–
Re-issuance of treasury stock	6,227	–	7,660
Balance at 31.08.2004	10,937,164	11,542,764	16,594,840

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of shareholders' equity

Treasury Stock	Deferred compensation	Retained earnings/ losses	Accumulated other compre-hensive income	Total shareholders' equity	Compre-hensive income
- 140,820	- 106,669	- 17,723,812	57,786	30,985,209	- 18,095,449
–	–	- 921,973	–	- 921,973	- 921,973
–	–	–	- 6,518	-6,518	- 6,518
–	–	–	- 27,022	- 27,022	- 27,022
69,628	–	–	–	69,628	–
–	84,896	–	–	84,896	–
- 861,953	–	–	–	- 861,953	–
- 933,145	- 21,773	- 18,645,785	24,246	29,322,267	- 955,513
–	–	- 531,152	–	- 531,152	- 531,152
–	–		- 4,841	- 4,841	- 4,841
–	–	–	40	40	40
–	–	–	–	–	–
–	–	–	–	- 20,768,780	–
–	21,773	–	–	21,773	–
- 2,819	–	–	–	- 2,819	–
9,526	–	–	–	17,186	–
- 926,438	–	- 19,176,937	19,445	8,053,674	- 535,953

Consolidated statements of cash flows

for fiscal years 2003/2004 and 2002/2003

in €	2003/2004	2002/2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	- 531,152	- 921,973
Cumulative effect of changes in accounting principles	–	13,279
Net loss before cumulative effect of changes in accounting principles	- 531,152	- 908,694
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	631,709	692,070
Stock-based compensation	21,773	84,896
Bad debt expense	1,292	11,017
Losses on the disposal of fixed assets	10,977	44,067
Losses/gains on the disposal of marketable securities (available-for-sale)	- 288,261	34,371
Deferred tax provision	- 52,559	52,559
Other non cash expense/revenue	15,702	- 78,956
Changes in assets and liabilities:		
Accounts receivable	592,939	- 58,808
Unbilled revenue	- 85,176	693,886
Other current assets and prepaid expenses	1,642,723	- 360,859
Accounts payable, deferred revenues and other liabilities	258,716	- 754,761
Income tax payable	–	- 334,523
Other accrued expenses	72,746	- 753,370
Net cash provided by (used in) operating activities	2,291,429	- 1,637,105
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short term investments	- 64,242,006	- 55,328,957
Proceeds from sale of short term investments	60,083,174	60,009,926
Purchase of property and equipment	- 147,307	- 316,758
Proceeds from sale of equipment	9,105	9,925
Net cash provided by (used in) investing activities	- 4,297,034	4,374,136
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment for treasury stock	- 2,819	- 861,953
Incoming payment for treasury stock	17,186	–
Net cash provided by (used in) financing activities	14,367	- 861,953
Net effect of currency translation in cash and cash equivalents	53	- 920
Net increase/decrease in cash and cash equivalents	- 1,991,185	1,874,158
Cash and cash equivalents at beginning of period	3,325,443	1,451,285
Cash and cash equivalents at end of period	1,334,258	3,325,443
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:		
Common stock issued for acquisition of Netmatic	–	69,628

The accompanying notes are an integral part of these consolidated financial statements.

1. Organisation and Operations of the SinnerSchrader Group

As of 31 August 2004 the SinnerSchrader Group (“SinnerSchrader” or “Group”) consisted of SinnerSchrader Aktiengesellschaft (“SinnerSchrader AG” or “AG”) and its wholly owned subsidiaries SinnerSchrader Deutschland GmbH (“SinnerSchrader DTL”), SinnerSchrader UK Limited (“SinnerSchrader UK”), and SinnerSchrader Benelux BV (“SinnerSchrader BV”).

SinnerSchrader AG was founded as a stock corporation in August 1999 with the aim of functioning as a corporate holding company of the then operating companies SinnerSchrader Interactive Marketing GmbH and SinnerSchrader Interactive Software GmbH which themselves were established in February 1997 and December 1997, respectively. As part of the formation of SinnerSchrader AG the shareholders of SinnerSchrader Interactive Marketing GmbH and SinnerSchrader Interactive Software GmbH contributed their interests in these companies to a capital increase of SinnerSchrader AG for 6,000,000 no-par value ordinary shares of SinnerSchrader AG with a nominal value of € 1 per share. In parallel, an outside investor purchased a total of 1,500,000 no-par value ordinary shares in SinnerSchrader AG with a nominal value of € 1 per share against cash. On 1 November 1999, SinnerSchrader AG issued 2,475,000 no-par value ordinary shares of SinnerSchrader AG with a nominal value of € 1 per share in an initial public offering. In September 2000, SinnerSchrader AG purchased Netmatic Internet/Intranet Solutions GmbH (later SinnerSchrader Netmatic GmbH) for a total purchase price of € 1,533,876 in cash and 1,603,911 ordinary shares of SinnerSchrader’s common stock, of which 1,567,764 were newly issued as part of a capital increase. All 11,542,764 shares issued are listed in the Prime Standard segment of the regulated market of the Frankfurt Stock exchange. SinnerSchrader AG is registered in Hamburg.

SinnerSchrader’s operating business in Germany is conducted by SinnerSchrader DTL. SinnerSchrader DTL emerged from a merger of SinnerSchrader Interactive Marketing GmbH, SinnerSchrader Interactive Software GmbH and SinnerSchrader Netmatic GmbH in 2001. In April 2004, as part of a reorganisation of SinnerSchrader’s operating business, SinnerSchrader DTL spun off major parts of its operations into newly founded wholly-owned subsidiaries: SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH.

SinnerSchrader Neue Informatik GmbH registered in Hamburg primarily offers IT consulting and implementation services for the development, enhancement, and maintenance of Internet-based software applications with a high portion of human-computer interaction. Both SinnerSchrader Studios offices, one located in Hamburg and the other in Frankfurt am Main, are creative multimedia agencies for interactive brand management. Their service offering comprises consulting, planning, design and technical implementation services for interactive marketing and brand management activities. SinnerSchrader DTL which is registered in Hamburg continues to complete SinnerSchrader’s service portfolio by online media campaign planning and management services, system administration and application management services for Internet-based IT-solutions as well as by data structuring, analysis and reporting services on the user behaviour of such systems.

SinnerSchrader UK and SinnerSchrader BV, which were founded in April 2000 and February 2001 to expand SinnerSchrader’s reach internationally, had ceased their operating activities by the end of 2001. Both companies are kept in the Group as a basis to restart business in those regions when the opportunity arises.

SinnerSchrader is subject to a number of risks, including but not limited to, the high speed of the technological development and of the resulting changes in the markets in which SinnerSchrader operates, the competition from larger, more established companies, risks arising from fixed price and fixed time commitments, dependence on key personnel and key clients as well as a limited order backlog.

In the fiscal year 2003/2004 after two years of decline, SinnerSchrader's revenues stabilised at the level of the previous year. Both operating earnings and net earnings improved compared to the preceding year, but continued to be negative. The losses were primarily incurred in the first half of the fiscal year marked by further significant efforts to restructure and reorganise the business. As a result of these efforts, SinnerSchrader was able to show operating income once again in the fourth fiscal quarter.

SinnerSchrader's liquidity position (cash, cash equivalents and marketable securities) rose significantly from € 24.8 million as of 31 August 2003 to € 27.0 million as of 31 August 2004. In January 2004, SinnerSchrader's shareholders approved a proposal by the Management Board and the Supervisory Board to distribute € 20.8 million of the cash reserves to shareholders by means of a capital reduction. After completion of the cash distribution in November 2004, SinnerSchrader will still hold liquidity at a level that the Management Board deems sufficient to meet the Group's future working capital and capital expenditure requirements.

2. Summary of Significant Accounting Policies

2.1 Basis of Financial Statements and Principles of Consolidation

The consolidated financial statements of SinnerSchrader have been prepared according to United States generally accepted accounting principles ("US-GAAP"). They refer to the fiscal years extending from 1 September 2003 to 31 August 2004 ("2003/2004") and 1 September 2002 to 31 August 2003 ("2002/2003"), respectively, and to the balance sheet dates of 31 August 2004 and 31 August 2003, respectively.

The consolidated financial statements include the accounts of SinnerSchrader AG and its direct or indirect subsidiaries which are majority-owned and effectively controlled by SinnerSchrader AG. The consolidated financial statement of 2002/2003 thus included the accounts of SinnerSchrader AG, SinnerSchrader DTL, SinnerSchrader UK, and SinnerSchrader BV. The consolidated financial statement of 2003/2004, additionally, included the accounts of the new subsidiaries SinnerSchrader DTL, SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH, and SinnerSchrader Studios Frankfurt GmbH as from 1 April 2004.

All significant inter-company transactions and balances between the companies have been eliminated. The accounts have been prepared after making necessary adjustments to the Group companies' books and records that are maintained in accordance with respective local GAAPs, prominently the German Commercial Code.

2.2 Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

2.3 Foreign Currency Translation

The functional currencies of SinnerSchrader's subsidiaries outside the euro-zone, i.e., the group of European countries that adopted the Euro as their currency, are the local currencies. The financial statements of these subsidiaries are translated into euro using period-end rates of exchange for assets and liabilities and average rates during the period for revenues, cost of revenues, and expenses. Translation gains and losses are accumulated and reported as a component of shareholders' equity under "accumulated other comprehensive income/loss". Transaction gains and losses are reported in the consolidated statements of operations.

2.4 Fair Value of Financial Instruments

SinnerSchrader's financial instruments, including cash equivalents, accounts receivable, accounts payable, are carried at amounts that approximate fair value.

- » Accounts receivable are carried at the nominal value less allowances for potential credit losses (see 2.5).
- » Unbilled services are presented at a percentage of the total project value according to the percentage-of-completion method.
- » Other assets are carried at their nominal values.
- » Short-term liabilities are stated at their payback amounts.
- » Marketable securities are carried at their fair value.

2.5 Concentration of credit risks and significant customers

Financial instruments which potentially subject SinnerSchrader to a concentration of credit risk are cash, cash equivalents, marketable securities, accounts receivable and unbilled services.

As far as credit extended to customers shown under accounts receivable and unbilled services is concerned, SinnerSchrader performs ongoing credit evaluations of its customers and maintains allow-ances for doubtful accounts based on an assessment of the potential credit loss.

The following table presents the percentage of total accounts receivable less allowances for doubtful accounts and unbilled services for those customers for whom the percentage was more than 10 % on either 31 August 2004 or 31 August 2003.

Concentration of credit risks in %	31.08.2004	31.08.2003
Customer A	19	12
Customer B	15	15
Customer C	11	–
Customer D	8	14
Customer E	6	19

For the years 2003/2004 and 2002/2003, gross sales to significant customers as a percentage of total gross revenues were as follows:

Important customers in %	2003/2004	2002/2003
Customer B	18	21
Customer A	16	13
Customer D	12	7
Customer E	10	10

From 1 July 2002 until 31 May 2003, a member of SinnerSchrader AG's Supervisory Board was CEO of customer A.

2.6 Marketable Securities

SinnerSchrader's marketable securities consist of marketable corporate debt securities as well as marketable fund certificates of money market funds and similar funds which themselves invest in corporate debt securities. SinnerSchrader holds these marketable securities available to sell them at its discretion to cover any short term cash requirement.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 of the Financial Standards Board ("FASB") "Accounting for Certain Investments in Debt and Equity Securities", SinnerSchrader has categorised its marketable securities as "available-for-sale". Consequently, they are carried on the balance sheet at their fair market value. Unrealised holding gains or losses are included, net of tax, as "accumulated other comprehensive income" directly under shareholders' equity.

The Company evaluates its marketable securities for other than temporary impairment on a security by security basis. If an impairment were considered to be other than temporary, the unrealised losses would not be shown under "accumulated other comprehensive income" but recorded as an expense in the income statement. The company had no other than temporary impairments for the years ended 31 August 2004 and 31 August 2003.

The following table summarises the structure of marketable securities and unrealised gains and losses as of 31 August 2004 and 31 August 2003:

Marketable securities in €	Amortised costs	Unrealised gains	Unrealised losses	Recorded basis
31.08.2004:				
Money market & profit-participation certificate funds	25,710,406	2,540	- 8,788	25,704,158
Total marketable securities	25,710,406	2,540	- 8,788	25,704,158
31.08.2003:				
Money market funds	3,308,281	9,385	- 3,886	3,313,781
Corporate debt securities	17,970,438	–	- 6,906	17,963,532
Total marketable securities	21,278,719	9,385	- 10,792	21,277,312

As of 31 August 2004, all marketable securities either had contractual maturities of less than one year or no contractual maturity.

2.7 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging between three to thirteen years. Computer hardware and software is generally depreciated over three years, other electronic or electrical equipment over four to eight years, passenger cars over six years and office furniture over eight to thirteen years. Leasehold improvements are depreciated over the lesser of the estimated useful lives of the assets or the lease term. Depreciation expense is included in cost of revenues and operating expenses.

The cost of maintenance and repair is charged when incurred. When an item is sold or retired, the cost and related accumulated depreciation is relieved, and the resulting gain or loss, if any, is recognised in the statement of operations.

2.8 Impairment of Long-Lived Assets

In accordance with SFAS No. 144, SinnerSchrader reviews the carrying value of long-lived assets when facts or circumstances may suggest that the carrying value might not be recoverable. In order to assess whether impairment has occurred, SinnerSchrader compares undiscounted net cash flows estimated to be generated by the assets under review to the carrying amount of those assets. When the undiscounted net cash flows are less than the carrying amounts of the assets, SinnerSchrader will record impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to be generated from the assets.

In the periods ended 31 August 2004 and 31 August 2003, SinnerSchrader recorded impairment charges with respect to long-lived assets of € 0 and € 50,070. The impairment charges in the fiscal year 2002/2003 were related to office equipment no longer utilised after the workforce reductions in 2002/2003 and 2001/2002. The fair value of the office equipment was assessed by an estimate of the realisable market value. The resulting charge was recorded under restructuring costs.

2.9 Revenue Recognition

SinnerSchrader performs services of various types which are treated differently with respect to revenue recognition. In general, revenues are recognised only after the service has been rendered when there is persuasive evidence of an agreement, the fee is fixed and determinable, delivery has occurred and collectibility of the claim is probable. Furthermore, revenue recognition for the various types of services follows the following principles:

» Project Services

Services provided by SinnerSchrader range from consulting services for e-business strategies and concepts for Internet-based business applications, the design and production of web-based user front-ends, to the implementation of software for middleware and back-end systems, as well as to maintenance and content management services for installed solutions.

Project and service agreements are either on the basis of time and material incurred or on a fixed-fee basis. Revenues pursuant to a fixed-fee contract are generally recognised on the percentage-of-completion method of accounting according to the provisions of Statement of Position (SOP) 81-1 of the American Institute of Certified Public Accountants (AICPA), “Accounting for Performance of Construction Type and Certain Production Type Contracts”. Percentage of completion is determined based on the total efforts expended to-date measured in man hours as a percentage of the total efforts expected to be incurred under the contract. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognised in the period in which such losses become probable. Revenues pursuant to time and materials contracts are generally recognised as services are performed on monthly basis.

Revenue recognised on the percentage-of-completion basis in advance of contractual billings is presented in the balance sheet as unbilled revenues net of advance payments received. Advance payments received in excess of unbilled revenues are shown as advance payments.

» Media Services

SinnerSchrader also provides online marketing services, i.e., the planning, design, execution and controlling of online marketing campaigns for Internet websites. For these services, customers are billed for the cost of the related advertising space and for the campaign planning and controlling services rendered by SinnerSchrader, either on the basis of a monthly fixed rate or as a percentage of the total value of advertising space managed, and for the design and production services of related online marketing instruments on an hourly basis. Revenue from the reselling of advertising space is generally recognised according to the appearance of the relevant advertisements. The additional services are generally recognised as performed on a monthly basis. While gross revenues include the entire amount invoiced, the cost of advertising space is excluded from net revenues. Any revenue recognised in advance of contractual billing is presented in the balance sheet as unbilled revenues net of advance payments received and plus advance payments made for advertising space.

» Other Services

SinnerSchrader also provides operational services, e.g., hosting services, application management and monitoring as well as web data mining services. Fees for these services are generally billed and recognised on a monthly basis. In addition, SinnerSchrader provides customers with any required hardware and software on a by-request basis. Revenue from the sale of third party hardware and software is realised upon delivery.

As required by Emerging Issues Task Force (“EITF”) Issue No. 01-14 issued in November 2001, revenues include reimbursable expenses charged to and collected from clients.

2.10 Advertising Costs

SinnerSchrader charges the cost of advertising and promoting its services and the image of SinnerSchrader in general as incurred. These expenses are included in selling and marketing expenses in the consolidated statement of operations. They totalled € 48,425 and € 63,872 in the financial periods 2003/2004 and 2002/2003, respectively.

2.11 Stock Compensation

In October 1995, the FASB issued SFAS No. 123 “Accounting for Stock-Based Compensation”. This standard permits the use of either a fair-value-based method or the method defined in Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees” to account for stock-based compensation arrangements. SFAS No. 123 requires all companies choosing to account for stock-based compensation plans on the basis of APB No. 25 to provide in the notes pro-forma net income (loss) and net income (loss) per share information as if the fair-value-based method of accounting as defined as the preferable method of accounting for stock based compensation in SFAS No. 123 had been adopted.

In December 2002, the FASB issued SFAS No. 148 “Accounting for Stock-Based Compensation-Transition and Disclosure” which amends SFAS No. 123, to provide alternative methods of transition for a voluntary change from the accounting methods defined in APB No. 25 to the fair-value-based method defined in SFAS No. 123 and to prescribe a specific form, content, and location within in the notes of the pro-forma information required by SFAS No. 123 from those companies choosing to apply APB No. 25.

As at 31 August 2004, SinnerSchrader had two stock option plans which are described more fully in note 6.5 SinnerSchrader had elected to account for its employee stock option plans in accordance with the provisions of APB No. 25 and has chosen to continue to do so. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant between the fair market value of SinnerSchrader’s capital stock and the exercise price of the options granted. No compensation costs have to be recognised for the Company’s employee stock option plans in the fiscal years ended 31 August 2004 and 31 August 2003.

In accordance with SFAS No. 148 in connection with SFAS No. 123, the following table presents pro-forma net loss and net loss per share information for 2003/2004 and 2002/2003 that would have resulted if SinnerSchrader had chosen to account for its stock option plans based on the fair value of the options at grant date as prescribed by SFAS No. 123:

Pro-forma net income (loss) according to SFAS No. 123 in €	2003/2004	2002/2003
Net loss as reported	- 531,152	- 921,973
add back: Stock-based compensation, included in net loss as reported	–	–
deduct: Stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	- 135,750	- 122,882
Pro-forma net loss	- 666,902	- 1,044,855
Reported net loss per share, basic and diluted	- 0.05	- 0.08
Pro-forma net loss per share, basic and diluted	- 0.06	- 0.09

The pro-forma impact shown in the table for 2003/2004 and 2002/2003 is not necessarily representative of the pro-forma effects which may be expected in future years because the number of new option grants as well as cancellations due to terminations of employment contracts might differ significantly from the levels in 2003/2004 and 2002/2003.

The parameter used to determine the fair value of the options at grant date in fiscal year 2002/2003 are presented in the following table. No options were granted in 2003/2004.

Parameter for pro-forma calculations in % and years	2003/2004	2002/2003
Expected life of option	–	2.5 – 4.5
Risk-free interest rate	–	2.4 – 3.9
Expected dividend yield	–	–
Expected volatility	–	76 – 84

2.12 Comprehensive Income

SFAS No. 130 “Reporting Comprehensive Income” requires the presentation of “comprehensive income”. Comprehensive Income is the total of net earnings and all other non-owner changes in equity. Accumulated other components of comprehensive income were as follows:

Other Comprehensive Income in €	31.08.2004	31.08.2003
Unrealised gains/losses on marketable securities available-for-sale	- 6,248	- 1,407
Foreign currency translation adjustment	25,693	25,653
Total	19,445	24,246

A summary of the components of other comprehensive income for the years 2003/2004 and 2002/2003 is shown in the following tables:

Comprehensive Income in €	Total before tax	Income tax	Total after tax
2003/2004:			
Unrealised gains/losses on marketable securities available-for-sale	283,420	- 114,458	168,962
Less: reclassification adjustments	- 288,261	116,413	- 171,848
Adjustment of income tax	–	- 1,955	- 1,955
Net unrealised gains/losses on marketable securities available-for-sale	- 4,841	–	- 4,841
Foreign currency translation adjustment	40	–	40
Total	- 4,801	–	- 4,801
2002/2003:			
Unrealised gains/losses on marketable securities available-for-sale	- 40,889	16,513	- 24,376
Less: reclassification adjustments	34,371	- 13,881	20,490
Adjustment of income tax	–	- 2,632	- 2,632
Net unrealised gains/losses on marketable securities available-for-sale	- 6,518	–	- 6,518
Foreign currency translation adjustment	- 27,022	–	- 27,022
Total	- 33,540	–	- 33,540

The adjustments of income tax shown for 2003/2004 and 2002/2003 represent the effect of the dissolution of deferred tax assets pertaining to the accumulated amount of unrealised losses on marketable securities available-for-sale due to SinnerSchrader's current loss situation.

2.13 Income Tax

SinnerSchrader records income taxes using the liability method in accordance with SFAS No. 109 "Accounting for Income Taxes". Deferred income tax assets and liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the financial statements according to US-GAAP and their respective income tax base. Deferred taxes are measured using tax rates expected to apply to taxable income in the years in which the temporary difference are reversed. Effects of tax rate changes are recorded in the year in which those changes are enacted. Deferred tax assets are recognised for loss carry forwards which will reduce taxable income in future years in as much as it is more likely than not that they will be realised.

2.14 Earnings per Share

SinnerSchrader computes earnings per share in accordance with SFAS No. 128 "Earnings per Share". Basic earnings per share are computed using the weighted-average number of vested shares of common stock outstanding. Diluted earnings per share are computed using the weighted average number of vested shares of common stock outstanding and, when diluted, unvested common stock outstanding from potential common shares from options and warrants to purchase common stock using the treasury stock method. SinnerSchrader has granted options to purchase shares of common stock to its employees under the 1999 employee stock option programme and under the

2000 employee stock option programme. All potential common shares have been excluded from the computation of diluted net loss per shares for both fiscal years 2003/2004 and 2002/2003 because the effect would be undiluted.

Earnings per Share in € and number	2003/2004	2002/2003
Net loss	- 531,152	- 921,973
Basis weighted average shares of common stock outstanding	10,933,405	11,165,099
Basic earnings per share	- 0.05	- 0.08
Weighted average shares of common stock outstanding	10,933,405	11,165,099
add: Stock option grant	–	–
Diluted average share of common stock outstanding	10,933,405	11,165,099
Diluted earnings per share	- 0.05	- 0.08

2.15 Statements of Cash Flows

SinnerSchrader reports statements of cash flows according to SFAS No. 95 “Statement of Cash Flows”. They show the change in cash and cash equivalents by cash inflows and outflows. For the purpose of the consolidated statements of cash flows, SinnerSchrader considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents consist of amounts on deposit at commercial banks.

SinnerSchrader paid € 1,093 and € 18,747 for interest in the fiscal periods 2003/2004 and 2002/2003, respectively. SinnerSchrader paid € 127,076 and € 776,840 for income taxes in 2003/2004 and 2002/2003, respectively. In those periods SinnerSchrader received income tax refunds in the amounts of € 1,815,649 and € 40,827, respectively.

2.16 Segment Reporting

As part of a fundamental reorganisation of its operations during fiscal year 2003/2004, SinnerSchrader gave up on its business approach of delivering integrated e-business services and rendered full operating responsibility for separate parts of its service portfolio to newly installed operating business units. According to SFAS No. 131 “Disclosure about Segments of an Enterprise and Related Information” SinnerSchrader is required to present segment information for the newly formed segments.

The segment “Interactive Software” focuses on designing, implementing and maintaining customer-tailored interactive IT-systems. The SinnerSchrader Neue Informatik GmbH is assigned to that segment. The segment “Interactive Marketing” comprises the business with consulting, creative design and implementation services for brand building and management as well as marketing and sales activities on the Internet or other digital channels. The companies, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH, are assigned to the segment “Interactive Marketing”. In its segment “Interactive Services” SinnerSchrader bundles three service offerings around the management of existing transactional web sites. Those services are the planning, execution and reporting of online-media campaigns, the statistical analyses of the behaviour of website visitors and the technical administration and maintenance of hardware and software systems for the operating of web sites. These units are jointly managed within SinnerSchrader DTL. The new organisation was introduced on 1 April 2004. With effect from that date personnel, customer relationships, ongoing projects and all other operative assets and related liabilities were reassembled according to the new unit structure and mostly transferred into newly founded companies. The changeover to the new organisation resulted in significant changes to the accounting system. Consequently, the calculation of the segment information required by SFAS No. 131 for the entire period 2003/2004 would have caused unusually high costs so that the Management Board of SinnerSchrader AG decided to dispense with that information.

Segment information in € and number	Interactive Software	Interactive Marketing	Interactive Services	Segments total	Consolidation/ Holding	Group
31.08.2004:						
Total assets	2,124,800	1,286,600	777,523	4,188,923	27,062,730	31,251,653
Non-current assets	183,864	83,719	45,004	312,587	981,248	1,293,835
Current assets	1,940,936	1,202,881	732,519	3,876,336	26,081,482	29,957,818
Number of employees – end of period	62	46	15	123	22	145
01.04.2004 – 31.08.2004:						
External Revenue	2,387,924	1,714,173	1,301,616	5,403,713	–	5,403,713
Internal Revenue	404,135	193,078	137,847	735,060	- 735,060	–
Total revenues, gross	2,792,059	1,907,251	1,439,463	6,138,773	- 735,060	5,403,713
Media costs	–	–	- 599,060	- 599,060	0	-599,060
Total revenues, net	2,792,059	1,907,251	840,403	5,539,713	- 735,060	4,804,653
Segment profit/loss (EBITA)	314,724	150,563	157,767	623,054	- 753,309	- 130,255
Depreciation of property and equipment	25,456	10,128	5,656	41,240	206,158	247,398
Purchase of property and equipment	11,943	23,514	8,941	44,398	- 13,171	31,227
Full-time employees on average	59.6	38.5	14.3	112.4	20.0	132.4
01.06.2004 – 31.08.2004:						
External Revenue	1,516,036	1,090,871	707,024	3,313,931	–	3,313,931
Internal Revenue	297,134	134,952	97,400	529,486	- 529,486	–
Total revenues, gross	1,813,170	1,225,823	804,424	3,843,417	- 529,486	3,313,931
Media costs	–	–	- 262,724	- 262,724	–	-262,724
Total revenues, net	1,813,170	1,225,823	541,700	3,580,693	- 529,486	3,051,207
Segment profit/loss (EBITA)	254,015	64,313	125,023	443,351	- 413,953	29,398
Depreciation of property and equipment	15,224	5,934	3,921	25,079	120,316	145,395
Purchase of property and equipment	11,943	23,514	–	35,457	- 14,782	20,675
Full-time employees on average	59.5	39.9	14.1	113.5	20.2	133.7

SinnerSchrader therefore made use of the relevant rule under SFAS No. 131 and did not restate segment information for periods prior to 1 April 2004 to the new segment structure. The following tables present the segment information required as of 31 August 2004 and additionally the period-related segment information for the periods 1 April 2004 to 31 August 2004 and for the fourth fiscal quarter of 2003/2004, i.e. from 1 June 2004 to 31 August 2004.

The segment accounting follows the same accounting principles as those applied for the entire Group. All administrative costs that are incurred by SinnerSchrader AG and that are attributable to the operative segments are charged to the segments. Costs that are not attributable to the operations are not distributed over the reportable segments. These costs are primarily costs incurred by central holding functions, i.e. investor relations, and costs for idle office space in the office building in Hamburg leased by SinnerSchrader AG.

The next table shows the reconciliation of total segment earnings to Group earnings before tax for the periods 1 April 2004 to 31 August 2004 and 1 June 2004 to 31 August 2004, which corresponds to the Group's fourth fiscal quarter 2003/2004.

Reconciliation of total segment earnings to Group before tax in €	01.04.2004 31.08.2004	01.06.2004 31.08.2004
Segment profit/loss (EBITA) of all reportable segments	623,054	443,351
Central holding costs not attributable to reportable segments	- 751,890	- 412,935
Earnings before tax of foreign subsidiaries	- 1,419	- 1,018
EBITA of the Group	- 130,255	29,398
Group interest income/expense	482,513	445,771
Group earnings before tax	352,258	475,169

With respect to regional data, revenue by geographic location are attributed to the country from which the sale is made. For 2003/2004 and 2002/2003 all of SinnerSchrader's revenues were to be attributed to Germany.

2.17 Recent Accounting Pronouncements

In March 2004, the EITF reached a consensus on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF No. 03-01 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations", and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. The provisions of EITF No. 03-01 will be effective for SinnerSchrader's first quarter of fiscal 2004/2005 and will be applied prospectively to all current and future investments. It is not expected that the adoption of EITF No. 03-01 will have a material effect on the results of operations and financial condition of SinnerSchrader. Quantitative and qualitative disclosures for investments accounted for under SFAS No. 115 were effective for SinnerSchrader's fiscal year ended 31 August 2004.

3. Balance Sheet Components

3.1 Property and Equipment

The major components of property and equipment as shown in the balance sheet as of 31 August 2004 and 31 August 2003 as well as the changes in property and equipment in the fiscal year ended 31 August 2004 are presented in the following table:

Fixed assets in €	01.09.2003	Additions	Disposals	31.08.2004
ACQUISITION COSTS:				
Computer hardware and software	1,435,580	116,299	92,896	1,458,983
Furniture and fixtures	1,156,324	29,908	32,073	1,154,159
Leasehold improvements	1,163,319	1,100	6,578	1,157,841
Total tangible assets	3,755,223	147,307	131,547	3,770,983
Total fixed assets	3,755,223	147,307	131,547	3,770,983
ACCUM. DEPRECIATION; AMORTISATION AND WRITE-DOWNS:				
Computer hardware and software	1,131,938	229,519	84,605	1,276,852
Furniture and fixtures	541,125	94,545	24,283	611,387
Leasehold improvements	283,840	307,645	2,576	588,909
Total tangible assets	1,956,903	631,709	111,464	2,477,148
Total fixed assets	1,956,903	631,709	111,464	2,477,148
	31.08.2003			31.08.2004
NET BOOK VALUE				
Computer hardware and software	303,642			182,131
Furniture and fixtures	615,199			542,772
Leasehold improvements	879,479			568,932
Total tangible assets	1,798,320			1,293,835
Total fixed assets	1,798,320			1,293,835

Leasehold improvements contain an amount for retirement obligations that SinnerSchrader recognised initially upon adoption of SFAS No. 143 "Accounting for Asset Retirement Obligations" on 1 September 2002 and depreciates over the remaining term of the lease. Upon adoption SinnerSchrader of SFAS No. 143 SinnerSchrader determined the fair value of the retirement obligations stipulated in the lease contracts, credited the amount to long-term liabilities and increased the carrying value of the fixed assets concerned correspondingly. As of 31 August 2004 and 31 August 2003, the net book value of the capitalised asset retirement obligation amounted to € 24,954.73 and € 38,566.39, respectively.

3.2 Other Current Assets and Prepaid Expenses

The major components of other current assets and prepaid expenses are shown in the following table:

Other current assets and prepaid expenses in €	31.08.2004	31.08.2003
Tax receivables	568,417	2,258,549
Remaining other current assets	30,712	101,354
Prepaid expenses	187,268	69,389
Total other current assets and prepaid expenses	786,397	2,429,292

3.3 Accrued Expenses

Accrued expenses consist of the following:

Accrued expenses in €	31.08.2004	31.08.2003
Accrued compensation	564,853	483,328
Accrued warranty expense	235,682	181,493
Accrued rent and related expenses	70,539	132,959
Accrued losses on contracts	24,907	5,057
Other accruals	185,608	206,000
Total accrued expenses	1,081,589	1,008,837

3.4 Liability to Shareholders

On 28 January 2004, SinnerSchrader AG's shareholders passed a resolution to distribute € 20,768,780 from additional paid-in capital to all shareholders by means of an increase in common stock capital from additional paid-in capital and a subsequent decrease of common stock capital by the same amount for the purpose of returning that capital to shareholders. The resolution became effective with its entry into the trade register on 13 April 2004. According to Article 225 item 2 of the Stock Corporation Act ("AktG") the capital can only be distributed to shareholders after a six month waiting period beginning on the day that the resolution's entry into the trade register was publicly announced which was on 5 May 2004. Thus, SinnerSchrader AG decided to execute the distribution on 8 November 2004. Consequently, in the balance sheet as of 31 August 2004 the amount of € 20,768,780 to be distributed was taken from shareholders' equity and shown as a liability to shareholders.

3.5 Other Short-Term Liabilities and Deferred Revenue

Other short-term liabilities and deferred income consist of the following components:

Other liabilities and deferred revenue in €	31.08.2004	31.08.2003
Liabilities from social security and similar obligations	168,245	187,262
Liabilities from income tax	181,798	140,596
Liabilities from value added tax	138,348	134,870
Liabilities from restructuring measures	183,628	–
Deferred revenue	72,599	109,302
Other liabilities	17,886	16,239
Total other liabilities and deferred revenue	762,504	588,269

3.6 Long-Term Liability

The long-term liability of € 86,841 and € 80,408 shown in the balance sheets as of 31 August 2004 and 31 August 2003, respectively, concern asset retirement obligations from the lease contract for the office building in Hamburg which become due upon termination of that contract at the earliest date possible which is 30 June 2006. The changes in the long-term liability by € 6,433 and € 5,956 in 2003/2004 and 2002/2003, respectively, reflect the accretion of the liability according to SFAS No. 143.

3.7 Commitment and Contingencies

SinnerSchrader leases its office facilities in Hamburg and Frankfurt and certain equipment and cars under operating leases. As of 31 August 2004, future annual minimum lease payments from those contracts are as follows:

Financial commitments in €	31.08.2004	31.08.2003
01.09.2004 – 31.08.2005	1,190,625	1,173,745
01.09.2005 – 31.08.2006	1,297,461	971,593
01.09.2006 – 31.08.2007	17,765	718
01.09.2007 – 31.08.2008	2,886	–
after 01.09.2008	–	–
Total	2,508,737	2,146,056

Total rent expenses for the years 2003/2004 and 2002/2003 were € 1,158,511 and € 1,150,788, respectively. The expenses were partly offset by income from subleases amounting to € 13,860 and € 3,568, respectively.

The Group has certain contingent liabilities that arise in the ordinary course of business activities. The Group accrues contingent liabilities when it considers it more likely than not that future expenditure will be made and such expenditure can be reasonably estimated.

The consolidated Group companies are subject to various legal claims primarily related to employment issues and issues regarding the refurbishment of its office space. As of 31 August 2004 and 31 August 2003, accruals related to those claims amounted to € 110,500 and € 110,500, respectively, and are part of accrued compensation and other accrued expenses shown in note 3.3. The ultimate outcome of the legal proceedings is uncertain and the potential loss, if any, maybe higher and lower than amounts accrued by the Group.

In the relationships to its clients, SinnerSchrader regularly takes on various liabilities, indemnifications and warranties under individual professional service agreements, general terms and conditions and German law. Liabilities typically relate to personal injury, property damage and financial damage caused by the works of SinnerSchrader or late delivery of the works implemented under contracts with its clients. Indemnifications regularly concern any claim asserted against its clients for infringement of intellectual property rights caused by the works delivered by SinnerSchrader and used by the clients. Furthermore, SinnerSchrader warrants that the work developed for its clients will operate in accordance with specifications without defects for a certain warranty period subject to limitations that the Group believes are standard in the industry. Under those warranties SinnerSchrader is obliged to remedy any defects until the solution provided operates within the specifications. SinnerSchrader is not typically obliged to provide its clients with any refund of fees in the event of default, although in some contracts the client has retained the right to renege on a contract if SinnerSchrader cannot remedy the defects.

The maximum potential amount of future payments or costs incurred under the liabilities, indemnifications and warranties from its client relationships is unlimited. SinnerSchrader, however, regularly stipulates in its contracts as well as in its terms and conditions limitations to the commitments wherever possible under German law. In addition, SinnerSchrader has purchased insurance policies covering its liabilities relating to personal injury, property damage and financial damage up to an amount that is deemed sufficient given the overall size of the business and the maximum size of individual contracts.

With respect to its warranty-related obligations, SinnerSchrader typically provides in its contracts for testing and client acceptance procedures that are designed to mitigate the likelihood of warranty claims, although there can be no assurance that such procedures will be effective in each project. Based upon an individual assessment of each project against past experience, SinnerSchrader accrues for the costs to be incurred due to warranty-related claims. The amounts accrued as of 31 August 2004 and 31 August 2003, respectively, are shown in note 3.3.

As part of its efforts to reduce the office space leased but not used, SinnerSchrader agreed to act as a guarantor for a company that stepped into one of its lease contracts. The lease contract transferred to that company terminates on 31 May 2005. As of 31 August 2004, the remaining lease obligations amounted to € 56,018.

4. Components of the Statement of Operations

4.1 Costs and Operating Expenses by Expenditure

The breakdown of the total of costs of revenues and selling, administrative as well as research and development expenses by expenditure is shown in the following table:

Operating costs excluding restructuring costs by expenditure in €	2003/2004	2002/2003
Personnel expenses	7,801,121	8,869,219
Costs of materials and services in cost of revenue		
Materials	144,502	110,851
Services	500,094	510,027
Depreciation of property & equipment	631,709	692,070
Other operating expenses	2,607,927	2,796,528
Total	11,685,353	12,978,696

4.2 Restructuring Charges and Other Related Charges

Starting in 2000/2001, SinnerSchrader undertook consecutive steps to align its cost base to the severe decline in demand for Internet-related consulting, design, and IT-services by reducing its workforce, consolidating its facilities and closing its foreign operations.

Due to the continuing decline in revenues in the first half of fiscal 2003/2004, SinnerSchrader undertook additional restructuring measures and further reduced its workforce by 24 employees. In parallel, SinnerSchrader reorganised its management structure and as part of the reorganisation reduced the number of Management Board members by one to two. The cost of these measures amounted to € 546,685. € 423,708 of the total costs were already charged in 2003/2004 while the remaining amount of € 122,977 is recognised under accrued expenses or other liabilities. As far as the consolidation of its office facilities is concerned, the estimate of total cost of the measures taken had to be increased by € 10,962.

In fiscal year 2002/2003 total restructuring charges amounted to € 172,969, € 105,352 for personnel-related measures, € 67,617 for facility-related measures.

Restructuring charges concerning workforce reductions include all costs relating to the termination of employment contracts, including severance payments, payroll cost for periods in which the concerned employees were released from their work duty and legal costs. Restructuring charges concerning facilities include rent and service charges, the cost of efforts to sublet or to be released from the rent agreements (such as the cost of legal advice, premium payments to surrender and fees to real estate agents) as well as depreciation/impairment charges on leasehold improvements and office equipment that had to be abandoned.

The following tables summarise restructuring and other related charges for the years ended 31 August 2004 and 31 August 2003 as well as the amount of accrued restructuring expenses and restructuring liabilities as of the respective balance sheet dates:

Restructuring charges in €			Utilised				
	Balance 01.09.2003	Additional charges	Non-cash	Cash	Dissolved	Currency adjustments	Balance 31.08.2004
2003/2004:							
Workforce	10,500	546,685	–	- 423,708	–	–	133,477
Facilities	132,960	10,962	–	- 76,546	–	–	67,376
Total	143,460	557,647	–	- 500,254	–	–	200,853
	Balance 01.09.2002						Balance 31.08.2003
2002/2003:							
Workforce	558.227	105,352	–	- 553,079	- 100,000	–	10,500
Facilities	314.599	67,617	- 64,307	- 183,676	–	- 1,273	132,960
Total	872.826	172,969	- 64,307	- 736,755	- 100,000	- 1,273	143,460

4.3 Interest Income / Expenses and Gains / Losses Realised From Marketable Securities

The interest income and expenses position consists of the following components:

Interest income and expenses in €	2003/2004	2002/2003
Interest income	536,556	861,654
Gains/losses realised net on the sale of marketable securities	288,261	- 34,371
Interest expenses	- 1,093	- 18,747
Total	823,724	808,536

5. Pension Plans

Since January 2003, SinnerSchrader has been offering its employees the opportunity to participate in a defined contribution pension plan. Under this plan SinnerSchrader contributes up to a maximum of € 4,601 per employee in the fiscal year 2003/2004 and € 4,282 in the fiscal year 2002/2003 to individual pension/life insurance policies provided by a third party insurance company. Total Group contributions to this plan in the fiscal year 2003/2004 and 2002/2003 amounted to € 53,151 and € 40,081, respectively, and were recorded under cost of revenue and operating expenses according to the position of the participating employee.

6. Shareholders' equity

6.1 Common Stock

On 31 August 2004 and 31 August 2003, the common stock of SinnerSchrader AG amounted to € 11,542,764 and € 11,542,764, respectively. It was divided into 11,542,764 no-par value ordinary shares with a nominal value of € 1 per share.

On 31 August 2004 and 31 August 2003, 10,937,164 shares and 10,932,341 shares, respectively, of all shares issued were outstanding. The remaining 605,600 shares and 610,423 shares, respectively, were held by SinnerSchrader AG as treasury stock (see note 6.6).

6.2 Additional Paid-In Capital

The additional paid-in capital stems primarily from SinnerSchrader AG's initial public offering ("IPO") in November 1999. Through the IPO SinnerSchrader AG issued a total of 2,475,000 new shares of common stock from a capital increase (including greenshoe) at a price of € 12 per share. Net of expenses for the flotation of € 1.7 million, the offering raised aggregate proceeds of € 28.0 million. The cost resulting from the initial public offering was charged against additional paid-in capital net of tax effects of € 0.9 million.

On 28 January 2004, SinnerSchrader AG's shareholders passed a resolution to distribute € 20,768,780 from additional paid-in capital to all shareholders by means of an increase of common stock capital from additional paid-in capital and a subsequent decrease of common stock capital by the same amount for the purpose of returning that capital to shareholders. The resolution became effective with its entry into the trade register on 13 April 2004. Consequently, the additional paid-in capital was reduced by € 20,768,780 (see note 3.4) as of 31 August 2004.

6.3 Authorised Capital

On 28 January 2004, the shareholders of SinnerSchrader AG cancelled their authorisation to the Management Board to increase the AG's common stock with the approval of the Supervisory Board in one or more steps until 30 September 2004 by up to a maximum of € 4,650,000 as far as that authorisation had not been used.

At the same time, the shareholders of SinnerSchrader AG gave authorisation to the Management Board to increase the AG's common stock with the approval of the Supervisory Board in one or more steps until 15 January 2009 by up to a maximum of € 5,770,000. The resolution became effective by entry into the trade register on 13 April 2004.

Common stock was not increased in the years 2003/2004 and 2002/2003.

6.4 Conditional Capital

On 31 August 2004 and 31 August 2003, SinnerSchrader AG had conditional capital of € 750,000 covering the grants under SinnerSchrader's 2000 Stock Option Plan and 1999 Stock Option Plan described under 6.5.

6.5 Employee Stock Option Plans

» SINNERSCHRADER 1999 STOCK OPTION PLAN:

In October 1999, the shareholders of SinnerSchrader AG approved the SinnerSchrader 1999 Stock Option Plan ("the 1999 Plan") which provides for the granting of stock options to the members of the Management Board of SinnerSchrader AG, the management of affiliated companies, all employees of SinnerSchrader AG, as well as all employees of affiliated companies. The total number of options that can be assigned by the Management Board and the Supervisory Board of SinnerSchrader AG is 375,000 of which 40,000, 10,000, 55,000, and 270,000, respectively, are dedicated to the above mentioned groups. Under the 1999 Plan the Management Board and the Supervisory Board are authorised to grant options until 8 November 2004.

Options granted under the 1999 Plan have an exercise price of 120 % of the average Frankfurt closing price during the ten trading days prior to the grant date. Options granted on 1 November 1999, the day of the initial public offering, had an exercise price of € 14.40. The options of the 1999 Plan vest in equal instalments of one third over two, three, and four years. They have to be exercised within six years of the date of grant. As of 31 August 2004, a total of 195,148 stock options from the 1999 Plan were outstanding which were granted with an average exercise price of € 19.17. In 2003/2004 and 2002/2003, employees exercised 2,559 options with an average exercise price of € 2.76 and 0 options, respectively.

» SINNERSCHRADER 2000 STOCK OPTION PLAN:

In December 2000, the shareholders of SinnerSchrader AG approved the SinnerSchrader 2000 Stock Option Plan ("the 2000 Plan") which provides for the granting of stock options to the members of the Management Board of SinnerSchrader AG, the management of affiliated companies, all employees of SinnerSchrader AG, as well as all employees of affiliated companies. The total number of options that can be assigned by the Management Board and the Supervisory Board of SinnerSchrader AG is 375,000 of which 40,000, 40,000, 55,000, and 240,000, respectively, are dedicated to the above mentioned groups. Under the 2000 Plan the Management Board and the Supervisory Board are authorised to grant options until 10 January 2006.

Options granted under the 2000 Plan have an exercise price of 120 % of the average Frankfurt closing price during the ten trading days prior to the grant date. The options of the 2000 Plan vest in equal instalments of one third over two, three, and four years. They have to be exercised within six years of the date of grant. As of 31 August 2001 a total of 145,135 stock options from the 2000 Plan were outstanding which were granted with an average exercise price of € 2.35. In 2003/2004 and 2002/2003, employees exercised 3,668 options with an average exercise price of € 2.76 and 0 options, respectively.

The following table summarises changes in the number of options outstanding from the 1999 Plan and 2000 Plan for the years 31 August 2004 and 31 August 2003:

Outstanding stock options in € and number	Number of options	Weighted average exercise price	Weighted average grant date fair value
Outstanding at 31 August 2002	369,650	12.89	6.30
Granted	72,300	1.62	0.74
Exercised	–	–	–
Cancelled	- 79,263	8.94	4.37
Outstanding at 31 August 2003	362,687	11.51	5.61
Granted	–	–	–
Exercised	- 6,227	2.76	1.30
Cancelled	- 16,177	4.51	2.31
Outstanding at 31 August 2004	340,283	12.00	5.84

The fair value of each option on the date of grant was estimated using the Black-Scholes option pricing model based on the parameters listed in the table presented in note 2.11.
Additional information on all options outstanding at 31 August 2004 is listed in the following table:

Outstanding stock options in € and number	Options outstanding			Options exercisable	
Range of exercise price	Number	Weighted average remaining contractual life in years	Weighted average exercise price	Number	Weighted average exercise price
0.00 – 5.00	212,730	3.38	2.49	50,895	2.90
5.01 – 10.00	14,970	2.62	6.76	10,842	6.80
10.01 – 30.00	61,840	1.47	15.40	57,514	15.20
30.01 – 50.00	26,204	1.89	36.01	22,542	36.39
50.01 – 90.00	24,539	1.54	63.43	24,539	63.43
Total	340,283	2.75	12.00	166,332	20.88

6.6 Treasury Stock

In fiscal years 2003/2004 and 2002/2003, SinnerSchrader AG repurchased 1,404 and 560,423 shares of its own common stock, respectively, for an average purchase price of € 2.01 and € 1.54. In 2003/2004 6,227 shares from treasury stock were re-issued to employees exercising their stock options. In 2002/2003, SinnerSchrader AG issued 36,227 shares from treasury stock to honour a final purchase price obligation from the acquisition of Netmatic Internet/Intranet Solutions GmbH. Thus, the total number of shares in treasury stock amounted to 605,600 and 610,423 at 31 August 2003 and 31 August 2002, respectively.

6.7 Deferred Compensation

Deferred compensation is amortised according to the vesting schedule of the stock programme acquired as a part of the Netmatic Internet/Intranet Solutions GmbH acquisition or when the respective employees leave the company before vesting occurred.

7. Income Tax

The income tax provisions/benefits presented in the statement of operations of the fiscal years 2003/2004 and 2002/2003 are split into current and deferred tax provisions/benefits as shown in the following table:

Income tax in €	2003/2004	2002/2003
Current	1,559	- 40,827
Deferred	- 52,559	52,559
Total	- 51,000	11,732

The income tax provisions/benefits shown in the statement of operations differ from the amounts computed by applying the statutory income tax rate to income before taxes. For the fiscal periods ended 31 August 2004 and 31 August 2003 the statutory income tax rate was at 40,4 % consisting of municipal trade tax ("Gewerbesteuer") at 19.0 %, corporate tax ("Körperschaftsteuer") at 25 % and a corporate tax surcharge ("Solidaritätszuschlag") of 5.5 %. In computation of the total statutory income tax rate it has to be considered that the municipal trade tax charge reduce the tax base for corporate tax purposes (including the surcharge).

The following table presents the reconciliation of tax provisions/benefits shown in the statements of operations to the income tax provisions/benefits expected under the statutory income tax rate:

Tax reconciliation in €	2003/2004	2002/2003
Tax provision (+), tax credit (-) at statutory rate:	- 235,100	- 367,598
NON-DEDUCTIBLE EXPENSES/NON TAXABLE INCOME:		
Non-deductible amortisation of deferred stock compensation	8,793	34,285
Other non-deductible expense/non taxable income	6,583	- 73,681
Changes in valuation allowance for deferred tax assets of domestic Group companies	162,876	632,379
Changes in valuation allowances for deferred tax assets and differences in tax rates concerning losses in foreign Group companies, net of tax effects on consolidation	656	- 19,738
Tax effects of losses carried backwards	–	- 143,319
Current taxes relating to prior years	1,559	- 40,827
Other	3,633	- 9,769
Provision for income tax	- 51,000	11,732

The deferred tax positions as of 31 August 2004 and 31 August 2003 consist of the following items:

Deferred tax positions in €	31.08.2004	31.08.2003
DEFERRED TAX ASSETS:		
Loss carry-forwards	1,543,155	1,374,166
Valuation of accrued expenses	62,261	72,635
Valuation allowance	- 1,507,330	- 1,317,622
Total deferred tax assets	98,086	129,179
DEFERRED TAX LIABILITIES:		
Valuation of unfinished/unbilled services	72,518	129,396
Valuation of unrealised gains on marketable securities available-for-sale	- 939	3,805
Valuation of fixed assets	19,420	38,464
Valuation of current assets	4,564	9,505
Total deferred tax liabilities	95,563	181,170
Total deferred tax assets/liabilities, net thereof:	2,523	- 51,991
Deferred tax liability	–	- 52,559
Accumulated other comprehensive income/loss	2,523	568

As of 31 August 2004 and 31 August 2003, SinnerSchrader had tax loss carry-forwards in Germany, UK and the Netherlands. In all countries, these losses for tax purposes carry forward indefinitely. The loss carry-forwards in the foreign entities will most likely not be usable since operating business was ceased in those countries. Due to the formation of a Group for tax purposes between Sinner-Schrader AG and its domestic subsidiaries effective from the beginning of fiscal 2003/2004, the use of the carry-forwards of losses at the subsidiary level from periods prior to the formation of the tax group is postponed until after the dissolution of that tax group. In addition, German tax laws contain provisions which limit the amount of tax loss carry-forwards that can be used in any given year and which stipulate additional conditions to be met for the use of loss carry-forwards upon occurrence of certain events, such as a significant change in ownership.

Due to these circumstances, the further net loss generated in 2003/2004 and the still limited operating history, a valuation allowance has been recorded for the deferred tax assets up to the value that is covered by deferred tax liabilities on a tax-entity-by-tax-entity basis.

8. Related Party Transactions

During 2003/2004 and 2002/2003 SinnerSchrader generated revenues with companies in which members of its Supervisory Board hold General Management or Supervisory Board positions of € 1,952,208 and € 1,606,534, respectively. The total of accounts receivable and unbilled services net of bad debt allowances to those companies on 31 August 2004 and 31 August 2003 amounted to € 408,758 and € 332,097, respectively.

A company in which one member of the AG's Supervisory Board is the managing partner provided legal services to SinnerSchrader during 2002/2003. The total net amount charged to SinnerSchrader in that period was € 10,098. In 2003/2004 SinnerSchrader did not purchase any services from that company.

In September 2002, SinnerSchrader entered into a consultancy agreement with a former member of the Management Board who retired from his position on 31 August 2002. Under the terms of the agreement, SinnerSchrader bought consultancy services in the amount of € 72,000 in both fiscal 2003/2004 and 2002/2003. The agreement terminated on 31 August 2004.

9. Subsequent Events

On 8 November 2004, SinnerSchrader AG distributed an amount of € 1.82 per share to 11,411,417 shares of common stock outstanding on 5 November 2004 according to the shareholder resolutions concerning the capital reduction from 28 January 2004 (see note 6.2). The total amount of the distribution was € 20,768,779. The difference between the amount actually distributed and the amount stated in the resolution of € 20,768,780 was due to the rounding off of the per-share amount of the distribution to full cents. The difference will flow back into shareholders' equity.

10. Supplementary information required by HGB

Supplementary information to the notes to consolidated financial statements of SinnerSchrader AG regarding the board of management, the supervisory board, and the declaration of compliance according to § 161 of the German Stock Coporation Act (AktG) are presented in the notes to the financial statements of SinnerSchrader AG.

10.1 Employees

In the years 2003/2004 and 2002/2003 an average of 147 and 177 employees, respectively, were employed by SinnerSchrader.

11. Summary of Significant Differences Between US-GAAP and German Law with Regard to Accounting, Valuation and Consolidation Principles

11.1 General

The consolidated financial statements of SinnerSchrader AG as of 31 August 2004, were drawn up in accordance with § 292 a of the German Commercial Code (HGB) applying the US generally accepted accounting principles ("US-GAAP") and German accounting standard No.1 ("DRS 1") of the German Accounting Standards Committee (Deutscher Standardisierungsrat DSRC e.V.) as consolidated financial statements with discharging effect.

The regulations of the Commercial Code (HGB) and of the German Stock Corporation Act (AktG) differ in certain key aspects from the US-GAAP. The main differences which could be relevant for assessing the assets and liabilities, financial position and results of the company are presented below.

Under the Commercial Code (HGB), all balance sheet and income statement lines must be presented in the form and sequence specified in § 266, § 275 HGB. Under US-GAAP, items are compiled differently and the sequence of the balance sheet lines begins with the short-term items.

Under US-GAAP, the short-term parts of long-term receivables and liabilities are stated in a separate line of the balance sheet. The part which is due within one year is treated as short-term.

11.2 Tangible Assets

Unlike in the HGB accounts, acquired standard software for internal use is not shown as an intangible asset but is included within tangible assets as plant and office equipment. The manufacturing cost of software developed in-house can be capitalised under US-GAAP and depreciated over the normal useful life. Under HGB, software created in-house cannot be capitalised as tangible assets. In the fiscal year and in the previous years the Company charged all manufacturing costs of software developed in-house against income also under US-GAAP. Pursuant to HGB, accelerated depreciation permitted under German Income Tax Law (§ 7 EStG) is stated as special reserves and dissolved as expense over the useful life of the assets concerned. In accordance with US-GAAP depreciation only permissible under tax law was not taken into account.

Under HGB, depreciation was charged in agreement with the tax regulations on a straight-line basis applying the half-year method ("Halbjahresmethode") until 31 August 2003. Under US-GAAP, straight-line depreciation was charged as from the day of the addition.

11.3 Deferred Taxes on Loss Carry-Forwards

According to HGB, deferred tax refund claims arising from tax loss carry-forwards may not be stated in the balance sheet, as the expected future tax savings are deemed to have not yet been realised.

Under US-GAAP such future tax refund claims have to be capitalised. Their value depends on whether it is more likely than not that they can be used before they expire In the fiscal year 2003/2004 owing to the uncertainty of realisation, the capitalised tax loss carry-forwards of all consolidated companies of SinnerSchrader were written down to the amount of deferred tax liabilities, if any, or zero as of 31 August 2004.

11.4 Employee Stock Options

Under US-GAAP, stock-based compensation paid to staff in the form of stock options can be stated on the balance sheet in two ways. According to one method the market value of the employee shareholding is determined and distributed as expense over the vesting time of the share option. Alternatively, only the difference between the exercise price of an option and the market price of the stock concerned at the time the option was granted (intrinsic value) may be spread as expense over the vesting period. When applying the latter method, the impact on net income of accounting for stock-based compensation using the first method must be disclosed in a pro-forma calculation in the financial statements. SinnerSchrader AG has selected the intrinsic value method to account for its stock-option plans.

Under the prevailing accounting practice pursuant to HGB, only the capital increase upon exercising of the options would be accounted for. Personnel expense is not taken into account.

11.5 Asset Retirement Obligations

As defined in the German Commercial Code (HGB), provisions for asset retirement obligations are generated by a one-time allocation of the total amount of the obligation when the obligation is established. The expenditures thus incurred are recorded in the operating results.

From the beginning of the business year started on 15 June 2002, US GAAP governs balance sheet procedures for recording asset retirement obligations as defined in SFAS 143. With the introduction of SFAS 143, companies are required to record liabilities for asset retirement obligation at fair value. Parallel, the asset retirement cost must be capitalised and depreciated over the remaining useful life of the asset. The obligation accrues interest until a drawdown occurs.

11.6 Valuation of Certain Accrued Expenses

When valuing certain types of accruals, US-GAAP requires other criteria to be met in order for expenses to be eligible for accruing than are required under HGB. In the financial statements of SinnerSchrader AG, differences in criteria primarily exist with respect to expenses and obligations from the rent agreement for the office in Hamburg.

For accruing rent expense for idle office space, US-GAAP requires the respective space to be separable, while under HGB the cost of non-separable idle space must be accrued.

With respect to severance payments which become due upon making use of contractual breakout clauses, US-GAAP requires the notice to have be given to the other party to the contract before the respective expense can be accrued, while under HGB a resolution taken by SinnerSchrader AG is sufficient for accruing.

11.7 Equity capital

Under HGB, SinnerSchrader AG would have had to draw up consolidated financial statemtents for the first time following the acquisition of SinnerSchrader Interactive Marketing GmbH and SinnerSchrader Interactive Software GmbH on 27 August 1999. The difference between the investment stated at market value and the equity of the subsidiaries would have had to be distributed in line with the actual values of the assets and liabilities included and the remaining amount would have had to be stated as goodwill and either amortised over the expected useful life or netted with the capital reserve on the face of the balance sheet. The subscribed capital of the Company would have been formed by the capital of the single financial statements.

Under US-GAAP, the capital consolidation of SinnerSchrader AG was prepared in line with APB No. 16 “Business Combinations” as a “transaction under common control”, according to which the shares of SinnerSchrader Interactive Marketing GmbH and SinnerSchrader Interactive Software GmbH were contributed to SinnerSchrader AG at the book value of the respective equity. Consequently, no differential amount arose from this transactions under US-GAAP.

11.8 Deferral of personnel expense

In connection with the acquisition of Netmatic part of the purchase price paid in shares of the Company accrued indirectly to the staff of the acquired company. Under US-GAAP, this part is to be charged against income over the period over which the shares are likely to be issued to the employees. As these shares derive from a capital increase, the shareholders' equity has to be corrected accordingly by a deferred compensation item. The deferred compensation item is dissovled pro rata through the retained earnings, so that at no time an increase of shareholders' equity is shown for this portion of the capital increase.

Under HGB, this part of the capital increase would have been attributed to the acquisition cost and as a result would have increased goodwill.

11.9 Revenue recognition

Under US-GAAP, revenue for services is recognised in accordance with American Institute of Public Accountants Statement of Position (SOP) 81-1 "Accounting for performance of construction type and certain production type contracts". Services in process are under US-GAAP entered according to the percentage of completion method in which the respective project progress leads to the proportional recognition of revenue. Application of the percentage of completion method is subject to the traceable and verifiable recording of project progress.

Under HGB, the completed contract method must be applied under which services in process are included in inventories at manufacturing cost. The revenue is not taken into account until the services have been completed.

11.10 Valuation of securities classified as current assets (available-for-sale)

Under US-GAAP, securities under current assets are stated at their market value on the balance sheet date if they are held available for sale at any time. Gains or losses that have not yet been realised by sale are stated without affecting net income as an adjustment item in shareholders' equity and are part of comprehensive income.

Under HGB, SinnerSchrader AG states securities classified as current assets at the lower of acquisition cost and market value.

Hamburg, November 2004

Matthias Schrader **Thomas Dyckhoff**

Auditors' Opinion

We have issued the following opinion on the Consolidated Financial Statements and Group Management Report, which was combined with the Management Report of the Company:

We have audited the Consolidated Financial Statements of SinnerSchrader Aktiengesellschaft, including the consolidated balance sheet and the related consolidated statements of operations, cash flow, changes in shareholders' equity, notes and Group Management Report for the business year from 1 September 2003 to 31 August 2004. The preparation and the content of the Consolidated Financial Statements is the responsibility of the Company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements in accordance with United States Generally Accepted Accounting Principles (US-GAAP), based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with the German Auditing Rules and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW: Institute of Public Auditors in Germany). These standards require that we plan and perform the audit so that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with principles of proper accounting and in the Management Report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. The audit includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements present a true and fair view of the Group's financial position, results of operations and cash flows in accordance with US-GAAP.

Our audit which also includes the Group Management Report for the fiscal period from 1 September 2003 to 31 August 2004, which is the responsibility of the Management Board, has not given rise to any reservations. In our opinion the combined Management and Group Management Report conveys a suitable presentation of the situation of the Group taken as a whole and presents the risks to its future developments adequately. Additionally, we confirm that the Consolidated Financial Statements and the combined Management and Group Management Report for the fiscal period from 1 September 2003 to 31 August 2004 meet the requirements for an exemption to prepare consolidated financial statements and combined management and group management reports in accordance with the rules and regulations of the German Commercial Code.

Hamburg, 26 November 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Schneider	**Schiersmann**
Wirtschaftsprüfer	Wirtschaftsprüfer

5

Annual Financial Statements of SinnerSchrader AG

Balance Sheets of SinnerSchrader AG

as of 31 August 2004 and 31 August 2003

Assets in €	31.08.2004	31.08.2003
FIXED ASSETS:		
Intangible assets:		
Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	29,443	76,029
Tangible assets:		
Other equipment, plant and office equipment	359,821	457,066
Leasehold improvements	541,453	819,350
Total tangible assets	901,274	1,276,416
Financial assets:		
Shares in affiliated companies	8,000,000	8,000,000
Total financial assets	8,000,000	8,000,000
Total fixed assets	8,930,717	9,352,445
CURRENT ASSETS:		
Receivables and other assets:		
Receivables from affiliated companies	1,917,996	1,886,826
Other assets	568,956	2,182,188
Total receivables and other assets	2,486,952	4,069,014
Securities:		
Treasury stock	926,438	933,145
Other securities	25,701,594	21,267,888
Total securities	26,628,032	22,201,033
Cash on hand and in banks	189,743	3,319,281
Total current assets	29,304,727	29,589,328
Prepaid expenses	50,919	27,642
Total assets	38,286,363	38,969,415

Balance Sheets

Liabilities and shareholders´ equity in €	31.08.2004	31.08.2003
SHAREHOLDERS´ EQUITY:		
Subscribed capital (conditional capital: € 750,000; previous year: € 750,000)	11,542,764	11,542,764
Capital surplus	2,603,673	23,823,353
Reserves:		
Reserve for treasury stock	926,438	933,145
Other reserves	401,467	404,286
Retained earnings/accumulated deficit	–	–
Total shareholders´ equity	15,474,342	36,703,548
ACCRUALS:		
Other accrued liabilities	1,661,500	2,001,567
Total accrued liabilities	1,661,500	2,001,567
LIABILITIES:		
Liabilities to shareholders	20,768,780	–
thereof with a remaining term up to one year: € 20,768,780 (previous year: € 0)		
Trade payables	69,666	46,491
thereof with a remaining term up to one year: € 69,666 (previous year: € 46,491)		
Other liabilities	308,075	217,809
thereof with a remaining term up to one year: € 308,075 (previous year: € 217,809)		
thereof taxes € 162,022 (previous year: € 152,911)		
thereof relating to social security and similar obligations € 39,633 (previous year: € 20,658)		
Total liabilities	21,146,521	264,300
Deferred revenues	4,000	–
Total liabilities and shareholders´ equity	38,286,363	38,969,415

Statement of Operations of SinnerSchrader AG

for the fiscal years 2003/2004 and 2002/2003

in €	2003/2004	2002/2003
Revenues	1,597,017	1,167,025
Other operating income	336,556	86,178
Material expense:		
Expense for benefits	- 65,170	–
Personnel expense:		
Wages and salaries	- 1,248,901	- 1,136,201
Social security	- 175,696	- 155,460
Total personnel expense	- 1,424,597	- 1,291,661
Depreciation of intangible assets, property and equipment	- 445,847	- 357,133
Other operating expenses	- 1,771,943	- 3,857,766
Income from profit/loss transfer agreement	780,617	–
Other interest and similar income	546,095	1,044,602
thereof from affiliated companies: € 6,541 (previous year: € 219,210)		
Depreciation of financial assets and securities classified as current assets	- 4,887	–
Interest and similar expense	- 7,061	- 131,983
thereof from affiliated companies: € 6,148 (previous year: € 117,985)		
Income from ordinary activities	- 459,220	- 3,340,738
Taxes on income	- 1,559	7,369
Other taxes	353	- 271
Net income	- 460,426	- 3,333,640
Withdrawal from capital surplus	450,900	3,286,545
Income from capital reduction	20,768,780	–
Liability to shareholders due to capital reduction	- 20,768,780	–
Withdrawal from reserves:		
from reserves for treasury stock	9,526	47,095
from other reserves	2,819	868,145
Additions to reserves:		
to reserves for treasury stock	- 2,819	- 868,145
Balance sheet profit	–	–

1. Legal Fundamentals

The company is considered to be a large corporation as defined by Article 267 of the German Commercial Code (HGB). The annual financial statements were prepared in compliance with the regulations of the Commercial Code (HGB) and of the German Stock Corporation Act (AktG).

2. Accounting and Valuation Principles

The annual financial statements are drawn up in euros.

Tangible and intangible assets are stated at acquisition or manufacturing costs less scheduled depreciation. The straight-line method of depreciation is applied with useful lives of three to fifteen years. The full annual rate of depreciation is applied to additions of movable assets in the first half of the fiscal year and half the annual rate to additions in the second half of the year. Low-value assets with acquisition costs of up to € 410 are depreciated in full in the year of addition. Leasehold improvements are written off on a straight-line basis over the period of the lease contract since moving into the office in September 2001. At the beginning of the last business quarter 2002/2003 this lease contract was shortened to the date of the one-off special termination right.

Financial assets are stated at purchase cost or at the lower value applicable on the balance sheet date.

If the value of the fixed assets as calculated by the preceding methods is below that attributable to them on the balance sheet date, extraordinary depreciation and amortisation will take account of this. The valuation will be increased if the reasons for the depreciations and amortisations undertaken in previous years no longer apply.

Receivables and other assets are recorded at their nominal value. Receivables in foreign currency are stated at the original exchange rate or the exchange rate on the balance sheet date, whichever is lower.

Marketable securities are recorded at purchase price or market price, whichever is lower.

Other accrued liabilities cover all recognisable risks. They are stated at the amount which appears necessary according to reasonable commercial judgement.

Liabilities are recorded at the amount repayable. Foreign currency liabilities are stated at the original exchange rate or the exchange rate prevailing on the balance sheet date, whichever is higher.

3. Explanatory Notes on Items in the Balance Sheet

3.1 Fixed Assets

The development of fixed assets is presented in the following schedule:

Acquisition and manufacturing costs in €	01.09.2003	Additions	Disposals	31.08.2004
INTANGIBLE ASSETS:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	428,164	12,598	246	440,516
TANGIBLE ASSETS:				
Other equipment, plant and office equipment	744,940	132,252	168,002	709,190
Leasehold improvements	1,066,877	12,083	1,312	1,077,648
FINANCIAL ASSETS:				
Shares in affiliated companies	24,838,037	–	–	24,838,037
Investments	167,900	–	–	167,900
Loans to investee companies	51,129	–	–	51,129
Total	27,297,047	156,933	169,560	27,284,420

Accumulated depreciation in €	01.09.2003	Additions	Disposals	31.08.2004
INTANGIBLE ASSETS:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	352,135	59,080	142	411,073
TANGIBLE ASSETS:				
Other equipment, plant and office equipment	287,874	97,514	36,019	349,369
Leasehold improvements	247,527	289,252	584	536,195
FINANCIAL ASSETS:				
Shares in affiliated companies	16,838,037	–	–	16,838,037
Investments	167,900	–	–	167,900
Loans to investee companies	51,129	–	–	51,129
Total	17,944,602	445,846	36,745	18,353,703

Net book values in €	31.08.2003			31.08.2004
INTANGIBLE ASSETS:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	76,029			29,443
TANGIBLE ASSETS:				
Other equipment, plant and office equipment	457,066			359,821
Leasehold improvements	819,350			541,453
FINANCIAL ASSETS:				
Shares in affiliated companies	8,000,000			8,000,000
Investments	–			–
Loans to investee companies	–			–
Total	9,352,445			8,930,717

3.2 Securities

The securities consist of shares in money market and similar funds as well as corporate bonds with a term to maturity of less than one year, which are valued at acquisition cost.

3.3 Treasury Stock

On the balance sheet date SinnerSchrader held 605,600 in treasury stock with a total nominal value of € 605,600. This amount represents a share of 5.25 % of the total subscribed capital. SinnerSchrader acquired the treasury stock at an average rate of € 1.53 and holds this for the purposes stated in the respective resolutions of the Annual General Meeting.

A total of 1,404 shares were purchased on the stock market at an average price per unit of € 2.01 during the course of the financial year. 6,227 shares were issued as part of the employee share scheme against payment of an exercise price of € 2.76 per share.

The use of treasury stock is recorded in the balance sheet at the purchase cost or at the lower value applicable on the balance sheet date. Treasury stock is valued in the balance sheet at purchase price or market price, whichever is lower. A reserve for treasury stock has been set aside in the amount of the balance sheet valuation.

3.4 Receivables and Other Assets

All receivables and other assets valued at € 2,486,952 (previous year: € 4,069,014) have remaining terms of one year or less. Receivables due from affiliated companies comprise receivables based on profit and loss transfer agreements (€ 780,617, previous year € 0), trade payables (€ 338,816, previous year € 1,344,195) and other current assets due primarily to taxable entities (€ 798,563, previous year € 542,631).
Other assets are comprised in the main of tax refund claims against the tax authorities due from income tax paid (€ 568,206, previous year € 2,123,416).

3.5 Prepaid Expenses

The accrued prepaid expenses in the amount of € 50,919 (previous year: € 27,642) mainly consist of payments for software licences and service agreement payments relating to the current year.

3.6 Share Capital

The company's subscribed capital amounted to € 11,542,764 as of 31 August 2004. It is made up of 11,542,764 non-par value bearer shares with a nominal value of € 1.

The resolution passed at the stockholders' meeting of 28 January 2004, raised the share capital by € 20,768,780 from the additional paid-in capital without issuing new shares, and coincided with a further resolution to reduce it ordinarily by the same amount to repay stockholders. Both stockholder resolutions were entered in the trade register on 13 April 2004. The effect of both resolutions has been to leave the share capital unchanged against its level on 31 August 2003. The freed-up capital cannot be repaid until 8 November 2004, when the legally prescribed six-month period of trade protection following ex officio publication of the trade register entry on 5 May 2004 passes. The amount repayable of € 20,768,780 was therefore reported as a liability to stockholders on the balance sheet date.

In addition, the Annual General Meeting on 28 January 2004 passed a resolution authorising the Management Board to increase common stock by issuing no-par value ordinary shares with the approval of the Supervisory Board in one or more steps until 15 January 2009 by up to a maximum of € 5,770,000 against cash or a contribution in kind. At the same time the authorised capital still in existence according Article 5.1 of the AG's statutes was cancelled by resolution of the General Meeting. As of 31 August 2004 the authorised capital amounted to € 5,770,000.

By resolution of the Annual General Meeting of 26 October 1999, conditional capital in the amount of € 375,000 was created for the granting of rights to purchase 375,000 non-par value shares for employees and members of the management of the company and of affiliated companies ("1999 Option Programme"). As of 31 August 2004, 195,148 option rights with an average exercise price of € 19.17 were available. In the course of the 2003/2004 business year, employees of the company or its affiliates exercised 2,559 option rights at an exercise price of € 2.76.

By resolution of the Annual Shareholders' Meeting of 12 December 2000, conditional capital in the amount of € 375,000 was created for the granting of rights to purchase 375,000 non-par value shares to employees and members of the management of the company and of affiliated companies ("2000 Option Programme"). As of 31 August 2004, 145,135 option rights with an average exercise price of € 2.35 were outstanding. In the course of the 2003/2004 business year, employees of the company or its affiliates exercised 3,668 options at an exercise price of € 2.76.

3.7 Capital Reserve

The capital reserve developed as follows in the 2002/2003 fiscal year:

Capital reserve SinnerSchrader AG in €	
Capital reserve as at 31.08.2003	23,823,353
Surplus from capital increases	–
Withdrawal from capital reserve	450,900
Capital increase	20,768,780
Capital reserve as at 31.08.2004	2,603,673

To balance the net income capital reserve was reduced by € 450,900 according to Article 150 item 4 No. 1 German Stock Corporation Act (AktG).

The capital increase from company funds was effected by the resolution taken at the stockholders' meeting of 28 January 2004 in conjunction with an ordinary reduction for repayment (see Item 3.6).

3.8 Reserve for Treasury Stock

The reserve for treasury stock increased by € 2,819 in the 2003/2004 business year as a result of the purchase of 1,404 treasury stocks, and decreased in the same period by € 9,526 as a result of the use of 6,227 treasury stocks for issuance to employees exercising stock options. On 31 August 2004, the reserve for treasury stock reached the value of € 926,437 (previous year € 933,145).

3.9 Accrued Liabilities

Other accruals amounting to € 1,661,500 (previous year € 2,001,567) include € 1,241,845 (previous year € 1,567,550) from accruals for leasing liabilities for unused office space and the imminent financial burden imposed by the use of special rights of notice in conjunction with this rented space. In addition, reserves for outstanding invoices, litigation risks, acquisition and auditing costs, HR costs, especially for holiday and overtime claims, bonuses and personnel events have been formed.

3.10 Liabilities

All trade payables valued at € 21,146,521 (previous year: € 264,300) have remaining terms of one year or less. The amount due to stockholders of € 20,768,780 (previous year € 0) is a result of the resolution to decrease capital taken at the stockholders' meeting of 28 January 2004 (cf. Item 3.6). The payment to stockholders was made on 8 November 8 2004.

The residual amount is comprised of trade payables, sales tax liabilities of taxable domestic entities and obligations arising from personnel measures as well as pending social security contributions and withholdings for income and church tax deductions.

4. Explanatory Notes on Items in the Statement of Operations

4.1 Revenues

Sales totalling € 1,597,017 were generated by the management and administration services provided by the Company to the Group's affiliated members and from charging the costs of the centrally managed infrastructure within the Group.

4.2 Other Operating Income

Other operating income totalling € 336,556 are in the main comprised of income generated by the sale of securities, insurance recoveries and income from the taxation of benefits in money's worth.

4.3 Income from Profit Transfer Agreements

In December 2003, the company concluded a profit transfer agreement with its wholly-owned subsidiary SinnerSchrader Deutschland GmbH. The agreement came into effect on 1 September 2003, and was approved by the stockholders' meeting on 28 January 2004. In the 2003/2004 business year, an amount of € 780,617 resulted from the profit transfer agreement. There was no such agreement between the companies in the previous year.

4.4 Interest Income and Expenses

Interest income derives for the investment of liquid funds and other securities. Interest expense was incurred within centralised liquidity management, which the company operates for the domestic subsidiaries.

4.5 Other Operating Expenses

Other operating expenses totalling € 1,771,943 were primarily a result of costs for occupancy, communications, advertising, legal advice and consultation.

4.6 Taxes on Income and Profit

Taxes on income and profit for 2001 amounting to € 1,559 were payable in the 2003/2004 business year.

5. Other Information

Other current assets and prepaid expenses in €

Obligations from rent and lease contracts	
01.09.2004 – 31.08.2005	697,138
01.09.2005 – 31.08.2006	608,226
01.09.2006 – 31.08.2007	1,948
01.09.2007 – 31.08.2008	–
After 01.09.2008	–
Total	1,307,312

5.1 Other Financial Obligations

The financial obligations mainly relate to fixed-term rent and lease contracts. Expenditure on leasing commitments for excess office space and exercising of special termination rights are included as other provisions.

5.2 Employees

On 31 August 2004, the company employed 20 staff. An average of 19.03 staff were employed for the fiscal year 2003/2004.

5.3 Contingent Liabilities

Within the scope of its discharge of leasing obligations for unused office space, SinnerSchrader AG stood surety for the leasing obligations of a subsequent tenant with respect to the owner for the remaining terms of the original tenancy contract. On 31 August 2004, the subsequent tenant's residual leasing obligations amounted to € 56,017. The guaranty expires on 31 May 2005.

5.4 Management Board

The following persons were members of the Management Board in the fiscal year 2003/2004:

» Matthias Schrader, Chief Executive Officer
» Detlef Wichmann, Chief Operating Officer, until 8 April 2004
» Thomas Dyckhoff, Chief Financial Officer

The members of the Management Board carried out their professions as its main jobs. The compensation package was made up as follows:

Remuneration of the Management Board members in € and number	Fixed salary	Other benefits	Variable components	Stock options
Matthias Schrader	127,920	13,605	–	–
Detlef Wichmann	221,667	39,502	–	–
Thomas Dyckhoff	110,000	10,504	20,000	–
Total	459,587	63,611	20,000	–

The compensation packages for the Management Board amounted to € 543,198 in the 2003/2004 business year. This figure includes € 187,139 in wages, including redundancy payments and other disbursements following Mr Wichmann's departure from the Management Board, a portion of which was not yet due as of 31 August 2004.

5.5 Supervisory Board

The members of the Supervisory Board were as follows in the fiscal year:

DR MARKUS CONRAD, Chairman
» Managing Partner of Georg Lingenbrink GmbH & Co., Hamburg
» Member of the Management Board of Börsenverein des Deutschen Buchhandels e.V., Frankfurt am Main
» Member of the Supervisory Board of Tchibo GmbH, Hamburg
» Member of the Supervisory Board of Blume 2000 New Media AG, Norderstedt

REINHARD PÖLLATH, Deputy Chairman
» Lawyer, Munich
» Chairman of the Supervisory Board of Deutsche Woolworth GmbH & Co. OHG, Frankfurt am Main
» Chairman of the Supervisory Board of Tchibo Holding AG, Hamburg
» Member of the Supervisory Board of Beiersdorf AG, Hamburg
» Member of the Supervisory Board of TA Triumph-Adler AG, Nuremberg
» Member of the Supervisory Board of Tchibo GmbH, Hamburg

FRANK NÖRENBERG
» Lawyer and Managing Partner of Nörenberg, Schröder + Partner, Rechtsanwälte – Wirtschaftsprüfer – Steuerberater (Attorneys, Auditors and Tax Consultants), Hamburg
» Deputy Chairman of the Supervisory Board of Graphit Kropfmühl AG, Hautzenberg
» Member of the Supervisory Board of Albis Leasing AG, Hamburg
» Member of the Advisory Council of ODS Optical Disc Service GmbH, Dassow

The compensation packages for the members of the Supervisory Board in the 2003/2004 business year was made up as follows:

Remuneration of the Supervisory Board members in € and number	Fixed salary	Other benefits	Variable components	Stock options
Dr Markus Conrad	8,000	218	–	–
Reinhard Pöllath	6,000	218	–	–
Frank Nörenberg	4,000	218	–	–
Total	18,000	654	–	–

A proportionate rate for the D&O insurance policy is reported as a special payment to each Supervisory Board member.

5.6 Investments

The shareholdings of SinnerSchrader Aktiengesellschaft are as follows:

Company	Total	Currency	Nominal capital	Shareholders´ capital	Last annual result[1]	Profit/loss transfer agreement	Reporting period
SinnerSchrader Deutschland GmbH, Hamburg	100.00	EUR	100,000	100,000	1,263,245	yes	01.09.2003–31.08.2004
SinnerSchrader UK Ltd., London, UK[2]	100.00	GBP	100,000	- 488,932	- 28,752	no	01.09.2003–31.08.2004
SinnerSchrader Benelux BV, Rotterdam, Netherlands[2]	100.00	EUR	18,000	- 134,103	-7,350	no	01.01.2002–31.12.2002
LetMeShip GmbH, Hamburg[3]	24.94	EUR	53,250	n.a.	n.a.	no	n.a.

1) Before profit/loss transfer agreement to SinnerSchrader AG.
2) The companies´ activities were temporarily discontinued in the previous years; respective shareholders were written off in the year the activity was discontinued. Audited annual financial statements of the companies are not available.
3) The company filed for insolvency, current information regarding shareholders´ equity and earnings is not available. The participation was completely written off.

In April 2004, as a result of the separation of subsidiaries of SinnerSchrader Deutschland GmbH, the following companies were established as new fully-owned subsidiaries:

Company	Total	Currency	Nominal capital	Shareholders´ capital	Last annual result[1)]	Profit/loss transfer agreement	Reporting period
SinnerSchrader Neue Informatik GmbH, Hamburg	100.00	EUR	25,000	631,419	382,078	yes	01.04.2004–31.08.2004
SinnerSchrader Studios GmbH, Hamburg	100.00	EUR	25,000	341,030	90,998	yes	01.04.2004–31.08.2004
SinnerSchrader Studios Frankfurt GmbH, Frankfurt	100.00	EUR	25,000	125,932	84,178	yes	01.04.2004–31.08.2004

1) Before profit/loss transfer agreement to SinnerSchrader AG.

5.7 Compliance Statement According to Article 161 of the German Stock Corporation Act (AktG)
We have issued a statement on the Corporate Governance Code in accordance with Article 161 of the German Stock Corporation Act (AktG) and made this statement accessible to our shareholders on our website. German Stock Corporation Act (AktG) and made this statement accessible to our sharehol-ders on our website.

6. Additional Information (unaudited)

6.1 Shares and Share Options Held by Board Members of SinnerSchrader AG ("Directors' Dealings")

The following table shows the number of shares and the number of options held by Board members of SinnerSchrader AG at 31 August 2004 and the changes during the reported financial year 2003/2004:

Shares and options of the Board members	31.08.2003	Additions	Disposals	31.08.2004
Shares				
MANAGEMENT BOARD MEMBERS:				
Matthias Schrader	2,342,675	–	–	2,342,675
Detlef Wichmann	115,000	–	150,000	–
Thomas Dyckhoff	49,950	–	–	49,950
Total shares of the Management Board	2,507,625	–	115,000	2,392,625
SUPERVISORY BOARD MEMBERS:				
Dr Markus Conrad	127,500	–	–	127,500
Reinhard Pöllath	–	–	–	–
Frank Nörenberg	1,000	–	–	1,000
Total shares of the Supervisory Board	128,500	–	–	128,500
Total shares of the Board members	2,636,125	–	115,000	2,521,125
Options				
MANAGEMENT BOARD MEMBERS:				
Matthias Schrader	–	–	–	–
Detlef Wichmann	25,000	–	25,000	–
Thomas Dyckhoff	25,000	–	–	25,000
Total shares of the Management Board	50,000	-	25,000	25,000
SUPERVISORY BOARD MEMBERS:				
Dr Markus Conrad	–	–	–	–
Reinhard Pöllath	–	–	–	–
Frank Nörenberg	–	–	–	–
Total options of the Supervisory Board	–	–	–	–
Total options of the Board members	50,000	–	25,000	25,000

The divestiture of stocks and subscription rights held by Mr Wichmann is attributable to his departure from the Supervisory Board on 8 April 2004.
Since that date, his holdings are no longer attributable to the Group.

Hamburg, November 2004

Matthias Schrader **Thomas Dyckhoff**

Auditors' Opinion

The following is the Auditors' opinion of the Financial Statements and Management Report, which was combined with the Group Management Report:

We have audited the Annual Financial Statements, together with the bookkeeping system, and the Management Report, which was combined with the Group Management Report, of Sinner-Schrader Aktiengesellschaft for the business year from 1 September 2003 to 31 August 2004. The maintenance of the books and records and the preparation of the Annual Financial Statements and Management Report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the Annual Financial Statements, together with the bookkeeping system, and the Management Report, based on our Audit.

We conducted our Audit of the Annual Financial Statements in accordance with Article 317 German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW: Institute of Public Auditors in Germany). These standards require that we plan and perform the audit so that misstatements materially affecting the presentation of net assets, financial position and results of operations in the Annual Financial Statements in accordance with generally accepted accounting principles and in the Management Report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal environment of the Company and the evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the Annual Financial Statements and the Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Annual Financial Statements and Management Report. We believe that our Audit provides a reasonable basis for our opinion.

Our Audit has not led to any reservations.

In our opinion, the Annual Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with generally accepted accounting principles. On the whole, the Management Report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Hamburg, 26 November 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Schneider	**Schiersmann**
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board closely followed the business development of SinnerSchrader Aktiengesellschaft and its subsidiaries. At Supervisory Board meetings and in monthly reports, the Management Board kept the Supervisory Board informed about strategy, planning, current situation, business development and important business transactions. Furthermore, there were written, telephone, and personal exchanges between the Management Board and the Supervisory Board with regard to current issues. On this basis, the Supervisory Board discharged its duties as required by law and the Articles of Association and supervised the business conduct of the Management Board.

Supervisory Board Meetings

In the past fiscal year, the Supervisory Board assembled for six meetings on 26 September 2003, 11 November 2003, 24 November 2003, 22 January 2004, 1 April 2004, as well as 29 June 2004. With the exception of one meeting in which one member was unable to come, all members of the Supervisory Board were present at these meetings. On 9 December 2003, the Supervisory Board decided by way of circulation together with the Management Board to recommend to the annual shareholders' meeting a capital increase from the Company's own resources with a subsequent capital decrease to repay the shareholders.

Constitution of the Boards

The Annual General Meeting on 28 January 2004 re-elected to the Supervisory Board Dr Markus Conrad, Reinhard Pöllath, and Frank Nörenberg for the time up until the Annual General Meeting that decides whether to ratify the actions of the Supervisory Board for the fiscal year ending on 31 August 2008.

The Supervisory Board formed no committees. After conclusion of the restructuring of the operating business, Detlef Wichmann left the Management Board effective 8 April 2004. Mr Wichmann had been with the Company since 1997 and was decisively responsible for the development of the technical profile of SinnerSchrader. The Supervisory Board thanks Mr Wichmann for his successful work in the Management Board.

Annual and Consolidated Accounts

The accounting and annual financial statements of SinnerSchrader Aktiengesellschaft, as well as the consolidated accounts drawn up under Article 292 of the German Commercial Code (HGB) with discharging effect, on the basis of the Generally Accepted US Accounting Principles (US-GAAP) including the management report for the Group and for SinnerSchrader Aktiengesellschaft were audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Hamburg, at the request of the Supervisory Board and received an unqualified auditor's certificate on 26 November 2004. At its meeting on 29 November 2004 in the presence of the auditor and the Management Board, the Supervisory Board discussed the annual and consolidated accounts in detail. The annual and consolidated accounts produced by the Management Board and the auditor's audit report had been given to the members of the Supervisory Board in advance of this meeting. Following detailed examination and discussion at this meeting, the Supervisory Board had no objections and endorsed the results of the audit. The Board approved the consolidated annual accounts as well as the annual accounts. The annual accounts are thereby adopted.

Business Development

In fiscal year 2003/2004, SinnerSchrader made great strides on the road back to being a profitable, growing company. The fourth fiscal quarter of 2003/2004 has once again shown that the ratio of turnover potential to costs makes profit possible. By restructuring the operating business, SinnerSchrader has gained power in the market. This development and the strong cash flow emphasise that the company did not act too soon in reducing shareholders' equity in favour of the shareholders as recommended by the Management Board and Supervisory Board. This is also confirmed by the development of the share price. Since the announcement of the special distribution, value is once again being attributed to the operating business of SinnerSchrader.

Against the background of the reviving market environment and the current market position, fiscal year 2004/2005 will be one characterised by opportunities. The Supervisory Board is fully committed to assisting the Management Board to exploit these opportunities and to helping SinnerSchrader to forge ahead.

The Supervisory Board would like to express its thanks to the Management Board and all SinnerSchrader Group staff for their efforts and dedication in the past fiscal year.

Hamburg, 29 November 2004

Dr Markus Conrad
Chairman of the Supervisory Board

Key figures of the SinnerSchrader Group, 5 years in € 000s, in 000s resp. number of employees	01.09.1999 31.08.2000	01.09.2000 31.08.2001	01.09.2001 31.08.2002	01.09.2002 31.08.2003	01.09.2003 31.08.2004
Revenues	14,662	17,935	14,544	12,359	12,325
Gross profit	5,931	4,692	2,954	3,000	3,649
EBITDA	3,610	- 215	- 3,608	- 929	- 752
EBITA	3,392	- 631	- 4,284	- 1,621	- 1,384
Net loss	1,968	- 2,452	- 17,901[2]	- 923	- 531
Net loss per share[1]	0,40	- 0,23	- 1,55[2]	- 0,08	- 0,05
Shares outstanding[1]	9,608	10,735	11,533	11,165	10,933
Cash flows from operating activities	- 311	609	- 328	- 1,637	2,291
Employees – full time equivalents	102,7	222	221	169	139
	31.08.2000	31.08.2001	31.08.2002	31.08.2003	31.08.2004
Liquid funds and marketable securities	31,045	29,283	27,465	24,603	27,038
Shareholders' equity	33,798	43,610	30,985	29,375	8,054
Balance sheet total	38,649	53,337	35,026	31,473	31,252
Employees – end of period	174	259	205	166	145

[1] Weighted average shares outstanding (diluted). [2] Including cumulative effect of accounting change of € -14.6 million or € -1.26 per share.

Financial Calendar 2004 / 2005	
Quarterly Report (September – November 2004)	13 January 2005
Annual General Meeting	28 January 2005
Quarterly Report (December 2004 – February 2005)	13 April 2005
Quarterly Report (March – May 2005)	13 July 2005
Annual Report 2004/2005	November 2005

Editorial

Publisher:	SinnerSchrader Aktiengesellschaft, Hamburg
Conception and Design:	Mutabor, Hamburg

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