

SinnerSchrader

04

interactivate your business

05

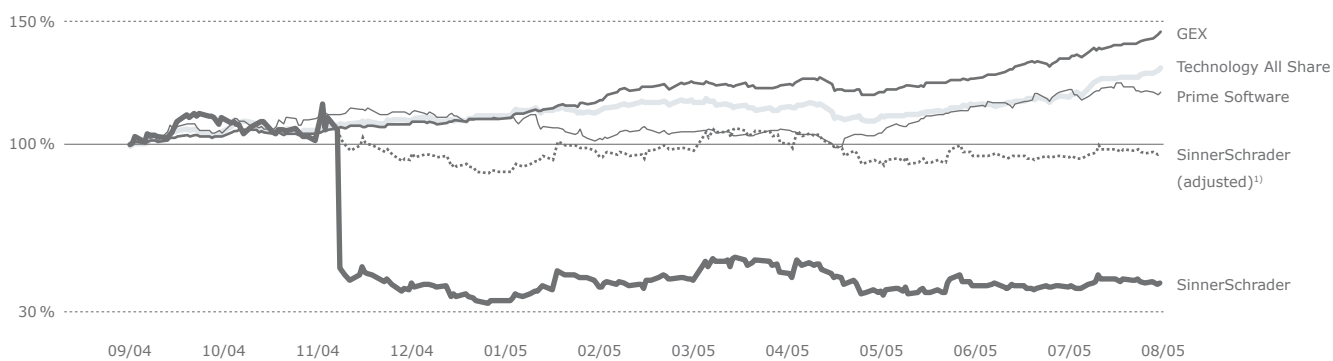
Key Figures and Share Price Performance

Key figures of the SinnerSchrader Group	01.09.2004	01.09.2003	Change
in € 000s, € and number	31.08.2005	31.08.2004	
Revenues	14,315	12,325	16 %
Gross profit	4,698	3,649	29 %
EBITDA	719	-752	196 %
EBITA	178	-1,384	113 %
Net income/loss	545	-531	203 %
Net income/loss per share ¹⁾	0.05	-0.05	200 %
Shares outstanding ¹⁾	11,334	10,933	4 %
Cash flows from operating activities	2,615	2,291	14 %
Employees, full-time equivalents	132	139	-5 %
	31.08.2005	31.08.2004	Change
Liquid funds and marketable securities	10,570 ²⁾	27,038	-61 %
Shareholders' equity	10,334	8,054	28 %
Balance sheet total	13,746 ²⁾	31,252	-56 %
Employees, end of period	130	145	-10 %

¹⁾ Weighted average shares outstanding (diluted)

²⁾ Effect of special distribution of € 20.8 million

SinnerSchrader share price performance 2004/2005 (index-linked)



¹⁾ Price performance at € 1.82 special distribution

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Matthias Schrader
CEO

Matthias Schrader studied Computer Science and History in Hamburg and worked as an editor for several trade journals during his studies. Together with Oliver Sinner he founded SinnerSchrader in 1996. In 1999, SinnerSchrader AG was founded, which was jointly headed by Matthias Schrader and Oliver Sinner as Chief Executive Officers (CEO) and went public in November 1999.

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



Thomas Dyckhoff
CFO

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

As Chief Financial Officer, Thomas Dyckhoff has been responsible for the Finance, Controlling, Investor Relations, and Human Resources segments since 18 October 1999. He also serves as Executive Director of SinnerSchrader Deutschland GmbH.

Dear Shareholders,

SinnerSchrader has returned to a course of growth and is in the black once again!

One year ago, we promised revenue growth and profitability for the 2004/2005 financial year. With this Annual Report, we are pleased to announce that we have reached our goals. The last- ing turnaround for your Company has been achieved.

Between 1 September 2004 and 31 August 2005, we made much quicker progress than we had anticipated:

- » Our business plan called for revenue growth of between 5 % and 10 % – revenues actually rose by 16 %.
- » In our operative business, we planned for a balanced EBITA and thus an improvement of € 1.4 million compared to the 2003/2004 financial year – in fact, the EBITA improved by around € 1.6 million and amounted to nearly € 0.2 million at in the 2004/2005 financial year.

This success was primarily a result of two developments:

- » The Internet finally achieved a breakthrough to become a relevant platform for the sale of goods and services and for communication between companies and brands and their customers. It has become critical for many companies to invest in the Internet as a sales and communication channel in order to secure their own position and tap new growth potential.
- » Through its work for renowned customers under the motto "interactivate your business", SinnerSchrader has established a solid basis of experience and a reputation for successful e-commerce projects which are unparalleled in Germany. After the restructuring and reorganisation of the past years, SinnerSchrader is now addressing the growing demand for interactive services on a broad front by providing differentiated services from specialized units, without losing the ability to care for customers holistically as well.

In a market which is growing again, SinnerSchrader has succeeded in acquiring numerous new customers. Around 21% of revenues in 2004/2005 were achieved through new customer relationships. The creation of the "SZ Mediathek" for the Süddeutsche Zeitung and the launch of the low-cost "simyo" brand for E-Plus on the Internet are just two examples of this achievement. SinnerSchrader continues to bank on the establishment of long-term customer relationships. Three of SinnerSchrader's five largest customers, with whom the Company achieved revenues of over € 1 million each in the 2004/2005 financial year, have been customers for over four years.

Thanks to the gradual improvement in the cost position achieved over the past years and the increase in efficiency triggered by the reorganisation, SinnerSchrader was able to return to an operative profit in the 2004/2005 financial year. The return on revenues remained low at 1.8 %, however, because it will not be possible to adjust the rental vacancy costs – which amounted to between six and seven margin points in 2004/2005 – until the current tenancy in the offices in Hamburg ends on 30 June 2006.

Companies have put the Internet back on the agenda. Unlike the situation in 1999/2000, we are convinced that this time, it will stay there. This is because customers have undergone an irreversible change by using the Internet longer, more frequently, and in a more varied way. Consumers are one step ahead of the investment behaviour of many companies. This was not the case in 1999/2000.

We can and will benefit from this. For the current 2005/2006 financial year, we plan to achieve organic revenue growth of between 10 % and 15 %, and we anticipate an EBITA of between € 0.3 and 0.5 million. With the end of rental vacancy costs and the maintenance of these growth dynamics, the operating profit should exceed the one million mark for the 2006/2007 financial year.

We anticipate that the renewed growth prospects of our segment will also make the competitive situation among interactive service providers more dynamic in the future. We therefore believe that, in order to maintain or expand our market position in Germany, we will need to make acquisitions in neighbouring areas which will complement our service portfolio.

We are well-equipped for such acquisitions thanks to a strong cash flow in the 2004/2005 financial year, which led to € 10.6 million in liquid funds and a balance sheet which remained debt-free as of 31 August 2005, even after the special dividend of € 1.82 per share in the 2004/2005 financial year. However, in light of the tasks facing us, we feel it would not make sense at this time to pay a dividend of € 0.5 million or € 0.05 per share from the Group's net income.

Hamburg, 25 November 2005

The Management Board

01



SinnerSchrader 2004/2005

E-commerce rocks.

Again.

Industry has discovered the Internet. Or rather: re-discovered it. Following the sometimes drastic cuts in Internet budgets between 2000 and 2003, since mid-2004 companies have started to gradually expand their commitment to the Internet again. There is a growing awareness that budget cuts in the interactive channels were often exaggerated. The controllers are doing their sums and are surprised to note that expanding web-based communication and sales platforms is increasingly becoming worthwhile. This is new. But this development has not come out of the blue:

» The reach of the medium is growing continuously. In the third quarter of 2005 64 % of all German adults had access to the Internet (cf. Fig. 1). Although the growth is slowing down in pure quantity terms, the quality of online use is changing rapidly. The triumphal success of broadband connections (DSL), flat rates and wireless LAN networks (WLANs) in households and public buildings is rapidly shifting media use towards the Internet. People are online more often and for longer, and they use the net more intensively – especially to find out about products and services and how to obtain them easily and at low cost.

» With penetration of over 80 % in the young target groups, the Internet is increasingly overtaking television and the print media in terms of media relevance. The Internet is becoming the basic medium for the advertising industry and for some brand owners it is already the leading medium. Online advertising turnover in the amount of € 750 million is expected for 2005 (cf. Fig. 2). Within the next four years, the European Interactive Advertising Association (EIAA) is expecting expenditure for online advertising in Europe to treble. At the same time, the principle of purely performance-based invoicing for online advertising (“performance marketing”) introduced by search engines like Google has allowed many e-commerce providers to manage the costs of new customer acquisition in economically reasonable performance-oriented manner for the first time.

» In recent years the cuts in Internet budgets have often been part of comprehensive cost reduction programmes for many companies. Now, all potential has been exploited here and effects on the profit side can be achieved only by increases on the turnover side. For many companies today the Internet is the sales route with the highest growth proportionately. Additional investments in this channel are therefore the most efficient way of better exploiting existing customer relations and winning new customer segments.

E-commerce has become a hot topic again, and so has the need for professional services in this environment.

Fig. 1 | Development of reach of the Internet 2001 to 2005 in %

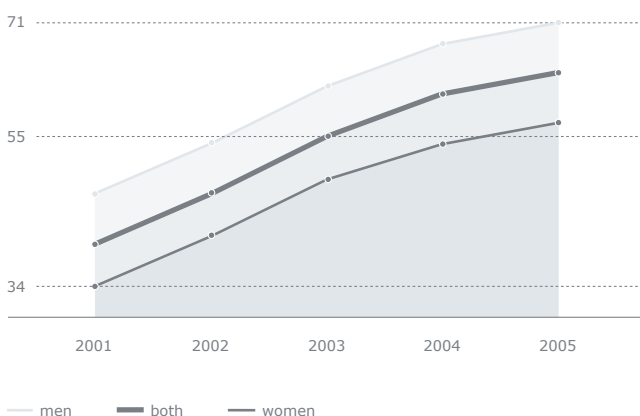
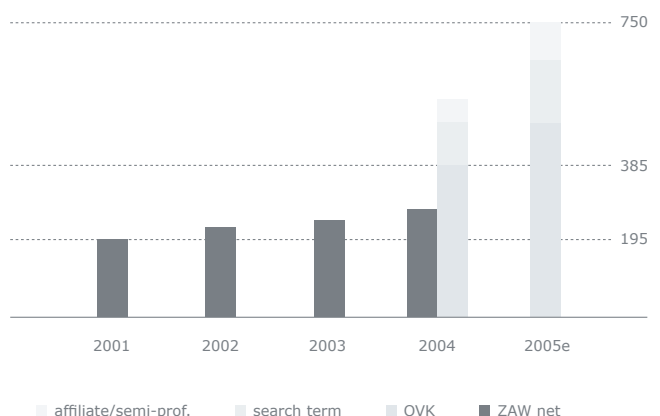


Fig. 2 | Growth of online advertising 2001 to 2005e in € millions



Source: Forschungsgruppe Wahlen 10/2005

Source: ZAW, OVK (Onlinevermarkterkreis), 2005

SinnerSchrader growth. Again.

SinnerSchrader 2004/2005.

SinnerSchrader growth. Again.

Since our company was founded nine years ago our motto has been: "interactivate your business". The result: our customers are now among the market leaders in their respective sectors. Over two million people use our solutions every day. We owe this success to our clear focus on the development of popular communication and sales solutions on the Internet. No other service provider in Germany has been following this path so consistently and successfully since the mid-1990s. Therefore, we have emerged from the industry's consolidation process strengthened.

This development requires consistent orientation to the market, customers and employees. The constant optimisation of our processes, our passion in project work and continuous further development of staff training are the foundation for this. In the spring of 2004 we gave ourselves a new structure in order to continue along this path and to develop a strong growth perspective. The aim was to position our service portfolio on the market with more differentiation and transparency.

At heart we have separated the development services for the creation of interactive software from the agency services, which manage brands in digital channels. SinnerSchrader Neue Informatik specialises in the development of Internet applications and custom-developed software with a high practical value. By contrast, SinnerSchrader Studios position themselves as a creative agency for digital brand management. In brief: Neue Informatik brings the processes to the user, Studios the brand. As a third pillar, the media, operations and analysis units round off SinnerSchrader's range of services.

Neue Informatik is the first technology service provider for whom the practical value actually experienced by the user is at the heart of an application. This is a paradigm change in the IT world, which has so far been process-driven. The demand for absolute usability and user acceptance of a service is new in this form. We are convinced that consumers want systems that are a pleasure to use. But employees in companies also work more productively with user-friendly solutions.

As a creative agency for digital brand management, SinnerSchrader Studios take equal care of eye-catching brand experiences and efficient sales solutions in the interactive channels. Their target groups are marketing and sales managers who expect high-quality communication solutions ideally suited to the task in question.

Organised in this way, over the last business year we have translated the upturn of the market into significant, organic growth. The formula for success is: "Specialisation plus Full Service".

Fig. 3 | Structure of the SinnerSchrader Group

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

Specialisation is Good.

All units of the SinnerSchrader Group have been positioned so that they can successfully acquire and realise projects independently on the market. With their enhanced profile they address clear tasks and stand for a convincing service promise – even with small and medium-sized project budgets. Via the specialisation in the new structure be furthermore created an environment in which highly motivated and experienced expert and project teams could quickly be formed within the new units. In the last 12 months this approach has excited many new customers. All in all, in spite of the continuing tense situation on the price front, this resulted in a marked improvement in the margin situation due to more efficient project implementation and increasing capacity utilisation with new business.

Full Service Is Also Good.

As a Group we have thereby developed our previous full-service claim and not given it up. We have succeeded in shaping a culture in which the individual units and companies of the Group work together in the interest of a holistic solution to the task in relation to projects and customers. Bundling resources gives us two key advantages as a Group on the market. On the one hand, with our size we offer customers scalable implementation resources in tried-and-tested quality. On the other hand, in all disciplines we have a critical mass of experienced project teams, which means that we can take overall responsibility on the implementation side in complex and time-critical projects. That, too, convinced important new customers about SinnerSchrader in the last year.

SinnerSchrader therefore occupies a very good starting position to be able to disproportionately participate in the growing Internet budgets of the future. Furthermore it still remains our goal to supplement our service portfolio by acquisition when the time is right in order to reinforce our market position in the long term.

In recent years SinnerSchrader has consistently consolidated its market position. This means that we have improved our position in the New Media Ranking from 16th place in the year of the IPO to 4th place in the year of the report (cf. Fig. 4).

Thanks to the constantly further developed web offers of the US providers – such as the “AEG Troika” made up of Amazon, eBay and Google – Internet users have now become used to extremely user-friendly and highly functional web applications. Against this background, caused by the investment reticence of recent years, many websites in Germany are no longer able to compete and need considerable catch-up investment.

After the first founding wave from 1995 to 2000 (mainly bookshops, auctions, discount brokers) we are currently experiencing a second wave: tourism, telecommunications, insurance.

Today we bundle our skills into five segments. Each one stands for a clear service promise: value-adding projects with fixed prices and unmoveable deadlines.

Fig. 4 | SinnerSchrader consistently consolidates its market position

	1999	2004
1.	GFT Technologies	T-Systems Multimedia Solutions GmbH
2.	USWeb/CKS	Sapient
3.	Pixelpark AG	Pixelpark AG
4.	I-D Media AG	SinnerSchrader AG
5.	Concept! AG	Szygyy AG
6.	Kabel New Media AG	I-D Media AG
7.	WWL Internet AG	Elephant Seven AG
8.	Die Argonauten	Planetactive
9.	infoMedia Gruppe	Atkon
10.	M. I. T.	Plan.Net Gruppe
11.	Iqena GmbH	dmc digital media center GmbH
12.	BBDO Interactive GmbH]init[AG
13.	artemediag ag	arsmedium ag
14.	berens/partner	imc AG
15.	United Media GmbH	hanke multimediahaus AG
16.	SinnerSchrader AG	Bassier, Bergmann & Kindler
17.	mindfact interaktive medien ag	antwerpes ag
18.	BlueOrbit AG	jaron.DIRECT
19.	PopNet Internet AG	clickivities ag
20.	Antwerpes & Partner AG	benntec Systemtechnik GmbH

Source: New Media Service Ranking 2000 and 2005

Imagine people
enjoy using your
software.

Software. Design. Interfaces.

SinnerSchrader Neue Informatik.

Interactive software systems differ from other systems in one central point: their actual value lies in the benefit to the user. Ultimately, only the functions that are really used help to add value.

Countless successful Internet applications are based on this simple finding. Their success has played a major role in this principle now also being used in intranets and all other systems with which people interact.

But in practice, questions of technology and project organisation still tend to dominate the discussions about development and project methods. The primary focus lies on the costs of technical implementation and operation, while the question of how the benefits of an application can be ensured and increased is often neglected. This often has fatal consequences, because the aspect of usability is just as important as technology in order to realise the optimum value for the means used.

SinnerSchrader Neue Informatik has therefore committed itself to user-centric design. As a paradigm of software development it ensures the maximum benefit for the user. User-centric software development guarantees maximum functionality, usability and, not least, joy of use both for Internet applications and for IT solutions supporting employees in companies.

In Neue Informatik we concentrate the expertise from over nine years of experience in project business. The customers, especially in the IT departments of large and medium-sized companies, will find all of the relevant qualifications there: expert consultants with specialist industry knowledge, design experts with skills in user guidance and usability as well as experienced software developers.

With its portfolio of services Neue Informatik addresses three solution domains:

- » transaction-oriented websites, such as shops, self-service portals and booking solutions,
- » information systems, such as intranets, extranets and enterprise portals as well as
- » applications which optimise business processes within companies.

Neue Informatik develops robust and high-performance systems on the basis of state-of-the-art technologies – with a focus on Java and Open Source software. In addition to the well-known browser-based applications, Neue Informatik's field of work also increasingly includes the development of mobile and desktop applications ("rich clients") as a new field of activity.

Teams, methods and the technologies used are optimised to generate as much useful functionality as possible per euro spent. That is why the project teams concentrate on the key requirements from the outset and pursue simplicity by reducing complexity as a guiding principle in system design. Interdisciplinary teams and methods of user-centric software development help in developing exactly what the user really needs.

The heavyweights in the client list include comdirect bank and Deutsche Bank. Both banks operate extensive financial portals for private and business customers with online banking and online brokerage services as well as comprehensive information about international financial markets and the banks' own products.

At the Leipzig Book Fair in the spring of 2005, Neue Informatik launched the SZ-Mediathek, an online media shop with an innovative concept, for Süddeutscher Verlag. When developing this e-commerce solution, Neue Informatik's commerce framework was used, a modular and expandable J2EE shop system completely based on Open Source components.

On behalf of Deutsche Telekom a new platform was created for the T-Card, the universal international telephone card from the group brand T-Com. Furthermore, booking and reservation systems for the travel and tourism industry, such as the car hire firms Europcar and interRent and the various airlines in the TUI Group are among the most important references.

Headquarters: Hamburg

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

Imagine you

gain new clients

the whole day.

Creative Agency for Digital Brand Management. SinnerSchrader Studios.

On the Internet, marketing and sales are very hard to distinguish from each other these days. Everything is possible at any time. We are convinced that today brands have to communicate just as well on the Internet as they do in other relevant media. Customers' demands of online brand presence are increasing rapidly with growing bandwidths. This entails high-quality communication just as much as first-class design. Ultimately, the aim of all of these measures is to increase business success on the Internet.

With the Studios, SinnerSchrader is strengthening the agency business within the Group. As a creative agency for digital brand management, SinnerSchrader Studios develop solutions for their clients' Internet business: eye-catching brand experiences and efficient sales solutions. The Studios' target group are marketing and sales decision-makers who need a professional Internet platform to enhance their sales success in the long term.

Brand management in interactive media is much more complex today than even just a few years ago. Companies now use the same medium – the Internet – for such different tasks as branding, product presentation, dialogue, transaction, customer care and customer relationship management (CRM). All of the interactive communications architecture must be clearly planned and managed so that a brand is perceived in a uniform way. SinnerSchrader Studios apply the required depth and implementation expertise to this task.

We run this agency business at sites in Hamburg and Frankfurt. This gives us the flexibility to expand our business optimally at a regional level. Since their launch in April 2004 both offices have increased their personnel, especially in the areas of creation, design, copywriting and conception. Due to the continuously growing integration of the channels, experts from traditional advertising also work in the Studios.

With Hapag-Lloyd Express (HLX), the Studios have a prime example of excellent brand management on the Internet in their portfolio. In the last business year we further optimised the hlx.com website under the aspect of sales performance; this website generates around 90 % of all bookings. This included creative sales promotion measures, such as a special microsite for the female passengers target group.

At the Frankfurt site, the Studios have given the Deutsche Bank private and business customer portal a new, attractive and modern design. The aim of the redesign was to interpret the bank's self-image "A Passion to Perform" for the Internet and to adapt usability to the current usage habits.

The concept of the Studios has also been confirmed by business with new clients in the last business year. We have been able to acquire reputable and important customers for the project business, for example Volkswagen, simyo and Strato.

Headquarters: Hamburg and Frankfurt
Management: Malte Blumenthal (spokesman),
Stefan Schaub; Thomas Bernd (Frankfurt)

Imagine you

will never even waste

another marketing

euro again.

Advertise more effectively.

SinnerSchrader Media.

In comparison to the traditional media, the Internet is still a very cheap advertising medium. But although the budgets are smaller than in the print or TV sectors, media planners continue to have problems with the medium. In spite of enormous success with reach (64 % of the population), duration of use (10 % media share) and direct turnover (approx. 3 % in retail), the proportion of online advertising is not even 2 % of the total advertising market.

However, at the moment there is a lot to indicate that the gap between usage and advertising market share will continue to diminish in the years ahead. The European Interactive Advertising Association (EIAA) is expecting expenditure for online advertising in Europe to treble by 2008. One of the driving forces behind this development is performance-based billing for online advertising, a principle first introduced in the field of search engines.

SinnerSchrader Media has consistently dedicated itself to the maximum effectiveness and the optimum value for money of online advertising. As one of the biggest online media buyers we know the market inside out. Our neutral, independent role as a media buyer on the market is part of our self-perception. This independence allows us to gear online marketing uncompromisingly to sales success and to optimise it for direct sales.

Since 1996 we have been measuring and optimising campaigns on the basis of cost per click (CPC) and cost per order (CPO). We know the conditions under which media services can be paid for simply according to performance-related models. We design the conditions so that the marketers and the advertisers are interested in a long-term partnership.

Our media planner cooperate closely with the creation in the Studios so that campaign ideas, advertising media and the advertising environment interact in the optimum way. But the most important thing is that the advertising works. SinnerSchrader Media's media controlling gives marketing decision-makers an instrument to check and control campaigns on a daily basis while they are still running.

SinnerSchrader Media finds partners for sales cooperation on a CPO basis for customers such as Tchibo, the most successful e-commerce merchant in Germany after Amazon. Our services include conducting negotiations, tracking, reporting, commission accounting and creation of advertising media – all from a single source.

Headquarters: Hamburg

Management: Ralf Scharnhorst

Imagine your
systems are able to
cope with one million
customers per day.

Everything OK.

SinnerSchrader Betrieb.

Operating a sophisticated e-commerce solution is a complex task, because there are countless possibilities for errors in the interaction between many components. Downtimes not only lead to short-term losses of sales, but also to the loss of customers and damage to the company's image. Anyone who sells products online is familiar with the nerve-wracking scenario of assigning blame between various service providers, each of which bears responsibility for just one aspect of the whole.

We don't play that game. SinnerSchrader Betrieb takes full responsibility for all aspects of a smooth operation. We will not be satisfied with a diagnosis that localises the source of an error outside our direct sphere of influence. Instead, we work towards a permanent solution to a problem, because it simply is not enough to remedy a fault if its causes are not removed. According to Murphy's Law ("If anything can go wrong, it will.") there will then be other failures.

We protect our clients against unnecessary losses in sales. We solve problems instead of managing them. Round the clock service is a matter of course.

SinnerSchrader Betrieb offers a modular range of services for all relevant aspects of system operation: infrastructure, security, maintenance and recovery. Our systems operations experts consistently develop operating concepts starting from the application at hand and the individual client's situation.

- » Infrastructure: Bandwidth, connectivity and housing are the elements of our flexible, modular infrastructure concept. Together with strong partners we offer a scalable and robust infrastructure for e-business solutions.
- » Security: For example, daily data saving, safe storage of tapes and regular control of data ensure passive and active security. Firewalls managed by us secure applications against illegal access from the Internet.
- » Maintenance: We offer complete outsourcing to relieve our customers of routine work and maintenance. This ranges from setting up and configuring the systems, organising system access right up to training support staff and updating the documentation.

- » Recovery: When it comes down to it, our employees reduce the system and application downtimes to a minimum with automatic, redundant monitoring, quick alarms and defined recovery actions. At SinnerSchrader Betrieb clients will find comprehensive expertise from the hardware to the application level.

In operational management we concentrate on the hardware and software components relevant to successful e-business. By flexibly combining individual service components and a simple price structure we are able to satisfy specific customer demands with an attractive cost-benefit ratio.

Since we started business with operational services in 2001 a constantly growing number of companies has entrusted SinnerSchrader with important operational functions. For example, well-known banks, tourism and telecommunications companies are now numbered among our customers.

Headquarters: Hamburg

Management: Christian Kraemer

Imagine you
know what your
customers will want
to buy tomorrow.

A Constant Eye on Consumers.

SinnerSchrader Analyse.

Marketing managers are increasingly using web analytics to observe consumer behaviour. Subjects such as performance marketing and campaign management in real time are now pushing the development of analysis tools forward. The market in the German-speaking area today is still relatively splintered and the demand for first-class consulting services is correspondingly high.

SinnerSchrader Analyse gives its customers advice on the whole process from data generation to interpreting the information gained. Our service starts with helping our customers choose and implement an appropriate web analytics solution. Our partnership with WebSideStory gives us access to the expertise of the market leader among web analytics specialists and to its analysis tools.

From simple log file analyses to the complex evaluation of transaction data, we develop integrated web analytics solutions adapted to our customers' needs. Reporting is available as an online service in real time. This means that our clients have access to fourth generation professional analysis services without having to build up their own infrastructure. In this way they not only save the costs for hardware and software, but also the personnel and operating costs of an in-house solution.

With our consulting service for the detailed analysis and systematic optimisation of e-business applications we also address clients who want to establish or expand their own analytical infrastructure and have sophisticated information demands.

Increasingly we also develop customised business intelligence solutions with our tried-and-tested Java expertise from many years of experience in the implementation of high-performance J2EE-compatible software. As an SAS partner we specialise in the new web-based generation of SAS technology (SAS V9) to support clients in establishing Data Warehouse solutions and web-based BI landscapes.

We have developed a comprehensive tracking and analysis solution for comdirect bank, Germany's market leader in online investment. Süddeutscher Verlag uses our advertising success control technology for its innovative SZ-Mediathek media shop. In the field of tourism we acquired Hapag-Lloyd Flug (TUI) as a new client.

Headquarters: Hamburg

Management: Michael Roth

The 514190 Share

Performance of the German Stock Market

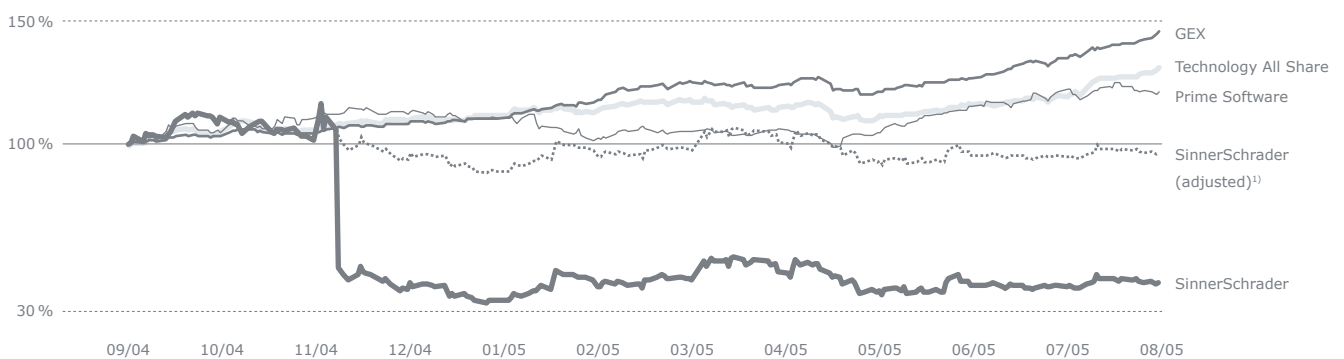
In the SinnerSchrader financial year from 1 September 2004 to 31 August 2005, the German Stock Market developed extremely well overall. After three bearish years, the industry-wide German DAX and Prime All Share stock market indices rose by 8.6% and 9.5% respectively in the 2003/2004 financial year, and they climbed again considerably in the 2004/2005 financial year by 27.6% and 29.1% respectively. The positive atmosphere on the German stock market was due in part to the slight economic upturn in the second half of 2004 attributable primarily to exports, but above all to the fact that after three years of focusing on measures to lower costs and increase efficiency, the competitiveness of individual German companies and the German economy as a whole has grown significantly. From May 2005, the prospect of relevant changes in Germany's political leadership also supported this development.

Unlike the previous year, even the technology sector was affected by the positive atmosphere in 2004/2005. The TecDAX and Technology All Share rose by 24.7% and 29.8% respectively between 31 August 2004 and 31 August 2005. The growth of the Prime Software index, to which the SinnerSchrader share is assigned, was somewhat weaker but still dynamic; on 31 August 2005, the index was 19.6% higher than it was one year earlier.

Performance of the SinnerSchrader Share

The price performance of the SinnerSchrader share in the 2004/2005 financial year was heavily influenced by effects connected with the special dividend payment. After a decision made by the Annual General Meeting on 28 January 2004, SinnerSchrader AG reduced its capital reserve by € 20.8 million and distributed the released funds to shareholders on 8 November 2004. The shareholders received a special dividend payment of € 1.82 per share on 8 November 2004.

Fig. 1 | SinnerSchrader share price performance 2004/2005 (index-linked)



¹⁾ Price performance at € 1.82 special distribution

The goal of this measure was to reduce SinnerSchrader's liquid funds and equity – which, rather than being honoured by the capital market, had resulted in a markdown instead – in order to bring them into line with the scope of business and the growth strategy. The announcement of the measure in December 2003 resulted in a 70 % increase in the price performance of the SinnerSchrader share in the 2003/2004 financial year. After 8 November 2004, the day on which the special dividend was actually distributed to shareholders, the SinnerSchrader share was listed as "ex distribution".

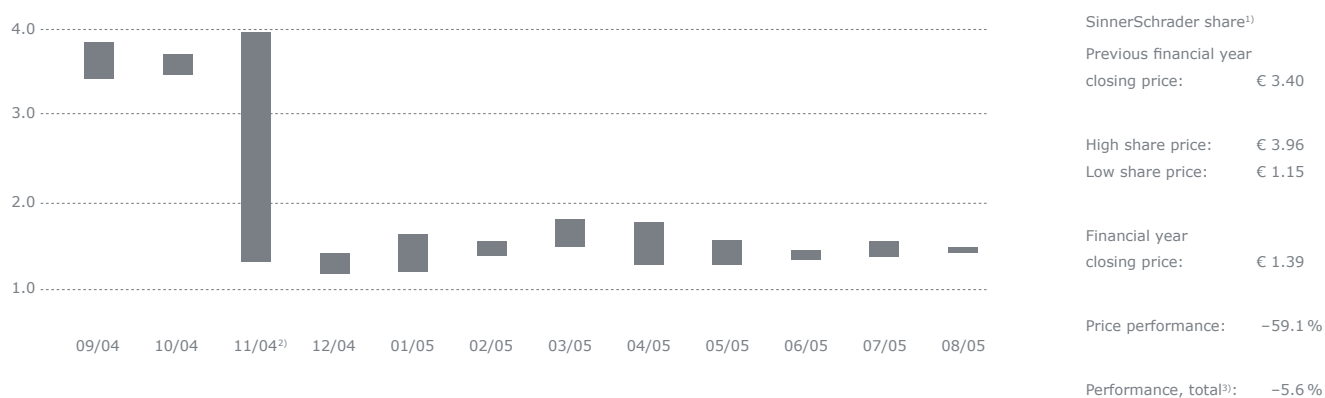
The markdown shaped the price performance of the SinnerSchrader share in 2004/2005 without affecting the overall performance experienced by shareholders, which was a product of the price development and dividend payment. On 31 August 2005, the price of the SinnerSchrader share was € 1.39, or € 2.01 lower than the previous year's closing price of € 3.40. The overall performance of the share, calculating in the special dividend payment of € 1.82, amounted to € -0.19 or -5.6 % per share.

The slightly negative overall performance was due in part to the fact that the share was oversubscribed prior to the special dividend payment in November 2004 on account of short-term investors needing to sell off their shares by the end of 2004 for tax purposes. In the final week before the day the special dividend was paid, the daily closing prices reached a maximum of € 3.96 in XETRA trading and € 3.99 in Frankfurt floor trading.

Additionally, the successful business turnaround of SinnerSchrader was apparently already anticipated in the price level at the end of the previous year, and in light of a continued low margin in operative business due to rental vacancies, the further prospects for earnings were not transparent enough for the capital market.

Interest in the SinnerSchrader share and shares from comparable companies developed positively as measured by daily trading volumes. The average daily trading volume of the

Fig. 2 | SinnerSchrader share price (monthly high/low) in €¹⁾



¹⁾ Xetra

²⁾ Special distribution of € 1.82 per share

³⁾ Price performance, add € 1.82 special distribution

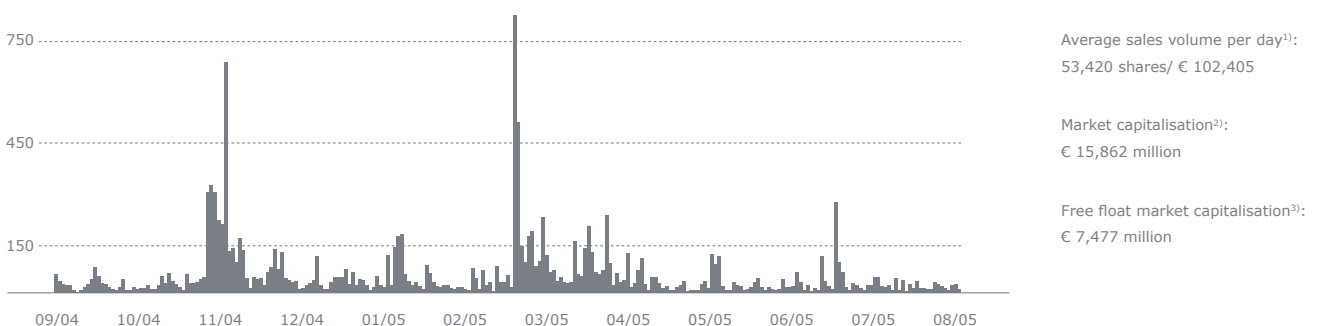
SinnerSchrader share more than doubled from 22,547 shares in the 2003/2004 financial year to 53,420 shares in the reporting period. Even discounting the months of September to December 2004, during which the trading volume was heavily influenced by the special dividend payment, the average daily trading volume for the remaining months of January 2005 to August 2005 was 50,245 shares. The highest daily volume was reached in March 2005, with over 800,000 shares.

Investor Relations

The growing interest in Internet-related shares, the business turnaround, and the positive expectations for the continued growth of SinnerSchrader make more intensive investor relations work both beneficial and necessary. While shareholder interest in the first two months of the financial year was influenced by the special dividend payment, investor relations work after the dividend payment focused on discussions with individual analysts and investors and at investor conferences which aimed at clearly and comprehensibly explaining the sustainability of SinnerSchrader's return to revenue growth and profitability.

After the end of the third quarter 2004/2005, SinnerSchrader also commissioned SES Research GmbH in Hamburg to draw up a Company analysis. In their study published in the beginning of September at the start of the new 2005/2006 financial year, the analysts from SES Research concluded that the price level of the SinnerSchrader share does not yet fully reflect the operative success of the Company and its opportunities for growth, and they classified the share as an "outperformer". In connection with the activation of investor relations work, SinnerSchrader also granted the position of Designated Sponsor to Concord Effektenbank AG in summer 2005, as they specialise in the supervision of small- and mid-cap stocks. Transparency and openness in communication, which are required under the Corporate Governance Code largely implemented by SinnerSchrader, continued to guide investor support activities. Such transparency and openness are crucial for gaining the trust of potential investors which is necessary for a long-term commitment. The quarterly and annual financial reports, in which SinnerSchrader clearly explains the development of its business figures in detail, are central elements of this. The investor area on the SinnerSchrader website at www.sinnerschrader.de is another important tool which provides quick and easy access to all of the information necessary for evaluating an investment in SinnerSchrader shares.

Fig. 3 | SinnerSchrader share sales volume 2004/2005 in 000s¹⁾



¹⁾ Xetra, Frankfurt am Main, Hamburg, Stuttgart, Munich, Düsseldorf, Hanover, Berlin-Bremen

²⁾ Outstanding shares × closing price Xetra 31.08.2005

³⁾ Free float × closing price Xetra 31.08.2005, according to Deutsche Börse AG

Shareholder Structure

Through distribution to employees exercising their stock options (19,018 shares) and through sales on the stock market (455,235 shares), SinnerSchrader AG parted with 474,253 of its own shares in the course of the 2004/2005 financial year. These shares had been bought back from the stock market in previous years. The Supervisory Board and Management Board decided on stock market sales after acquisition discussions carried out in the summer and autumn of 2004 could not be completed before payment of the special dividend. Shares were distributed to employees at an average price of € 2.76, while € 3.68 per share was redeemed for sales on the stock market. On 31 August 2005, SinnerSchrader AG held 131,347 of its own shares, which corresponds to approximately 1.1% of the share capital of SinnerSchrader AG. In accordance with Article 21 of the German Securities Trading Act, SinnerSchrader AG announced on 25 October 2004 in a newspaper authorized by the stock exchange that it had fallen below the 5% threshold.

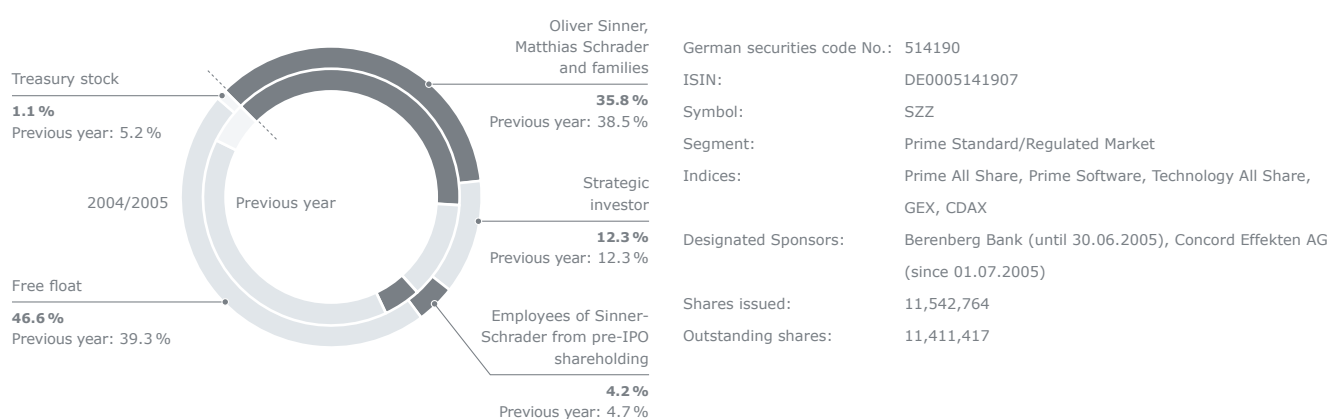
To the best of the knowledge of SinnerSchrader AG, the founders' families and pre-IPO investors held a total of 52.3% of the share capital on 31 August 2005, compared to 55.5% on 31 August 2004. The members of a consortium group formed

by these investors notified SinnerSchrader AG on 24 January 2005 in an obligatory notice in accordance with Article 21 of the German Securities Trading Act that the total proportion of shares held in this group had fallen below the 50% threshold. This notice was published on 8 February 2005 in a newspaper authorized by the stock exchange.

On 31 August 2005, 46.6% of the share capital was in free float.

Due to the shareholder structure, the SinnerSchrader share was included in the GEX, a new index introduced by Deutsche Börse AG on 3 January 2005, which pools together listed, owner-operated companies from a variety of industries. Based on a history of the Company up to June 2002 which was made available when the index was introduced, an increase of 44.8% can be calculated for the index for the 2004/2005 financial year, which, when compared with the figures for the market as a whole, underscores the potential of owner-operated companies.

Fig. 4 | Key figures of the SinnerSchrader share and shareholder structure on 31.08.2005



Corporate Governance at SinnerSchrader

Clear, transparent, and understandable practices and conduct in corporate management and monitoring (subsumed under the term "Corporate Governance") are crucial for establishing relationships based on trust between the owners of a listed stock corporation and its executive bodies, management board and supervisory board, and thus for ensuring the lasting, positive development of the company.

In June 2002, a specially appointed government commission passed a set of recommendations for such practices and conduct known collectively as the German Corporate Governance Code. This Code has been amended and officially published twice since then, on 21 May 2003 and on 2 June 2005.

The Management Board and Supervisory Board of SinnerSchrader AG have always been committed to the principles in the Code, which aim at creating value through responsible corporate management and monitoring, and they welcome the development of Corporate Governance in Germany.

Accounting Principles

The Quarterly and Annual Financial Statements of the SinnerSchrader Group and SinnerSchrader AG are key instruments for corporate management and monitoring. They form the basis for evaluating the asset, finance and earning situation of the Group and the AG and their development.

Since its IPO, the SinnerSchrader Group has employed United States Generally Accepted Accounting Principles (US-GAAP). The Annual Financial Statements of SinnerSchrader AG are drawn up in accordance with the accounting regulations in the German Commercial Code. Both Annual Financial Statements are audited by an independent auditing firm.

In 2002, the European Union issued Regulation 1606/2002, which stipulates that companies whose shares are authorized to be traded in a regulated market in a member country must use International Financial Reporting Standards (IFRS) to prepare their consolidated financial statements for financial years beginning on or after 1 January 2005. SinnerSchrader AG will therefore change over to IFRS for all accounting and reporting in the Group, beginning with the Consolidated Financial Statements for the 2005/2006 financial year, which ends on 31 August 2006. The preparations for this changeover have revealed that the change will not significantly affect the balance sheet of the SinnerSchrader Group.

Compensation Principles and Shares Held by Board Members

Transparent corporate management and monitoring ultimately also relate to the compensation of Board members. The fundamental compensation principles are therefore explained in a Compensation Report which is available on the SinnerSchrader AG website, www.sinnerschrader.de, in the "Investors" section under the heading of "Corporate Governance".

Detailed, personalised compensation lists for the members of the Management Board and Supervisory Board for the 2004/2005 financial year can be found in the Notes on pages 94 of the Annual Financial Statements of SinnerSchrader AG. An overview on page 96 provides information on the shares and share derivatives held by the Board members of SinnerSchrader AG as of 31 August 2005, as well as any changes reported in the 2004/2005 financial year.

According to Article 15a of the German Securities Trading Act, the Board members and persons closely connected to the Board members are obliged to disclose the purchase or sale of SinnerSchrader shares or derivatives related to these shares to SinnerSchrader AG if their equivalent value during the year exceeds a total of € 5,000. In the 2004/2005 financial year, no such notices were issued by the Board members or persons closely connected to them.

Declaration of Compliance

The Transparency and Disclosure Act caused the German Stock Corporation Act to be amended in the year 2002 to include Article 161, which requires the Supervisory Board and Management Board to submit an annual Declaration of Compliance with the most recent version of the German Corporate Governance Code. On 21 November 2005, the Supervisory Board and Management Board of SinnerSchrader AG submitted the Declaration of Compliance for the year 2005 based on the version of the German Corporate Governance Code from 2 June 2005. This Declaration is reprinted in the following, and it is also permanently available to all shareholders and other interested parties on the www.sinnerschrader.de website, in the "Investors" section under the heading of "Corporate Governance", together with the version of the Code from 2 June 2005.

Declaration of the Management Board and Supervisory Board of SinnerSchrader Aktiengesellschaft on the Recommendations of the "Government Commission on the German Corporate Governance Code" according to Article 161 of the German Stock Corporation Act in the version of 2 June 2005

The Management Board and Supervisory Board of SinnerSchrader AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 2 June 2005 were met with the following reservations in the 2004/2005 financial year (01.09.2004–31.08.2005) and will be met in the current 2005/2006 financial year (01.09.2005–31.08.2006) and in future:

Management Board

Code 4.2.3:

Variable remuneration components and share options have been waived in the remuneration package of Mr Matthias Schrader, CEO of SinnerSchrader AG, due to his high participation share in SinnerSchrader AG.

Code 4.2.3:

The share options so far awarded to other Management Board members originate from the 1999 and 2000 Stock Option Plans adopted by the Annual General Meeting. In accordance with the conditions adopted by the Annual General Meeting, the exercise criteria are reaching a price rise of 20 % in terms of the average price of the SinnerSchrader share on the ten trading days prior to allocation, waiting periods of two, three and four years and a term of six years. The option conditions make no provision for a cap for extraordinary, unforeseen developments.

No cap was set on a share-based bonus component awarded to a Management Board member in early 2005 because a cap of this kind runs counter to the intended incentive effect, especially where there are waiting periods of several years.

Supervisory Board

Code 3.8:

D&O insurance without an excess has been taken out for the members of the Supervisory Board because an excess of this kind would be disproportionate in view of the relatively low remuneration.

Code 5.3.1 ff.:

The Supervisory Board has not formed any committees because it only comprises three members.

Hamburg, 21 November 2005

SinnerSchrader Aktiengesellschaft

For the Supervisory Board
Dr Markus Conrad

For the Management Board
Matthias Schrader



Dr Markus Conrad

Markus Conrad, born in 1959, studied Business Management and Music in Hamburg, Business Administration in Fontainebleau, France, and completed his PhD (Dr. rer. pol.) in Economics back in Hamburg. He was a partner in the management consulting firm Bain & Company, Boston and Munich, and, since 1990, has been Managing Partner and co-owner of Libri GmbH, Hamburg. Since 1999 he has been Chairman of the Supervisory Board of SinnerSchrader AG. Furthermore, he is a member of the Management Board of the Börsenverein des Deutschen Buchhandels e.V. (German Publishers and Booksellers Association) and a member of the Supervisory Boards of Tchibo GmbH and Tchibo Holding AG.



Reinhard Pöllath

Reinhard Pöllath, born in 1948, studied Law at Regensburg, Munich and Harvard universities. After his studies, he worked as a lawyer in Munich, Frankfurt am Main and Berlin. Between 1980 and 1997 he managed a real estate and hotel company and went on to become CEO of a consumer goods and retail company until he founded the legal practice Pöllath + Partners in 1997. Since 1999 he has, among other things, served as Deputy Chairman of the Supervisory Board of SinnerSchrader AG.



Frank Nörenberg

Frank Nörenberg, born in 1947, is a lawyer. After studying Law at Hamburg University, his practical legal training and his training with a private bank, he founded the legal, auditing and accounting firm Nörenberg, Schröder + Partner in Hamburg. In addition to his consultancy activities with SMEs, he is also an entrepreneur. He has been a member of the Supervisory Board of SinnerSchrader AG since 2002.

Report of the Supervisory Board

The Supervisory Board closely followed the business development of SinnerSchrader AG and its subsidiaries in the 2004/2005 financial year. At Supervisory Board meetings and in monthly reports, the Management Board kept the Supervisory Board informed of strategy, planning, the current situation, and business development, as well as 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 Statutes of the Company and supervised the business conduct of the Management Board.

Supervisory Board Meetings

In the past financial year, the Supervisory Board assembled for five regular meetings on 27 September 2004, 29 November 2004, 28 January 2005, 6 April 2005 and 29 June 2005, and it also passed a resolution by way of circulation on 21 December 2004. With the exception of the meeting on 29 November which one member was unable to attend, all members of the Supervisory Board were present at these meetings; the member who was unable to attend agreed to the resolutions of 29 November 2004 by countersigning the resolution protocol.

The deliberations focused on the current business development in each quarter, the results of the reorganisation carried out in April 2004, the use of treasury stock, the reduction of spatial capacity, business planning, and the options available for the strategic development of the SinnerSchrader Group. At its meeting on 29 November 2004, the Supervisory Board approved the Consolidated and Annual Financial Statements of SinnerSchrader AG for the 2003/2004 financial year.

Constitution of the Boards

In the financial year 2004/2005, there were no changes to the constitution of the Boards of SinnerSchrader AG. Mr Thomas Dyckhoff, who has been Chief Financial Officer of the Company since October 1999, was re-elected to the Management Board of SinnerSchrader AG for another three years beginning on 1 January 2005.

Corporate Governance

On 21 December 2004, the Supervisory Board and the Management Board submitted the Declaration of Compliance with the Corporate Governance Code which is demanded by Article 161 of the German Stock Corporation Act and which documents general compliance with the courses of action recommended by the Code. On 21 November 2005, the Board renewed this declaration for the current financial year on the basis of the Code amended on 2 June 2005.

Consolidated and Annual Financial Statements

The accounting and Annual Financial Statements of SinnerSchrader AG, as well as the Consolidated Financial Statements drawn up under Article 292a of the German Commercial Code with discharging effect on the basis of the Generally Accepted US Accounting Principles (US-GAAP), including the Joint Status Report for the Group and for SinnerSchrader AG for the 2004/2005 financial year as of 31 August 2005, were audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Hamburg, at the request of the Supervisory Board and received an unqualified auditor's certificate on 21 and 22 November 2005. At its meeting on 25 November 2005 in the presence of the auditor and the Management Board, the Supervisory Board discussed the Annual and Consolidated Financial Statements in detail. The Annual and Consolidated Financial Statements 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 auditor. The Board approved both the Consolidated and Annual Financial Statements. The Annual Financial Statements are thereby adopted.

Business Development

After breaking even in the fourth quarter of the previous year, SinnerSchrader visibly achieved a turnaround on an annual basis as well in the 2004/2005 financial year. The restructuring and reorganisation of business have been fruitful: revenues have grown dynamically and the operating profit was clearly positive. Another welcome development was that the positive cash flow strengthened the liquidity position. This means that after the payment of the special dividend in reporting year 2004/2005, through which shareholders' equity in the amount of € 1.82 per share was distributed to shareholders at the suggestion of the Supervisory Board and Management Board, SinnerSchrader is absolutely financially solid and capable of taking action to realize its growth options. Against the backdrop of the growing importance of the Internet for shaping business relations between companies and customers and a cautiously positive outlook for the overall economic environment in Germany, the goal of SinnerSchrader is to carry ahead dynamically with its positive development. The opportunities to do so are good. The Supervisory Board is fully committed to supporting the Management Board in its efforts to exploit these opportunities and help SinnerSchrader forge ahead.

The Supervisory Board would like to thank the Management Board and all employees of the SinnerSchrader Group for their efforts and dedication in the past financial year.

Hamburg, 25 November 2005

Dr Markus Conrad, Chairman of the Supervisory Board

02



Joint Status Report and Consolidated Financial Statements of SinnerSchrader AG

Consolidated Joint Status Report of the Group and SinnerSchrader AG

1 General

The following Status Report is the joint Consolidated Status Report and Group Status Report of SinnerSchrader Aktiengesellschaft ("SinnerSchrader AG" or "AG"). It shows the business development of the SinnerSchrader Group ("SinnerSchrader" or "Group") and the AG including the business results for the 2004/2005 financial year from 1 September 2004 to 31 August 2005 as well as the situation of the Group and the AG as of the report date 31 August 2005.

The Group's Consolidated Financial Statements, to which this Status Report refers, have been drawn up according to Article 292a of the German Commercial Code ("Handelsgesetzbuch"), which – pursuant to Article 58 para. 3 sentence 4 of the Introductory Act to the Commercial Code ("Einführungsgesetz zum Handelsgesetzbuch") – is last applicable to financial years starting before 1 January 2005, with discharging effect on the basis of US accounting principles ("US GAAP"). The Annual Report of the AG follows German accounting principles.

The Status Report and Group Status Report contain statements and information aimed at the future, especially Section 8. These can be recognized by the use of formulations with words such as "expect", "anticipate", "forecast", "plan", "strive", "estimate", "become" and similar terms. Such forward-looking statements are based on current knowledge, estimates and assumptions and therefore entail a number of risks and uncertainties. A variety of factors, many of which are outside SinnerSchrader's sphere of influence, have an impact on business development and results. This means that the actual future business development of SinnerSchrader and the actual results achieved may differ significantly from the explicit or implicit information in the forward-looking statements.

2 Group Business and Structure

SinnerSchrader is one of the biggest e-business service providers in Germany and offers its customers a comprehensive range of services for the use of interactive technologies, especially the Internet, to optimise and further develop their business. The emphasis of the Group’s business is on the use of websites for the sale of goods and services and for the acquisition and retention of customers.

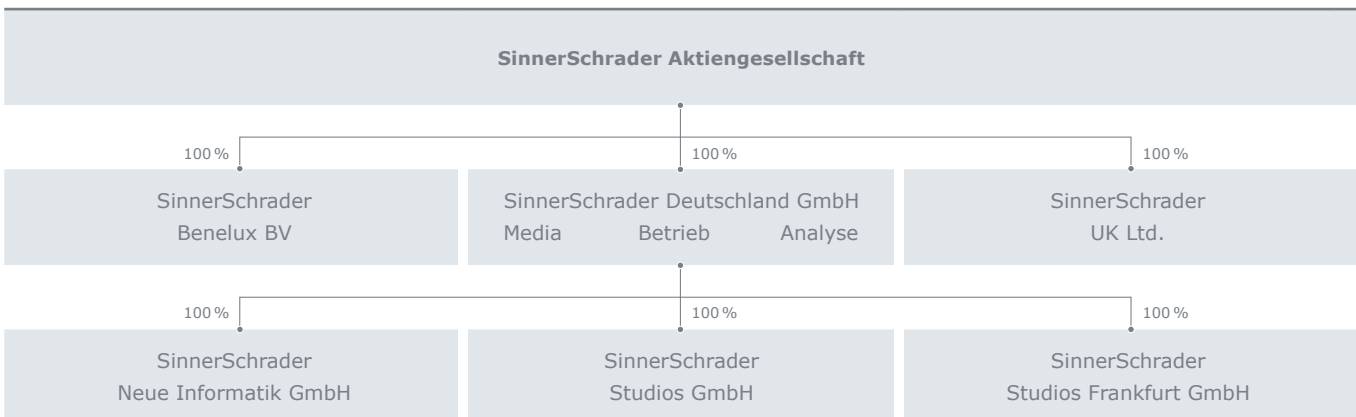
Since the reorganisation implemented in April 2004 SinnerSchrader has organised its business activities into the “Interactive Software”, “Interactive Marketing” and “Interactive Services” segments; each of these segments covers different aspects of the range of services:

In the Interactive Software segment SinnerSchrader offers its customers the conception, implementation and servicing of custom-made interactive IT systems for the use of the Internet with a special focus on the user-centred design of processes and interfaces. In the Interactive Marketing segment SinnerSchrader provides consulting, creative and implementation services on establishing and managing brands, on customer acquisition, conversion and retention as well as on promoting sales through the Internet and other digital channels. In the Interactive Services segment, SinnerSchrader bundles together three complementary service packages: planning and implementing online advertising campaigns, establishing the technical systems for running websites and constantly managing them, and designing and implementing data analysis systems for the observation and statistical analysis of user behaviour on websites.

Business in the segments is always provided by one or more independent companies that are directly or indirectly 100 % subsidiaries of SinnerSchrader Aktiengesellschaft, the parent company managing the Group. SinnerSchrader Neue Informatik GmbH is active in the Interactive Software segment, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH in the Interactive Marketing segment, and SinnerSchrader Deutschland GmbH in the Interactive Services segment.

In addition to these companies, which have their headquarters in Hamburg or Frankfurt am Main, SinnerSchrader UK Limited, London, UK, and SinnerSchrader Benelux BV, Rotterdam, The Netherlands, are still part of the consolidation group as 100 % subsidiaries. Neither company was operatively active in the period covered by the report.

Fig. 1 | Structure of the SinnerSchrader Group



3 Market and Competitive Environment

In the 2004/2005 financial year the market environment for SinnerSchrader has improved markedly. The forecasts on economic growth and the development on the IT and advertising market in 2004 that were available at the beginning of the financial year in the autumn of 2004 were missed only slightly. Unlike in the previous years, there were no negative surprises at the end of the calendar year. Thus, in 2004 the real growth in gross domestic product reached¹⁾ 1.6 % in Germany; the IT market²⁾ and advertising expenditure³⁾ grew by 1.6 % and 1.1 % respectively in the same period.

Overall economic growth in 2005 appears to have slowed down again – the Federal Government and economic experts are currently assuming a real GDP growth of 0.8 % for 2005 – but the dynamism in the IT and advertising/marketing sub-markets that are relevant to SinnerSchrader is at least considered to be stable by the industry associations concerned. The current prediction for the IT market allows for a 3.1% rise in market volume and growth of 1% in the advertising market for 2005. In particular, the development in the relevant sub-segments of the IT and advertising market related to the Internet will be developing their effect for the business development and prospects of SinnerSchrader.

For example, the income of online advertisers in Germany, one component of the advertising expenditure referred to above, increased by 10.2 % over the previous year in 2004. Expenditure for new forms of Internet advertising not included therein, such as search engine or affiliate marketing⁴⁾, rose by

over 40 % in 2004. Similar growth speed is expected for 2005. This reveals a trend to reorganise advertising expenditure in favour of the Internet, which SinnerSchrader also finds confirmed in its customer relations.

Similar developments can also be seen in the IT market. In a study published by Freiburg University⁵⁾ and funded by the Federal Ministry for Labour, around 60 % of the responding companies stated that they wanted to increase the proportion of Internet-related IT investments and expenditure in the next two years.

The development or expectations cited for the Internet-related market segments of the IT and advertising industry reflect the uninterrupted increase in the spread of the Internet as a communication and transaction platform: according to data from social research institution Forschungsgruppe Wahlen, which conducts election polls for German television, the proportion of the population with access to the Internet rose by three percentage points to 64 % between October 2004 and October 2005; turnover from transactions with goods, services and information with end customers (B2C turnover) will rise by 11.5 % to € 14.5 billion in 2005 according to figures from the Central Association of German Retail.

The improvement in the environment for SinnerSchrader's business activities thus continued in 2005 after starting in 2004 and no signs can be seen that give rise to the expectation of another deterioration in the foreseeable future.

Fig. 2 | Development of the market and GNP in Germany in %

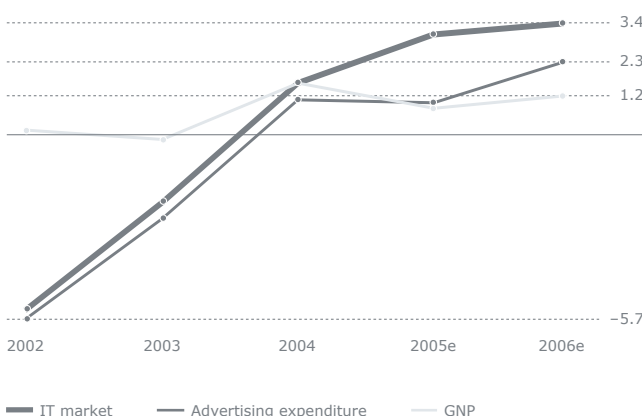
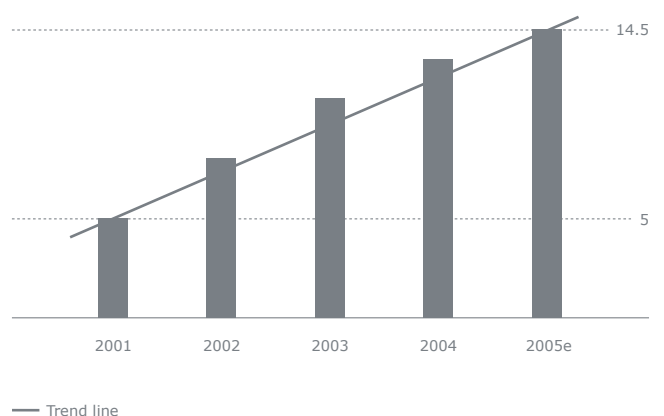


Fig. 3 | B2C/E-Commerce revenue 2001 to 2005e in € millions



¹⁾ German Federal Statistical Office, 23 August 2005

²⁾ BITKOM, industry figures as of autumn 2005, 24 October 2005

³⁾ Central Association of the German Advertising Industry ("Zentralverband der deutschen Werbewirtschaft", ZAW), ZAW Yearbook "Advertising in Germany 2005" ("Werbung in Deutschland 2005")

In view of a continued fragmented landscape of providers and the fact that new market players are becoming established in emerging business segments, such as search engine marketing, the revival of the market in the 2004/2005 financial year has not yet led to a lasting change in the intensity of competition and, thus, to a change in achievable prices.

4 Business Development and Group Situation

On the basis of the market position built up in Germany over the last few years and through the impact of the organisational structure newly introduced in April 2004, in the 2004/2005 financial year SinnerSchrader has been able to use the positive impetus from the general market development and increased its revenues by a good 16% to € 14.3 million after years of negative figures.

The revenue increase of a good € 2 million in comparison to the previous year led to an improvement in the operating result, measured in the EBITA, by almost € 1.6 million, meaning that after four years of operative losses SinnerSchrader ended the 2004/2005 financial year back in positive territory with an EBITA of just under € 0.2 million. However, in 2004/2005 the EBITA was still encumbered with restructuring expenses of a good € 0.35 million as reserves had to be formed for the rent compensation payments that will be due next financial year for the depletion of the office space over-capacity in the Hamburg location.

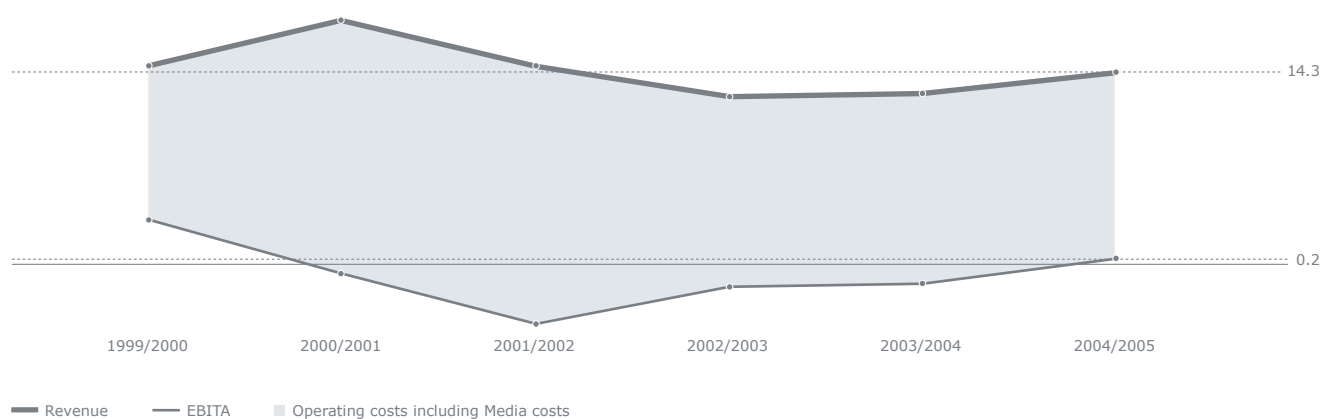
Together with the income from creating the liquidity reserve of € 0.2 million and the moderate accommodation in the current operating results of future tax saving effects from accumulated losses brought forward resulting from building up an active latent tax position in the amount of € 0.15 million, in the 2004/2005 financial year SinnerSchrader earned annual profit of a good € 0.5 million or € 0.05 per share, in comparison to an annual loss of € -0.5 million or € -0.05 per share in the previous financial year.

This means that the overall business development was better than in the plans, in which SinnerSchrader had assumed revenue growth of between 5% and 10% and a balanced operating result for 2004/2005.

The development of the Group's assets and financial situation also exceeded expectations. As of 31 August 2005 the equity amounted to € 10.3 million, a rise of just under € 2.2 million in comparison to the level at the end of the previous year. The growth from the annual profit was supplemented by the income from the sale of around 474,000 treasury stock in the amount of € 1.7 million.

The Group's asset situation has primarily changed due to the repayment of treasury stock to shareholders in the amount of € 20.8 million already decided in the last financial year. While the effects were already considered in the equity as of 31 August 2004, the liquidity reserve fell by the amount repaid only as part of the settlement of the liability vis-à-vis the shareholders on 8 November 2004. Corrected of this effect, the

Fig. 4 | Development of revenue and EBITA since 1999/2000 in € millions



⁴⁾ Onlinevermarkterkreis (OVK), 2 August 2005

⁵⁾ Freiburg University, Electronic Commerce Enquete 2005

liquidity reserve rose over the financial year from € 6.2 million on 31 August 2004 to € 10.6 million on 31 August 2005. At the end of the financial year the equity ratio reached a value of 75 %.

The development of the key indices for business development and the Group's asset and financial situation in the period covered by the report will be described in detail in the following.

4.1 Revenue

The pleasing expansion of business volume from € 12.3 million in the previous year to € 14.3 million in the 2004/2005 financial year resulted from continuously rising quarterly revenues. After consolidation of the revenue level at € 3.2 million in the first quarter of 2004/2005 just below the value of the last quarter of the previous year, quarterly revenues rose to over € 3.6 million in the second quarter and just under € 3.7 million in the third quarter and then to € 3.8 million in the fourth quarter, a value that SinnerSchrader had not achieved since the first quarter of 2001/2002. The return to rising revenues that occurred in the middle of the 2003/2004 financial year thus proved to be sustainable.

A major contributory factor in the constancy of the growth is that SinnerSchrader has offered the full spectrum of its service portfolio on the market following the implementation of the new organisational structure in April 2004 and has thus been able to better develop the market potential for its services. Furthermore, the Group's broader presence on the market

meant that the sometimes greatly varying developments of the segments complemented each other well over the quarters.

The Interactive Services segment underwent especially dynamic development, with above-average growth rates in the media business and operational services in particular. SinnerSchrader profited from the good growth rates in the market for online advertising, on the one hand due to its expertise in the field of cost-per-order transactions and, on the other hand, due to the Group's entry into search engine marketing. The good results of business with newly acquired customers in the two other segments paired with successful cross-selling ensured growth dynamics in operational services. In the year of the report SinnerSchrader also increasingly offered to manage customers' websites on the Company's own computer capacity with contracts running for several years. In the 2004/2005 financial year the segment earned revenue of € 4.4 million with external customers, which corresponds to a share of almost 31 % of Group revenue. In the five months of the previous year following the establishment of the segments in April 2004 the share had been 24 %.

Following a strong fourth quarter of the previous year and an even better second quarter of 2004/2005, in the second half of the 2004/2005 financial year business in the Interactive Software segment consolidated at a good level, albeit slightly below the peak values. Following initial pleasing impetus from business with new customers, above all the order to set up the SZ-Mediathek web shop for the Süddeutsche Zeitung, there

Fig. 5 | Development of revenues according to quarters in € millions

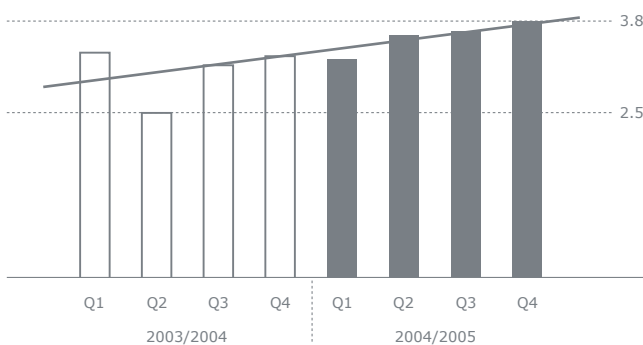
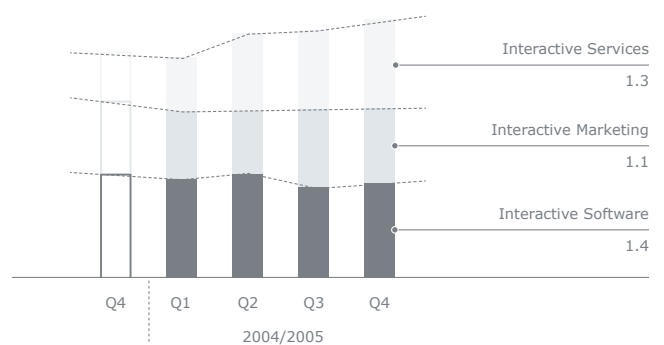


Fig. 6 | Development of revenues according to segments in € millions



was not much business with new customers in the second half of the financial year. Therefore, the focus mainly lay on business with existing customers, with SinnerSchrader proving their efficiency with the relaunch of the comdirect bank website in June 2005. Total revenue with external customers in the financial year was € 5.7 million, a Group share of 40%. In the last five months of the previous financial year the share had been 44%.

The Interactive Marketing segment contributed revenue of € 4.2 million from business with external customers or a good 29% (in comparison to 32% in the period April 2004 to August 2004) to the Group's total revenue in 2004/2005. Following initial success in the first months after the reorganisation in April 2004 the main task was to permanently establish the marketing and creative expertise of SinnerSchrader on the market. Sales efforts with this aim met with a good response and led to good business with new customers in the 2004/2005 financial year: just under a third of the revenue in the Interactive Marketing segment was earned from business with new clients. Among others, VW Mobile Services, the E-Plus subsidiary simyo and Dow Jones were acquired.

In relation to the 2004/2005 financial year, growth in revenue rose by 16% in comparison to the previous year. The project service business conducted mainly in the Interactive Software and Interactive Marketing segments increased by a good 8% in comparison to the previous year. Revenues with media and other services, which were largely earned by the Interactive

Services segment, rose by 55% and 14% respectively, and ensured that the Group earned clear double-digit growth. 21% of the revenue was earned with newly acquired customers. In the previous year the new customer rate had only been 16%.

In the 2004/2005 financial year SinnerSchrader earned 64% and 83% of Group revenue with the five and ten biggest customers or customer groups respectively. In 2003/2004 the corresponding shares had been 70% and 81%. This means that the slight shift in share towards the top ten went hand in hand with a more-or-less equal weight distribution among the important customer relations. Two of the top ten were new customers. In the 2004/2005 financial year, the biggest customer accounted for a share of 20%; in the previous year the biggest customer had been responsible for 18% of revenue. As in the previous year, SinnerSchrader earned revenue of over € 1 million with five customers.

As in the previous year, the breakdown according to sectors shows a comparatively balanced distribution of business across the different sectors. But not one of the five sectors accounted for a share of over a third. The Transport & Tourism, Retail & Consumer Goods and Media & Entertainment sectors increased their share. The share of revenue with companies from the Financial Services industry and the Communications & Technology-sector fell.

Fig. 7 | Revenue share top ten customers in %

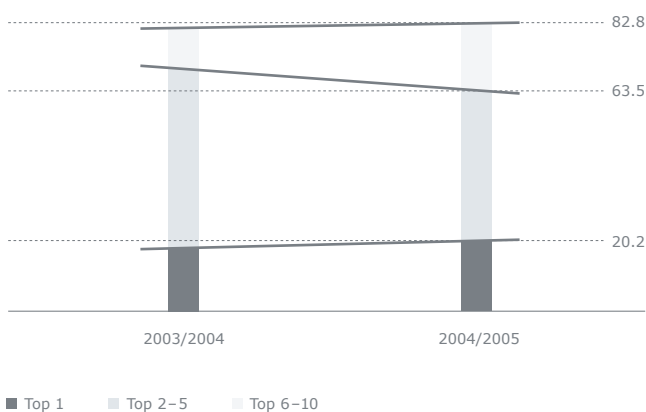
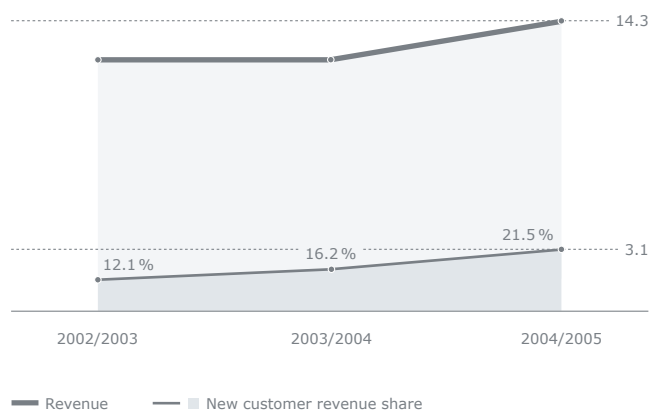


Fig. 8 | Development of the new customer business in € millions and %



In the 2004/2005 financial year the development of incoming orders was very close to that of revenue. Firstly, customers in project business are still issuing orders for initial projects and, above all, for maintenance and further development projects in segments that are as small as possible. Secondly, budget sizes are not prescribed in the key orders for SinnerSchrader in the media business, but result from customer visits actually made to the website marketed or from orders actually placed. This means that the orders on hand in the year of the report and as of 31 August 2005 were still below a quarterly revenue.

4.2 Operating Result

After a return to positive operating territory in the fourth quarter of the previous year, in the 2004/2005 financial year SinnerSchrader completed every quarter with a positive result before interest, taxes and depreciation effects from acquisitions (EBITA). The EBITA itself also exhibited a growth trend over the last four quarters.

Overall, in 2004/2005 SinnerSchrader achieved an EBITA of just under € 0.2 million and thus improved its operating result by just under € 1.6 million in comparison to 2003/2004. The fact that almost 80 % of the rise in the (gross) revenue of € 2.0 million was able to impact on the operating result is due to the cost and efficiency improvements in all areas.

The gross margin, gross profit in ratio to (gross) revenue, rose by 3.2 percentage points from 29.6 % in the previous year to 32.8 % in the year of the report. On the one hand, this

shows that the strong revenue growth in media business has not been bought with concessions on the margins. On the other hand, an improvement in the utilisation of the operating capacities by 2.5 percentage points and a further improvement of the daily rates effectively realised also took their effect. The positive development of the operating relations can be recognised in summary in the development of the (gross) revenue per productive full-time employee: with almost identical capacity (around 107 productive full-time employees in 2004/2005 in comparison to 108 in 2003/2004), the revenue per productive full-time employee rose by a good 17 % from € 114,000 in 2003/2004 to € 134,000 in the year of the report and, thus, by around one percentage point more than revenue.

The growth of € 1.0 million in the gross revenues was complemented by cost savings of € 0.1 million or just under € 0.2 million in the sales and administrative costs and supplemented by savings of € 0.2 million in the restructuring costs. Above all, the reduction in the number of dedicated sales employees in the wake of the introduction of the new organisational structure in April 2004 had a cost-reducing effect on sales costs. The removal of the one-off costs for the conception and implementation of this new organisational structure was a major contribution to reducing the administrative costs.

For the 2004/2005 financial year, too, restructuring costs in the extent of € 0.35 million occurred once again, however by € 0.2 million less than in the previous year. € 0.3 million of the restructuring costs in 2004/2005 were associated with the necessary reduction of costs on vacant rented property in

Fig. 9 | Revenue distribution according to sectors in %

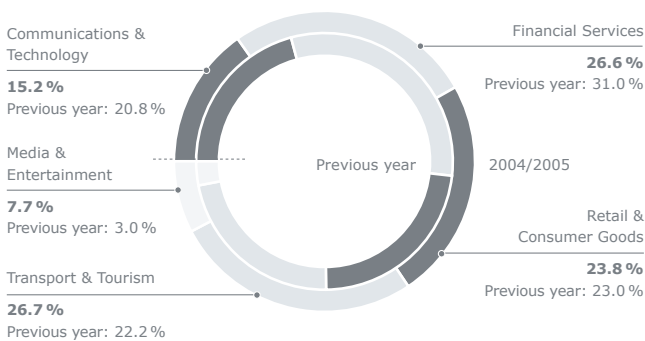
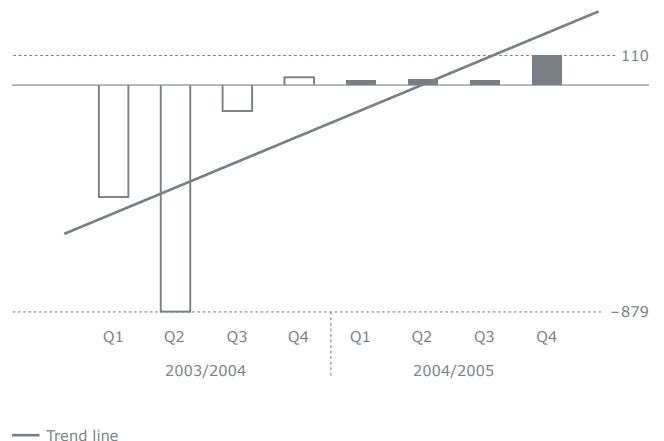


Fig. 10 | EBITA development according to quarters in € 000s



Hamburg. A special right of notice as of 30 June 2006 for the Hamburg office, where only 50 % of over 6,000 square metres of office space can be used, is associated with a rental contract obligation to pay compensation in the amount of € 0.3 million. After the notice was issued in 2004/2005, the corresponding reserves had to be formed, which could not be accommodated earlier because of the specific structure of the office space and the relevant US GAAP rules.

The remaining amount of € 0.05 million concerned reserve increases in association with labour court proceedings on personnel measures from previous financial years which had not yet been completed as of 31 August 2005. In the 2004/2005 financial year no new capacity adjustment measures were necessary. In the first half of the previous year SinnerSchrader had had to adjust personnel capacity downwards one last time and therefore had borne around € 0.55 million in restructuring costs in 2003/2004.

Research and development was the only field where SinnerSchrader spent more in 2004/2005 than in the previous year. Here, increased costs of just under € 0.05 million in comparison to the previous year were incurred. Also, the Interactive Software segment intensified its development efforts for reusable software components.

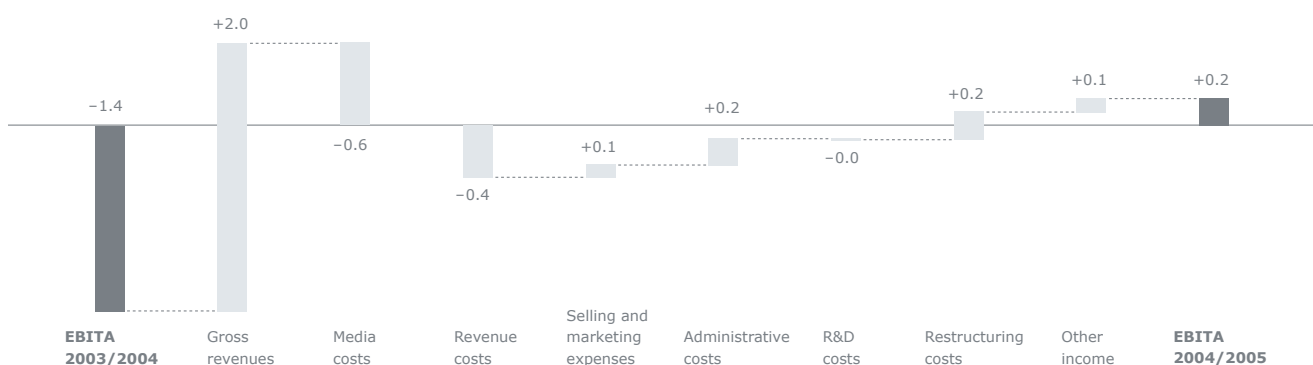
The other income and expenditure – mainly the dissolving of reserves and other income from outside the period – contributed a share of € 0.1 million to the rise in the EBITA.

In comparison to the previous year, the development of operating costs in the breakdown according to cost types shows that SinnerSchrader also achieved progress towards the goal of greater flexibility in the cost structure. Whereas personnel costs (without the relevant shares of restructuring costs of € 0.05 million in 2004/2005 and € 0.55 million in 2003/2004) did not greatly exceed the value of the previous year of € 7.8 million in the 2004/2005 financial year in spite of the revenue growth, the costs for bought-in services and goods (without media costs) rose by 25 % from a good € 0.6 million to € 0.8 million. Added to this is a clear increase in the media costs of around 42 %, which reflects the strong revenue growth in media services.

Depreciation and amortisation were further decreased by around 14 % to € 0.5 million in 2004/2005 as a result of the restrictive investment policy of the previous years. And at € 2.6 million in 2004/2005, even the other operating costs did not lead to any cost increases in comparison to the previous year (without restructuring elements of € 0.3 million in 2004/2005 and € 0.01 million in 2003/2004).

In spite of the pleasing overall development of the operating result, a satisfactory revenue return could not yet be achieved in the 2004/2005 financial year. The EBITA accounted only for 1.2 % of the (gross) revenue. This is largely due to the fact that in 2004/2005 SinnerSchrader still had to bear considerable expense for the oversized rented office space in Hamburg, which was further increased by the above-mentioned reserves

Fig. 11 | EBITA reconciliation 2003/2004 to 2004/2005 in € millions



for exercise of the special right of notice. The costs of office space including the formation of reserves and the depreciation of leasehold improvements amounted to a good € 1.8 million or 12.9 % of gross revenue in the 2004/2005 financial year. With adequately sized office space, which SinnerSchrader will only be able to achieve in the course of the next financial year after the special notice as of 30 June 2006, the rental costs will be approx. half of the current office space costs.

Since the vacant property costs are not allocated to the operating segments, but remain in the AG, the segment results give a better impression of the profitability already achieved: altogether, the operating segments achieved an operating revenue return (EBITA in ratio to the gross revenue with external customers) of 12.7 % in the 2004/2005 financial year, with Interactive Software earning 11.9 %, Interactive Marketing 8.5 % and Interactive Services 17.7 %.

After the disappearance of the depreciation effects from the acquisition of Netmatic in 2001, which occurred for the last time in the previous year in the form of amortisation of deferred compensation, the EBITA in 2004/2005 corresponded to the EBIT, i.e. the result before interest and taxes.

4.3 Annual Result

In addition to the EBITA or EBIT from operating business, the annual result is made up of the financial result and the taxes on income. In the 2004/2005 financial year the financial result amounted to € 0.2 million. The considerable fall in comparison

to the previous year by around € 0.6 million is largely due to the fact that SinnerSchrader paid around € 20.8 million from the liquidity reserve to the shareholders within the framework of a capital repayment in early November 2004. Added to this is the fact that the interest level in the year of the report continued to fall, which had an effect on the result earned from investment of the remaining liquidity reserve, because SinnerSchrader continued its investment strategy with low tied-in interest periods, which was aimed at flexibility.

In spite of the positive pre-tax result, there was also a positive contribution to the annual result from income taxes in the 2004/2005 financial year. At € 0.15 million, it was around € 0.1 million above the value of the previous year. On the one hand, no income taxes had to be paid due to the existing accumulated losses on the positive result before tax brought forward. On the other hand, the return to operating profitability meant that future tax savings had to be balanced by means of the formation of a latent tax position with an effect on results due to the remaining accumulated losses brought forward. In view of the number of preceding loss years and the continuing comparatively high uncertainty with respect to future estimates of results, the volume of balanced tax savings was based only on the expected results for the next planned year. The value of future tax saving volume from accumulated losses brought forward was adjusted as of 31 August 2005, as in previous years.

Fig. 12 | EBITA distribution according to segments in € 000s



The EBIT, financial result and income tax effect resulted in an overall annual profit of € 0.55 million in the 2004/2005 financial year in comparison to an annual loss of € -0.5 million in 2003/2004. Per share, based on the average in circulation during the year, this represents an annual profit of € 0.05 for 2004/2005 in comparison to € -0.05 in the previous year.

4.4 Cash Flow, Asset and Financial Situation

The cash flow in the 2004/2005 financial year and the change in the Group's asset and financial situation from 31 August 2004 to 31 August 2005 were characterised by the repayment of equity from the capital reserve to the shareholders in the amount of € 20.8 million and from the sale of a large part of the treasury stock at the same time.

The equity repayment was decided by the Annual General Meeting in January 2004 and was implemented in early November 2004 within the framework of a special dividend payment to shareholders. The cash flow statement shows the consumption of liquid funds in the amount of the special dividend in cash flow from financial activities. The funds needed for the special dividend payment were provided by a sale of marketable securities with a corresponding effect on the cash flow from investment activities.

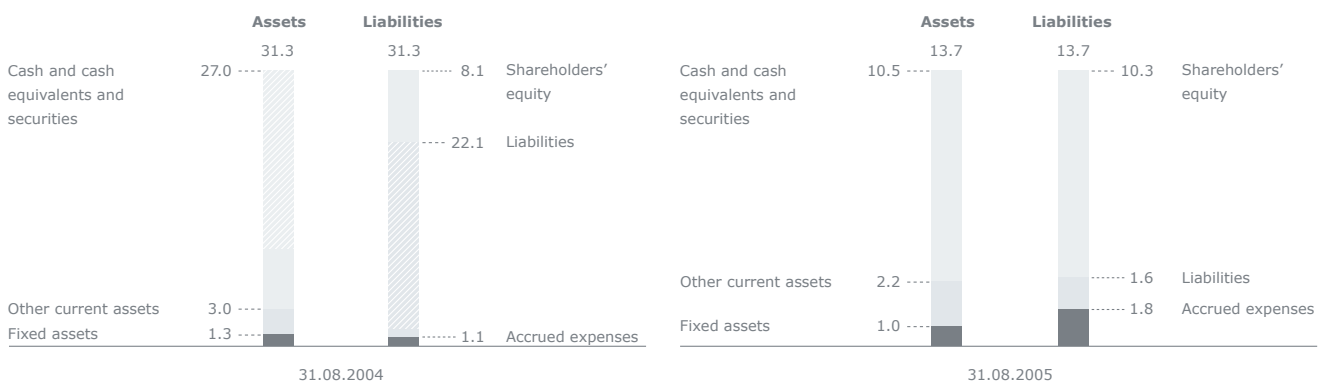
The corresponding reduction in equity had already been entered in the balance sheet of 31 August 2004 on the basis of the obligation to pay in return for entering liabilities vis-à-vis shareholders that came about in April 2004 with the entry of the Annual General Meeting's decision. When the special dividend amount was transferred to the shareholders on

8 November 2004, the liability was met, the liquidity reserve reduced and thus the overall balance correspondingly depleted by a good € 20.8 million.

The sale of treasury stock on the stock exchange in the last two weeks before 8 November 2004 counteracted the outflow of funds and the balance sheet contraction resulting from the special dividend. After negotiations on taking over other companies in return for treasury stock could not be successfully completed by mid-October, 455,235 treasury stock shares were sold via the stock exchange at an average price of € 3.68 per share from the stock of 605,600 treasury stock shares on 31 August 2004. Furthermore, at various times in the 2004/2005 financial year, 19,018 shares were used to exercise employee options in return for payment of an average exercise price of € 2.76, which was exercised from the treasury stock. SinnerSchrader had acquired the shares via the stock exchange in previous years at an average price of € 1.53.

This resulted in an inflow of funds in the cash flow from financial activities in the amount of a total of € 1.7 million in the 2004/2005 financial year. In this amount, the sale of treasury stock also led to an increase in equity, which makes itself felt in a reduction of the withdrawal item for treasury stock by € 0.7 million and an increase in the capital reserve by € 1.0 million. Together with the increase in equity due to the annual profit, the equity rose by a total of € 2.3 million in the 2004/2005 financial year and as of 31 August 2005 reached a level of € 10.3 million in comparison to € 8.05 million as of 31 August 2004.

Fig. 13 | Balance sheet as of 31 August 2004 and 31 August 2005 in € millions



▨ Share special dividend respectively

The cash flow from operating activity derived from the annual profit amounted to € 2.6 million in the 2004/2005 financial year. In addition to the depreciation and amortisation in the amount of € 0.5 million, a reduction of around € 0.4 million in tying up of funds in the asset items "accounts receivable" and "unbilled revenues" and a tax rebate of around € 0.4 million, it was mainly the fact that not all items with an impact on expenditure had become due for payment by 31 August 2005 and thus brought about an increase in the current liabilities by jointly around € 1.0 million, which resulted in cash inflow from operating activity well above the annual profit.

The investments in fixed assets in the 2004/2005 financial year amounted to € 0.2 million and mainly concerned computer software and hardware. Therefore, in comparison to the previous year just under € 0.1 million more were invested, which is in particular due to building up own computer capacity to operate customer websites. As in the previous years, however, the investment volume in 2004/2005 was well below the level of depreciations. In addition to restrictive investment behaviour, it can be seen that depreciation and amortisation in 2004/2005 were still marked by the leasehold improvements to the office space in Hamburg, which were not countered by alternative or new investments. Accordingly, the value of the Group's fixed assets fell further from € 1.3 million on 31 August 2004 to € 1.0 million on 31 August 2005.

In summary, the asset and financial situation of the SinnerSchrader Group as of 31 August 2005 is still extremely sound, in spite of the considerable outflow of liquid funds and equity resulting from the repayment to the shareholders. Of the total

assets of € 13.7 million, € 10.6 million or around 77% were accounted for by the liquidity reserve from liquid funds and marketable securities. During the year and as of 31 August 2005 the funds were still invested in time deposits and money market and similar participation certificates with a good credit rating and an average tied-in interest period of no longer than three months.

As of 31 August 2005 75% of the assets were financed by equity. As in previous years, the balance sheet does not contain any financial debts.

4.5 Employees

In the 2004/2005 financial year, there were an average of around 132 full-time employees (including the Management Board and managements of the operating companies) in the SinnerSchrader Group. The overall employee capacity had thus reduced once again in comparison to the previous year by around 7 full-time employees, largely due to the full effect of the personnel measures implemented in the second quarter of the 2003/2004 financial year.

The average number of productive employees at around 107 full-time employees in 2004/2005 was relatively constant in comparison to around 108 full-time employees in 2003/2004. The number of non-productive employees in terms of a direct contribution to revenue fell from a good 31 full-time employees in the previous year to 25 full-time employees in 2004/2005. The difference in the development is associated with the fact that there had been selective hiring in the productive sector during the year of the report following the growth in business,

Fig. 14 | Employee structure as of 31 August 2004 and 31 August 2005

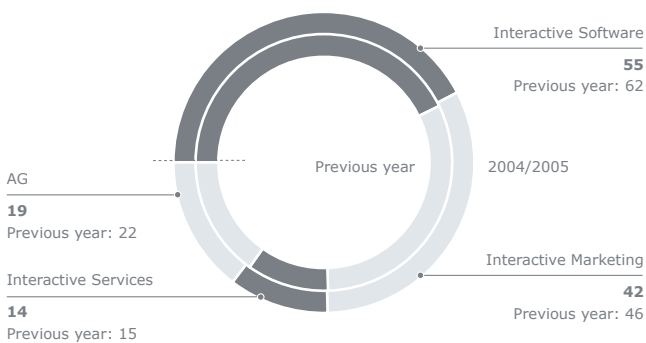
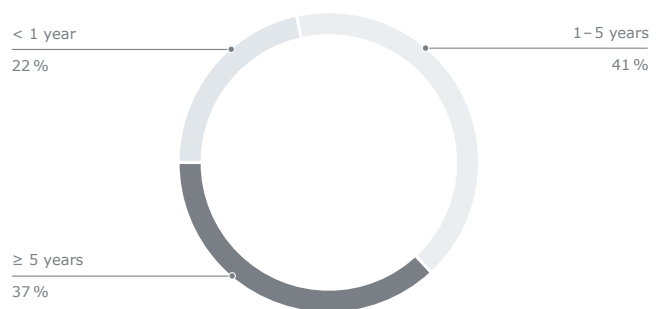


Fig. 15 | Length of service 2004/2005



whereas the cutting of dedicated sales jobs continued in the sales sector and any gaps in the administrative sector were initially filled with temporary staff. Moreover, in the 2004/2005 financial year, three trainees who were not included among the productive employees successfully completed their training in the operative segments. SinnerSchrader was able to offer one of these former trainees an employment contract in a productive function.

Of the 132 full-time employees, around 58 full-time employees worked in the Interactive Software segment, 42 in the Interactive Marketing segment, 14 in Interactive Services and 18 in the managing holding company.

At the end of the financial year on 31 August 2005, SinnerSchrader's staff was made up of a total of 130 full-time and part-time employees (including the Management Board and the management of the individual Group companies). This number includes 55 employees in the Interactive Software segment, 42 in the Interactive Marketing segment, 14 in Interactive Services and 19 in the managing holding company. On 31 August 2004 the Group had had 145 employees.

5 Development and Situation of SinnerSchrader AG

SinnerSchrader AG is the managing holding company of the SinnerSchrader Group. Its business activities mainly comprise guiding and controlling the operating Group companies and financing them, administering and controlling Group liquidity, managing the German tax integration, providing and administering the infrastructures jointly used by the Group companies, in particular the office space, centrally providing administrative services and performing central Group tasks, such as investor relations work.

There are direct or indirect profit and loss transfer agreements between SinnerSchrader AG and the German subsidiaries, SinnerSchrader Deutschland GmbH, SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH. This means that the profits and losses from operating business are also reflected in the individual result of the AG for the relevant year of the report, in each case as income from transfers of profits or as expenditure from transfers of losses.

With respect to the provision of infrastructure and the central provision of administrative services, SinnerSchrader AG is in a direct business relationship with the German subsidiaries; it charges them for the services rendered and earns its own revenue from this.

The annual result of the AG, determined according to German accounting principles, amounted to € 5.6 million in the 2004/2005 financial year, following an annual loss of around € -0.45 million in the previous year. This considerable leap in profits is primarily due to two particular factors:

» The evaluation of the participation value for SinnerSchrader Deutschland GmbH, which comprises the entire operating business as the parent company of SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH and its own business activities, resulted in a value of € 11.5 million as of 31 August 2005 in comparison to a valuation of € 8.0 million from the balance sheet as of 31 August 2004. The increase in value is associated with the marked improvement in profitability in the year of the report and the business prospects for the years ahead as well as the adjustment to the discount interest rate to be used for evaluation, which has become necessary because of the permanently low interest levels. Against the background of an original participation value of € 24.8 million, there was a requirement to reinstate original values as of 31 August 2005 according to German accounting

principles, with the result that the € 3.5 million increase in value was posted so that it affected the result. The profit was indicated in the other operating income. In the previous year, the evaluation of SinnerSchrader Deutschland GmbH did not give rise to a change in the participation value, meaning that there was no corresponding contribution to profit in the previous year.

» In the 2004/2005 financial year SinnerSchrader AG sold 455,235 of 605,600 treasury stock shares that were on hand as of 31 August 2004 for an average price of € 3.68 on the stock exchange and 19,018 treasury stock shares at a price of € 2.76 to staff within the framework of option exercises. The sold shares were capitalised at a price of € 1.53, meaning that the sale or issue of treasury stock brought in income in the amount of around € 1 million, which is also listed under other operating income. In the 2003/2004 financial year, the exercise of employee options generated income of only just under € 0.01 million.

Above and beyond these two factors, the positive developments of the Group companies' operating business and own cost-saving efforts were reflected in the AG's income statement. On the one hand, the completed offsetting of central services implemented on 1 April 2004 introduced with the reorganisation of the Group had an impact on a whole financial year for the first time and thus allowed the AG revenues of € 1.6 million in 2003/2004 from providing these services to rise by € 0.7 million to € 2.3 million in 2004/2005. On the other hand, the income from profit and loss transfers rose by a good € 1 million from € 0.8 million to € 1.8 million in the year of the report due to the improvement in the profitability situation in the subsidiaries.

The positive income factors were also supplemented by improvements on the cost side. In all of the cost items – material costs, personnel costs, depreciation and other operational expenses – the levels in the 2004/2005 financial year were below those of the previous year. Overall, this resulted in a contribution of just under € 0.45 million to improving the profit.

The only negative effect in the development of earnings was the clear reduction in the profit from investing the liquidity reserve and from financing the subsidiaries: in the 2004/2005 financial year the total earnings amounted to € 0.2 million, € 0.1 million of which came from the sale of securities in the other operating income, € 0.1 million from other interest and interest-related income and, in return, € 0.02 million from

interest and similar expenditure. In the previous year, earnings had been € 0.8 million. The fall is largely due to the reduction of the liquidity reserve through the capital repayment to the shareholders in early November 2004 in the amount of € 20.8 million and also the further weakening of the interest level.

The profit from ordinary business activity amounted to € 5.6 million in total. As key elements of the profit, such as income from participation appreciation and from the sale of treasury stock, were non-taxable income, the taxable elements were covered by the existing tax losses brought forward, meaning that no income tax was incurred in the 2004/2005 financial year.

An amount of € 5.1 million from the annual profit of € 5.6 million was posted in the other revenue reserves in the amount permitted under Article 58 paras 2 and 2a of the German Stock Corporation Act ("Aktiengesetz") in conjunction with the Statutes of SinnerSchrader AG. The remaining amount of € 0.5 million was carried forward to a new account.

Thanks to the annual profit, the equity has risen again significantly from € 15.5 million on 31 August 2004 to € 21.1 million on 31 August 2005, after having been reduced by € 20.8 million in the previous year because of the decision concerning the capital repayment to the shareholders.

In addition to the allocation of the other revenue reserves according to Article 58 of the German Stock Corporation Act, they have increased by an amount of € 0.75 million following the sale of treasury stock; the reserve for treasury stock had to be reduced by this amount. The withdrawal from the reserve for treasury stock resulted in the allocation of this amount in the revenue reserves because the reserve for treasury stock was originally formed by buying shares to the detriment of other revenue reserves.

The liabilities side of the balance sheet also changed with payment of the liability of € 20.8 million to shareholders. After expiry of the statutory waiting time, the amount of the capital repayment decided by the Annual General Meeting could be paid out in November 2004. Furthermore, the other reserves were reduced by more than half to € 0.8 million as of 31 August 2005. Unlike in the US GAAP report, the amounts for costs on vacant rented property at the Hamburg location already reserved in the previous years and for the costs of notice on the said rental contract were used or became liabilities after issuing the notice.

The development of the assets was dominated by the appreciation of the shares in affiliated companies from € 8.0 million to € 11.5 million and by the € 17.5 million fall in the liquidity reserve, comprising credits with banks and other marketable securities.

The shares in affiliated companies include the participation in SinnerSchrader Deutschland GmbH and the two foreign subsidiaries SinnerSchrader UK Ltd. and SinnerSchrader Benelux BV. Whereas with respect to SinnerSchrader Deutschland GmbH there was a need to reinstate the original value because of the development of domestic business, the foreign subsidiaries had no operating business, as in the previous year, and are thus still evaluated at zero.

With respect to the liquidity reserve, the outflow of funds to shareholders was partially compensated for by the inflow of funds from the business activities of the AG, from the subsidiaries' profit and loss transfer obligations and from the investment of liquidity, the sale of treasury stock (around € 1.7 million) and a tax rebate (around € 0.45 million). In total, the AG had a liquidity reserve in the amount of € 8.4 million on 31 August 2005.

The equity ratio of SinnerSchrader AG was just under 94 % on 31 August 2005.

6 Major Events After the Balance Sheet Date

In November 2005 SinnerSchrader concluded a rental agreement to rent new office space in Hamburg for the period after expiry of the current rent agreement terminated as of 30 June 2006. This means that from 30 June 2006 the office space rented in Hamburg will halve from a current approx. 6,500 square metres to approx. 3,200 square metres, as will the rental costs.

7 Risk Report

In its business, SinnerSchrader is subject to many risks, which could have a negative impact on the Group's and the AG's asset, financial and income situation or could result in SinnerSchrader failing to meet the goals it has set for future business development.

It is necessary to take risks when engaged in entrepreneurial activity aimed at earning profits. To ensure that this success is sustainable it is important to manage these risks. On the one hand, this means evaluating them for probability of occurrence and the possible impact on the asset, financial and income situation and continuously monitoring them. On the other hand, it means identifying measures with which risks can be limited or avoided, and defining the financial strength and the costs of the relevant measures with regard to own core expertise in terms of which risks, which limiting or avoidance measures can be taken and to what extent.

In managing the Group it is one of the key tasks of the Management Board to define general conditions and processes for risk management for the SinnerSchrader Group, to monitor compliance with them and to regularly analyse the development of the risks in each division with the managers of the operating units and administrative divisions.

The SinnerSchrader Group's risk management system and the risk profiles of the individual divisions are documented in a risk manual. An employee from the financial division of the AG has been appointed the Group's risk commissioner and has been commissioned to subject the specified risk management system to regular internal evaluation and to document the results at least once a year. Furthermore, it is the task of the risk commissioner to randomly analyse individual divisions on behalf of the Management Board with regard to how far the specified measures to limit or avoid risks are being implemented.

It is the responsibility of the managers of the individual divisions to continuously monitor and manage the risks in their own divisions. If there is a significant increase in the degree of individual risks above a specified threshold, they are required to report it immediately to the Management Board.

Reliable and quick information to the management on the course of business is the basis for good risk management. To this end, SinnerSchrader has set up a controlling and reporting system which reports on a monthly basis on the development of key data on the business activities of the individual divisions and on the financial results.

As far as the key risk areas are concerned, the risk profile of the SinnerSchrader Group has hardly changed in the 2004/2005 financial year. In the following, individual risk areas identified as important will be explained in more detail. This selection does not mean that there can be no significant impact on the asset, financial and income situation of SinnerSchrader from other risks that have not been mentioned.

Economic Risks

The general economic development influences the volume of investments in IT and Internet services as well as expenditure on online advertising and supporting services. A deterioration in the economic situation could further reduce the market volume addressed by SinnerSchrader – with regard to quantity and price. The measures for capacity adjustment necessary as a reaction to such a development may be effective only with a time lag and would once again lead to costs for restructuring measures.

Competition

Competition in the market for IT and Internet services has increased continuously in recent years. In particular, there are providers active in this market who have a broader portfolio of services and some longer and better established customer relationships than SinnerSchrader. The future development of SinnerSchrader largely depends on how well SinnerSchrader succeeds in establishing adequate prices on the market for its services as a specialised service provider without the means of temporary cross-subsidisation.

The extent to which buying in programming services in take-off countries becomes more important for competitiveness in relation to the individual developments is also significant in this context. SinnerSchrader does not currently have sources for such services and, if necessary, could only build them up over time. Bigger competitors with an international market presence already have relevant structures or would be able to establish them more quickly.

Operational Risks

SinnerSchrader earns 20 % of its revenue with one customer; the five biggest customers have a joint share of almost 64 % of revenue. It will only be possible to compensate for the loss of the business of these important customers after some considerable time, if at all, during which it would not be possible to reduce costs correspondingly.

Since revenues in SinnerSchrader's business are not secured by long-term contracts, but largely come about on the basis of individual orders for a limited period, revenue plans are subject to a high degree of uncertainty. The trend for SinnerSchrader's customers to order whole projects in small single steps has not yet diminished, with the result that orders on hand do not extend beyond one quarter's revenue.

SinnerSchrader processes a major part of its revenue within the framework of fixed price agreements. Because of the complexity and the high technical demands, the originally calculated costs may be exceeded, resulting in unplanned losses. Furthermore, SinnerSchrader assumes standard guarantee and liability obligations within the framework of project contracts, which result in considerable follow-up costs for individual projects.

The projects that SinnerSchrader undertakes for renowned customers are sometimes associated with a considerable effect in the public. Quality deficiencies in providing the service can therefore result in negative publicity, which would significantly impair the sale of services and, thus, the future business development.

Personnel Risks

The success of SinnerSchrader is heavily dependent on the qualification and motivation of its staff. Particular importance is attached to some employees in key positions. If SinnerSchrader does not succeed in keeping these employees in the company or in continuously hiring qualified employees, the success of SinnerSchrader can be significantly impaired because of the loss of expertise.

Technological Risks

The market for IT and Internet services is characterised by a high speed of change in the basic technologies used and by still low levels of standardisation. The future market success of SinnerSchrader depends on the extent to which the breadth and depth of the technological expertise can be kept at an adequate level and technological dead-ends can be avoided in view of the high employee orientation costs with limited resources.

Risks From Acquisitions

SinnerSchrader is also interested in expanding its market position in Germany through targeted acquisitions. The success of acquisitions depends on the extent to which the acquired company can be integrated in the Group structure and the desired synergetic effects are achieved. In this context, acquisitions in the field of professional services entail the particular risk that expertise, market knowledge and customer relations are usually being acquired that are rarely permanently tied to the acquired company. Failure of integration can therefore quickly lead to the need for considerable depreciation right up to a total loss of the investment.

In spite of the relevance of the risks listed above and on the basis of the available information, in brief no risks are currently visible that would threaten the future existence of the SinnerSchrader Group or SinnerSchrader AG. Because of the positive business development in the 2004/2005 financial year, the asset and financial situation of the Group is stable, even after the repayment of some of the equity to the shareholders and the corresponding reduction of equity and liquidity reserve.

8 Outlook

SinnerSchrader advanced more quickly than planned in the 2004/2005 financial year. The expected revival of the market came into play in the period of the report and SinnerSchrader was able to make use of the opportunities presented by the new organisational structure to a pleasing extent. Revenue growth and development of earnings exceeded the plans. Revenue returned to the level of 2001/2002 and the operating result was well above zero. This means that an important milestone on the way to good earning power has been reached. However, the level of the operating margin reached in the 2004/2005 financial year – EBITA to (gross) revenue – of 1.2 % also shows that there is still a long way to go.

In the medium term, SinnerSchrader is aiming for an operating margin of between 10 % and 12 %. To achieve this goal, for the next three financial years SinnerSchrader is assuming double digit growth rates in revenue, margin improvements in the project services business of the Interactive Software and Interactive Marketing segments and the elimination of the costs for vacant rented property with the end of the current rental contract for the office space in Hamburg as of 30 June 2006.

The plans are based on a positive assessment of the development of the market relevant to SinnerSchrader. In this context, the general expectations of a reasonable, albeit not especially strong, growth in the German economy – measured in terms of gross domestic product – of 1.2 % in 2006 as well as growth in the IT market on the one hand and the web market on the other with growth predictions for 2006 of 3.4 % and 2 % respectively form a good basis. However, the expectations of the development of the importance of the Internet as a communication and transaction platform are more important. Although hardly any reliable predictions are available yet, everything indicates that a second phase of dynamic development has started after the first growth wave between 1996 and 2000. In the current worldwide Technology Fast 500 survey from Deloitte Touche, the industry segment "Internet/IP-related" was at the top in terms of assessment of growth potential, after third and second place in the two previous years; it occupied this first place both for 2005 and for the next three years.

On the basis of its good position in the German market, SinnerSchrader is expecting to be able to profit from this development. Revenue growth of between 10 % and 15 % and an operating result (EBITA) of between € 0.3 million and € 0.5 million are planned for the 2005/2006 financial year. With a continuation of this growth and the disappearance of the costs for vacant rental space, it is then planned to clearly exceed the mark of one million euros in the operating result for the 2006/2007 financial year. In addition to this planned organic development, SinnerSchrader is interested in developing further growth and profit potential by means of acquisitions to complement previous business, but especially to expand its business portfolio with complementary services.

Hamburg, 7 November 2005

The Management Board

Matthias Schrader

Thomas Dyckhoff

Consolidated Balance Sheets

Consolidated Balance Sheets

as of 31 August 2005 and 31 August 2004

Assets in €	Notes No./Page	31.08.2005	31.08.2004
Current assets:			
Cash and cash equivalents		9,614,529	1,334,258
Short-term investments/marketable securities	2.6/57	955,622	25,704,158
Accounts receivable, net of allowances for doubtful accounts of € 155,924 and € 156,174 on 31.08.2005 and 31.08.2004 respectively		1,553,805	1,779,577
Unbilled revenues		170,404	353,428
Other current assets and prepaid expenses	3.2/67	331,151	786,397
Deferred tax asset	8/76	146,962	—
Total current assets		12,772,473	29,957,818
Non-current assets:			
Property and equipment, net	3.1/67	973,758	1,293,835
Total non-current assets		973,758	1,293,835
Total assets		13,746,231	31,251,653
Liabilities and shareholders' equity in €	Notes No./Page	31.08.2005	31.08.2004
Current liabilities:			
Liabilities to shareholders	3.4/68	—	20,768,780
Trade accounts payable		801,924	428,171
Advance payments received		313,187	70,094
Accrued expenses	3.3/68	1,465,386	1,081,589
Deferred income and other current liabilities	3.5/68	831,697	762,504
Total current liabilities		3,412,194	23,111,138
Non-current liabilities	3.6/68	—	86,841
Shareholders' equity:			
Common stock, stated value € 1, issued: 11,542,764 and 11,542,764, outstanding: 11,411,417 and 10,937,164 on 31.08.2005 and 31.08.2004 respectively		11,542,764	11,542,764
Capital reserve	6.2/73	17,596,005	16,594,840
Treasury stock, 131,347 and 605,600 at 31.08.2005 and 31.08.2004 respectively	6.5/73	-200,933	-926,438
Accumulated deficit		-18,631,595	-19,176,937
Accumulated other comprehensive income/loss	2.12/60	27,796	19,445
Total shareholders' equity		10,334,037	8,053,674
Total liabilities and shareholders' equity		13,746,231	31,251,653

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Operations

for the 2004/2005 and 2003/2004 financial years

in €	Notes No./Page	2004/2005	2003/2004
Revenues:			
Project services	2.9/58	9,920,950	9,201,233
Media services	2.9/58	3,151,171	2,036,160
Other		1,243,020	1,087,647
Total revenues, gross		14,315,141	12,325,040
Media costs		-2,092,386	-1,476,246
Total revenues, net		12,222,755	10,848,794
Cost of revenues		-7,524,276	-7,200,063
Gross profit		4,698,479	3,648,731
Selling and marketing expenses		-1,120,210	-1,233,121
General and administrative expenses		-2,992,829	-3,162,289
Research and development expenses		-131,795	-89,880
Restructuring and other related costs	4.2/71	-356,275	-557,647
Amortisation of deferred compensation		—	-21,773
Operating profit		97,370	-1,415,979
Other income/expenses, net		80,771	10,103
Financial income, net	4.3/71	218,789	823,724
Profit before provision for income tax		396,930	-582,152
Income tax	8/76	148,412	51,000
Net profit/loss		545,342	-531,152
Net income/loss per share (basic and diluted)	2.14/62	0.05	-0.05
Net income/loss per share (diluted)	2.14/62	0.05	-0.05
Weighted average shares outstanding (basic and diluted)		11,333,908	10,933,405
Weighted average shares outstanding (diluted)		11,345,570	10,933,405

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Shareholders' Equity

for the 2004/2005 financial year and 2003/2004

in €	Number of shares outstanding	Nominal value	Capital reserve
Balance at 31.08.2003	10,932,341	11,542,764	37,355,960
Net loss	—	—	—
Unrealised gains and losses on marketable 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 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
Net income	—	—	—
Unrealised gains and losses on marketable securities	—	—	—
Foreign currency translation adjustment	—	—	—
Increase of common stock from additional paid-in capital	—	—	—
Reduction of common stock for the purpose repayment to shareholders	—	—	—
Amortisation of deferred compensation	—	—	—
Purchase of treasury stock	—	—	—
Re-issuance of treasury stock	474,253	—	1,001,165
Balance at 31.08.2005	11,411,417	11,542,764	17,596,005

Consolidated Statements of Shareholders' Equity

	Treasury stock	Deferred compensation	Retained earnings/losses	Accumulated other comprehensive income	Total shareholders' equity	Comprehensive income
	-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
	—	—	545,342	—	545,342	545,342
	—	—	—	8,389	8,389	8,389
	—	—	—	-38	-38	-38
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	725,505	—	—	—	1,726,670	—
	-200,933	—	-18,631,595	27,796	10,334,037	553,693

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows

for the 2004/2005 and 2003/2004 financial years

in €	2004/2005	2003/2004
Cash flows from operating activities:		
Net profit/loss	545,342	-531,152
Adjustments to reconcile net profit/loss to net cash used in operating activities:		
Depreciation of property and equipment	540,993	631,709
Stock-based compensation	—	21,773
Bad debt expense	-250	1,292
Gains/losses on the disposal of fixed assets	3,539	10,977
Losses on the disposal of marketable securities (available for sale)	-173,911	-288,261
Deferred tax provision	-148,412	-52,559
Other non-cash expense/revenue	-25	15,702
Changes in assets and liabilities:		
Accounts receivable	226,022	592,939
Unbilled revenue	183,024	-85,176
Other current assets and prepaid expenses	455,246	1,642,723
Accounts payable, deferred revenues and other liabilities	599,204	258,716
Other accrued expenses	383,808	72,746
Net cash provided by (used in) operating activities	2,614,580	2,291,429
Cash flows from investing activities:		
Purchase of short-term investments	-14,653,790	-64,242,006
Proceeds from sale of short-term investments	39,586,075	60,083,174
Purchase of property and equipment	-229,599	-147,307
Proceeds from sale of equipment	5,145	9,105
Net cash provided by (used in) investing activities	24,707,831	-4,297,034
Cash flows from financing activities:		
Payment to shareholders	-20,768,780	—
Payment for treasury stock	—	-2,819
Incoming proceeds from the sale of treasury stock	1,726,670	17,186
Net cash provided by (used in) financing activities	-19,042,110	14,367
Net effect of currency translation in liquid funds	-30	53
Net increase/decrease in liquid funds	8,280,271	-1,991,185
Liquid funds at beginning of period	1,334,258	3,325,443
Liquid funds at end of period	9,614,529	1,334,258

Notes to the Consolidated Financial Statements for the 2004/2005 Financial Year

1 Organisation and Operations of the SinnerSchrader Group

As of 31 August 2005, the SinnerSchrader Group ("SinnerSchrader" or "Group") consisted of SinnerSchrader Aktiengesellschaft ("SinnerSchrader AG" or "AG") and its wholly-owned domestic subsidiary SinnerSchrader Deutschland GmbH together with its wholly-owned subsidiaries SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH, as well as its wholly-owned foreign subsidiaries SinnerSchrader UK Ltd. and SinnerSchrader Benelux 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 in 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 in exchange for 6,000,000 no-par value ordinary shares of SinnerSchrader AG with a nominal value of € 1 per share. At the same time, an outside investor purchased in cash a total of 1,500,000 no-par value ordinary shares in SinnerSchrader AG with a nominal value of € 1 per share. 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 1,603,991 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 Deutschland GmbH and its subsidiaries. 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 proportion of human-

computer-interaction. Both SinnerSchrader Studios companies, one located in Hamburg and the other in Frankfurt, are creative multimedia agencies for interactive brand management. Their service range comprises consulting, planning, design and technical implementation services for interactive marketing and brand management activities. SinnerSchrader Deutschland GmbH, which is registered in Hamburg, completes SinnerSchrader's service portfolio by offering online media campaign planning and management services, system administration and application management services for Internet-based IT solutions as well as data structuring, analysis and reporting services on the behaviour of these systems' users.

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 for restarting business in those regions when the opportunity arises.

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

In the 2004/2005 financial year the development of revenues clearly improved. This caused the operating profit and the net income to also improve compared to the previous year. Both were positive in each quarter as well as for the entire year. This development is a sign of a distinct improvement in market conditions and the consequence of the restructuring and reorganisation measures taken in previous years.

SinnerSchrader's liquidity position (liquid funds and marketable securities) decreased from € 27.0 million as of 31 August 2004 to € 10.6 million as of 31 August 2005. Of the total decrease € 20.8 million were attributable to the redistribution of cash reserves to shareholders by means of a capital reduction approved by the annual shareholders' meeting. Adjusted for this redistribution, the liquidity position improved by € 4.4 million in the 2004/2005 financial year. Thus, SinnerSchrader had liquid funds at its disposal 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 the US Generally Accepted Accounting Principles ("US-GAAP"). They refer to the financial years extending from 1 September 2004 to 31 August 2005 ("2004/2005") and from 1 September 2003 to 31 August 2004 ("2003/2004") respectively, and to the balance sheet dates of 31 August 2005 and 31 August 2004 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 Statements of 2004/2005 and 2003/2004 thus include the accounts of SinnerSchrader AG, SinnerSchrader Deutschland GmbH, SinnerSchrader UK Limited, and SinnerSchrader Benelux BV, as well as the indirect subsidiaries SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH starting from 1 April 2004.

Subsidiaries are those entities over whose financial and operating policies the Group has the ability to exercise control so as to obtain benefits from their activities. All 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, the reported details 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 might differ from those estimates.

2.3 Foreign Currency Translation

The functional currencies of SinnerSchrader's subsidiaries outside of 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 euros using period end exchange rates 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 the "accumulated other comprehensive income/loss" item. Transaction gains and losses are reported in the Consolidated Statements of Operations.

2.4 Fair Value of Financial Instruments

SinnerSchrader's financial instruments, including liquid funds, accounts receivable, and 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 liquid funds, marketable securities, accounts receivable and unbilled services.

Concerning credit extended to customers shown under the "accounts receivable and unbilled services" item, SinnerSchrader performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on an assessment of the potential credit loss.

Table 1a 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 2005 or 31 August 2004.

Table 1b shows gross sales to significant customers in their percentage of total gross revenues for the 2004/2005 and 2003/2004 financial years.

2.6 Marketable Securities

On 31 August 2005 and 31 August 2004, SinnerSchrader's marketable securities consisted of marketable fund certificates of money market funds and similar funds. SinnerSchrader holds these marketable securities available to sell them at its discretion to cover any short-term cash requirements.

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 the "shareholders' equity" item, unless they are qualified as permanent.

SinnerSchrader 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 Group had no other than temporary impairments for the years ended 31 August 2005 and 31 August 2004.

Tab. 1a | Concentration of credit risks in %

31.08.2005

31.08.2004

	31.08.2005	31.08.2004
Customer A	25	15
Customer B	11	—
Customer C	10	8
Customer D	10	19
Customer E	1	11

Tab. 1b | Important customers in %

2004/2005

2003/2004

	2004/2005	2003/2004
Customer D	20	16
Customer A	13	18
Customer C	12	12
Customer F	9	10

Notes

Table 2 summarises the structure of marketable securities and unrealised gains and losses as of 31 August 2005 and 31 August 2004.

As of 31 August 2005 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 from three to thirteen years. Computer hardware and software is generally depreciated over three years, other electronic or electrical equipment over four to eight years, motorcars 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 over the lease term. Depreciation expenses are included in the cost of revenues and operating expenses.

The cost of maintenance and repair is expensed 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 any impairment has occurred, SinnerSchrader compares undiscounted net cash flows assumed to be generated by the assets under review to the carrying amount of those assets. If 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 2005 and 31 August 2004, SinnerSchrader did not record any impairment charges.

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 collectability of the claim is probable. Additionally, 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 frontends, to the implementation of software for middleware and backend systems, and also include maintenance and content management services for installed solutions.

Tab. 2 Marketable securities in €	Amortised cost	Unrealised gains	Unrealised losses	Recorded basis
31.08.2005:				
Money market and profit participation certificate funds	952,032	6,506	-2,916	955,622
Total marketable securities	952,032	6,506	-2,916	955,622
31.08.2004:				
Money market and 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

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 basis of the percentage of completion method of accounting according to the provisions of Statement of Position ("SOP") No. 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 material contracts are generally recognised as services performed on a monthly basis.

Revenues recognised on the basis of the percentage of completion method in advance of contractual billings are presented on the balance sheet as unbilled revenues. Amounts invoiced to customers and received in excess of revenues recognised are shown as advance payments.

Media services: Online media services entail the planning, design, execution, and controlling of online marketing campaigns for websites. Customers making use of these services are billed for the cost of the related advertising space on the one hand, and on the other hand are charged 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 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 respective advertisements. The additional services are generally recognised as performed on a monthly basis. While gross revenues include the entire amount invoiced, net revenues do not include the reimbursed cost of advertising space. Any revenues recognised in advance of contractual billing are 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 often have a component that is fixed over the term of the contract and a variable, performance-based component.

They are usually billed and recognised on a monthly or quarterly basis. In addition, SinnerSchrader provides customers with any required hardware and software they request. 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 customers.

2.10 Advertising Costs

SinnerSchrader generally expenses the cost of advertising and promoting its services and the image of SinnerSchrader as incurred. These expenses are included in selling and marketing expenses in the consolidated statement of operations. They totalled € 95,229 and € 48,425 in the 2004/2005 and 2003/2004 financial years respectively.

2.11 Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation", 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 pro-forma net income/loss and net income/loss per share information in the notes 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 – Transitional Disclosure", which amends SFAS No. 123 and provides 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. It also prescribes a specific form, content, and location within the notes for 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 7.1. SinnerSchrader had already decided to account for its employee stock option plans in accordance with the provisions of APB No. 25, and has now chosen to continue to do so. Under APB No. 25, compensation expenses are based on the difference, if any, on the date of grant between the fair market value of

Notes

SinnerSchrader's capital stock and the exercise price of the options granted. In the 2004/2005 and 2003/2004 financial years, SinnerSchrader did not grant any options under its two option plans. Consequently, no compensation costs had to be recognised for these option plans in either year.

In accordance with SFAS No. 148 in conjunction with SFAS No. 123, Table 3 shows the pro-forma net income/loss and net income/loss per share for 2004/2005 and 2003/2005 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.

In 2004/2005, SinnerSchrader AG granted a stock-based compensation to a member of its Management Board. Under this arrangement Sinner Schrader AG will pay a cash bonus determined on the basis of the stock price performance over a vesting period of three years. Details of the arrangement are described in note 7.2. According to ABP No. 25, Sinner-Schrader has to recognise a liability against personnel expenses for each period, taking into account the stock price at the end of the period and the remaining time of the vesting period. In case the value of the liability is reduced by the stock price development in one period, the liability accumulated over previous periods has to be adjusted downwards for that period in favour of personnel expenses. As of 31 August 2005 no liability had to be recognised for this arrangement. Thus, it did not lead to personnel expenses in the 2004/2005 financial year. Since APB No. 25 sets the same accounting rules as SFAS No. 123 regarding that arrangement, no pro-forma effect had to be determined.

The pro-forma impact shown in the table for 2004/2005 and 2003/2004 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 2004/2005 and 2003/2004.

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. As of 31 August 2005 and 31 August 2004, accumulated other comprehensive income as part of shareholders' equity consisted of the components presented in Table 4a.

Table 4b shows the changes in those components for the 2004/2005 and 2003/2004 financial years. The changes represent the other comprehensive income/loss for these periods.

In principle, the components of other comprehensive income are to be presented in shareholders' equity net of tax. In previous years, the presentation was adjusted for the respective tax effects because valuation allowances on the deferred tax position including the deferred taxes on unrealised gains or losses on marketable securities available for sale were made due to the loss situation of SinnerSchrader. In 2004/2005 the cumulative tax adjustments of the previous years were rescinded because SinnerSchrader returned to profitability.

Tab. 3 | Pro-forma net income (loss) in €

	2004/2005	2003/2004
Net income/loss as reported	545,342	-531,152
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 according to SFAS No. 123	-21,463	-135,750
Pro-forma net income/loss	523,879	-666,902
Reported net loss per share, basic and diluted	0.05	-0.05
Pro-forma net loss per share, basic and diluted	0.05	-0.06

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 differences are reversed. Effects of tax rate changes are recorded in the year in which those changes are enacted.

For loss carry-forwards which will reduce taxable income in future years, deferred tax assets are recognised in as much as it is more likely than not that they will be realised. In 2004/2005 and 2003/2004 € 148,412 and € 0 respectively were recognised as deferred tax assets on loss carry-forwards.

Tab. 4a Other comprehensive income in €	31.08.2005	31.08.2004
Unrealised gains/losses on marketable securities available for sale	2,141	-6,248
Foreign currency translation adjustment	25,655	25,693
Total	27,796	19,445

Tab. 4b Other comprehensive income in €	Total before tax	Income tax	Total after tax
2004/2005:			
Unrealised gains/losses on marketable securities available for sale	183,750	-74,207	109,543
Less: reclassification adjustments	-173,911	70,234	-103,677
Adjustment for income tax	—	2,523	2,523
Net unrealised gains/losses on marketable securities available for sale	9,839	-1,450	8,389
Foreign currency translation adjustment	-38	—	-38
Total	9,801	-1,450	8,351
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 for 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

Notes

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, if dilutive, of unvested common stock outstanding from options and warrants to purchase common stock determined by the treasury stock method. SinnerSchrader has granted options to purchase shares of common stock to its employees under the 1999 Employee Stock Option Plan and under the 2000 Employee Stock Option Plan. In 2004/2005, the weighted average number of potential common shares outstanding were dilutive and were thus included in the computation of the diluted net income per share. In 2003/2004, the potential common shares were excluded from the computation of the diluted net loss per share because the effect would have been antidilutive due to the negative net result of the year.

In the 2004/2005 financial year, SinnerSchrader adopted EITF No. 03-6 from November 2003, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share". EITF No. 03-6 addresses how to determine whether a security should be considered a "participating security" for purposes of computing earnings per share and how earnings should be allocated to a participating security when using the two-class method of computing basic earnings per share. The adoption of these rules did not have any impact on the calculation of earnings per share.

2.15 Statements of Cash Flows

SinnerSchrader reports cash flows according to SFAS No. 95, "Statement of Cash Flows". These statements show the change in liquid funds 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.

In the 2004/2005 and 2003/2004 financial years, SinnerSchrader paid interest in the amounts of € 19,927 and € 1,093 respectively. Due to withholding taxes on interest received and gains realised on marketable securities, SinnerSchrader paid taxes on capital gains in the amounts of € 52,757 and € 125,517 in 2004/2005 and 2003/2004 respectively. In those periods SinnerSchrader received refunds of taxes on capital gains in the amounts of € 442,900 and € 1,815,649 respectively.

2.16 Segment Reporting

As part of a fundamental reorganisation of its operations during the 2003/2004 financial year, 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 Interactive Software segment focuses on designing, implementing and maintaining customised interactive IT systems. SinnerSchrader Neue Informatik GmbH has been assigned to that segment. The Interactive Marketing segment comprises

Tab. 5 | Earnings per share in € and number

	2004/2005	2003/2004
Net profit/loss	545,342	-531,152
Basis weighted average shares of common stock outstanding	11,333,908	10,933,405
Basic earnings per share	0.05	-0.05
Weighted average shares of common stock outstanding	11,333,908	10,933,405
add: stock option grant	11,662	—
Dilutive average share of common stock outstanding	11,345,570	10,933,405
Diluted earnings per share	0.05	-0.05

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 have been assigned to the Interactive Marketing segment. In its Interactive Services segment SinnerSchrader bundles three service offers around the management of already existing transactional web sites. Those services are the planning, execution and reporting of online media campaigns, the technical administration and maintenance of hardware and software systems for operating websites, and the statistical analysis of the behaviour of website visitors. These units are jointly managed within SinnerSchrader Deutschland GmbH.

The new organisational structure was introduced on 1 April 2004. Effective on that day, personnel, customer relationships, ongoing projects and all other operative assets and related liabilities were reassembled according to the new unit structure and in large parts transferred into newly-founded companies. The changeover to the new organisation resulted in significant changes to the accounting system. Consequently, the calcula-

tion of the segment information required by SFAS No. 131 for the entire 2003/2004 period would have caused unusually high costs, so that the Management Board of SinnerSchrader AG decided to do without that information.

Therefore, SinnerSchrader made use of the respective rule under SFAS No. 131 and did not restate segment information for periods prior to 1 April 2004 in the new segment structure. Consequently, segment information for the 2003/2004 period is available only as long as it relates to the rump period from 1 April 2004 to 31 August 2004 and the respective period end date.

Table 6a presents the segment information for the 2004/2005 financial year and the balance sheet date 31 August 2005; Table 6b shows the segment information for the rump period of the financial year 2003/2004 and for the period end of this financial year.

Tab. 6a	Segment information in € and number	Interactive Software	Interactive Marketing	Interactive Services	Segments total	Consolidation/ holding	Group
01.09.2004–31.08.2005:							
	External revenues	5,737,009	4,179,739	4,398,393	14,315,141	—	14,315,141
	Internal revenues	657,502	410,608	291,030	1,359,140	-1,359,140	—
	Total revenues, gross	6,394,511	4,590,347	4,689,423	15,674,281	-1,359,140	14,315,141
	Media costs	—	—	-2,092,386	-2,092,386	—	-2,092,386
	Total revenues, net	6,394,511	4,590,347	2,597,037	13,581,895	-1,359,140	12,222,755
	Segment profit/loss (EBITA)	682,099	354,153	777,559	1,813,811	-1,635,670	178,141
	Depreciation of property and equipment	59,522	25,065	26,600	111,187	429,806	540,993
	Purchase of investments	23,314	28,740	57,045	109,099	120,500	229,599
	Employees, full-time equivalents	57.6	42.0	14.3	113.9	17.9	131.8
31.08.2005:							
	Total assets	2,626,795	1,456,891	903,497	4,987,183	8,759,048	13,746,231
	Non-current assets	151,562	87,480	75,449	314,491	659,267	973,758
	Current assets	2,475,233	1,369,411	828,048	4,672,692	8,099,781	12,772,473
	Number of employees, end of period	55	42	14	111	19	130

Notes

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 across the reportable segments. Those costs are primarily costs incurred by central holding functions, e.g. investor relations, and costs for unused office space in the office building in Hamburg leased by SinnerSchrader AG. Transactions between reportable segments are executed on an arm's-length-basis and accounted for accordingly.

Table 6c shows the reconciliation of total segment earnings to Group earnings before tax for the periods 1 September 2004 to 31 August 2005 and 1 April 2004 to 31 August 2004.

With respect to regional data, revenue by geographic location is attributed to the country from which the sale is made. For 2004/2005 and 2003/2004, all of SinnerSchrader's revenues were to be attributed to Germany.

Tab. 6b	Segment information in € and number	Interactive Software	Interactive Marketing	Interactive Services	Segments total	Consolidation/holding	Group
01.04.2004–31.08.2004:							
	External revenues	2,387,924	1,714,173	1,301,616	5,403,713	—	5,403,713
	Internal revenues	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	—	-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 investments	11,943	23,514	8,941	44,398	-13,171	31,227
	Employees, full-time equivalents	59.6	38.5	14.3	112.4	20.0	132.4
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

Tab. 6c	Reconciliation of total segment earnings to Group before tax in €	01.09.2004 31.08.2004	01.04.2004 31.08.2005
	Segment profit/loss (EBITA) of all reportable segments	1,813,811	623,054
	Central holding costs not attributable to reportable segments	-1,634,734	-751,890
	Earnings before tax of foreign subsidiaries	-936	-1,419
	EBITA of the Group	178,141	-130,255
	Interest income/expenses of the Group	218,789	482,513
	Earnings before tax of the Group	396,930	352,258

In the 2004/2005 period, SinnerSchrader generated more than 10 % of its total revenues with three customers. The revenues with these customers amounted to € 2,898,682, € 1,912,689, and € 1,737,993 respectively. Together, these three customers had a share of total revenues of 45.7 %. In 2003/2004, the number of customers with whom SinnerSchrader had realised 10 % or more of its revenues had also been three. The amounts of revenue were € 2,213,419, € 1,952,208, and € 1,948,660 respectively. The combined share of Group revenues was 49.6 %. In both financial years all three SinnerSchrader segments delivered services to the three major customers.

2.17 Recent Accounting Pronouncements

In December, 2004, the FASB issued SFAS No. 123(R) (revised 2004), "Share-Based Payment". SFAS No. 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation", supersedes APB No. 25, "Accounting for Stock Issued to Employees", and amends SFAS No. 95, "Statement of Cash Flows". SFAS No. 123(R) requires all share-based awards to employees, including grants of employee stock options, to be recognised in the financial statements based on their grant date fair values. The related compensation costs are to be recognised over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits are to be recognised as an addition to the capital reserve and reflected as financing cash inflows in the statement of cash flows. The company will adopt the prospective provisions of SFAS No. 123(R) to new and existing plans as of 1 January 2006. The grant date fair values of unvested awards that are outstanding on the date of adoption will be charged to expenses over their remaining vesting periods. SinnerSchrader is assessing the impact that the implementation of SFAS No. 123 (R) will have on its consolidated financial position or results of operations.

In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment". SAB No. 107 summarises the views of the SEC staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. The Company is assessing the effects of this SAB and will adopt SAB No. 107 concurrently with the adoption of SFAS No. 123(R) with effect from 1 January 2006.

In March 2005, the FASB issued FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations, an Interpretation of SFAS No. 143". FIN No. 47 clarifies that conditional asset retirement obligations meet the definition of liabilities and should be recognised when incurred if their fair values can be reasonably estimated. The Interpretation is effective no later than 31 December 2005. The cumulative effect of initially applying the Interpretation will be recognised as a change in accounting principles. The adoption of FIN No. 47 is not expected to have a material impact on the consolidated financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections". SFAS No. 154 replaces APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 applies to all voluntary changes in accounting principles and changes the accounting for and reporting of a change in accounting principles. It also requires the retrospective application to previous periods' financial statements of a voluntary change in accounting principles unless this is impracticable. SFAS No. 154 is effective for accounting changes and correction of errors made in financial years beginning after 15 December 2005. The adoption of SFAS No. 154 will only affect the consolidated financial position or results of operations in future periods. SinnerSchrader will apply SFAS No. 154 beginning in the financial year that starts on 1 September 2006.

In June 2005 the FASB issued FASB Staff Position ("FSP") No. 143-1, "Accounting for Electronic Equipment Waste Obligations". FSP No. 143-1 provides guidance on the accounting for obligations associated with European Union Directive 2002/96/EC on Waste Electrical and Electronic Equipment. Under the FSP, commercial users of electronic equipment are required to apply the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations", and FIN No. 47, "Accounting for Conditional Asset Retirement Obligations", for obligations associated with outdated waste. The Company is required to apply the guidance of FSP No. 143-1 on the later of either the date of adoption of the law by the respective EU member country or the first reporting period ending after 8 June 2005. Management believes that the adoption of FSP No. 143-1 will not have a material impact on the consolidated financial position or results of operations of SinnerSchrader.

Notes

In June 2005, the Emerging Issues Task Force addressed employers' accounting for early retirement programmes supported by the German Government in Issue 05-5, "Accounting for the Altersteilzeit ("ATZ") Early Retirement Program and Similar Type Arrangements". The Task Force reached a consensus in EITF No. 05-5 that benefits provided under Type II ATZ arrangements (as defined) should be accounted for as a termination benefit under SFAS No. 112, "Employers' Accounting for Post-Employment Benefits", with recognition of the benefits' costs over the service periods, commencing at the time of the individual employees' enrolment in the ATZ arrangements. The consensus is effective for periods beginning after 15 December 2005. The adoption of EITF No. 05-5 is not expected to have a material impact on the consolidated financial position or results of operations.

In June 2005, the Emerging Issues Task Force reached a consensus in EITF No. 05-6, "Determining the Amortization Period for Leasehold Improvements", that leasehold improvements acquired in a business combination or purchased subsequent to the inception of the lease should be amortised over the lesser of either the useful life of the asset or the lease term (that includes reasonably assured lease renewals as determined on the date the leasehold improvements are acquired). The consensus is effective for leasehold improvements acquired in periods beginning after 1 July 2005. The adoption of EITF No. 05-6 is not expected to have a material impact on the consolidated financial position or results of operations.

3 Balance Sheet Components

3.1 Development of Fixed Assets

The major components of fixed assets as of 31 August 2005 and 31 August 2004 as well as the changes in fixed assets in the financial year which ended on 31 August 2005 are presented in Table 7. In the 2004/2005 and 2003/2004 financial years, expenditures for purchases of property and equipment amounted to € 229,599 and € 147,307 respectively. Depreciation of property and equipment in those years was € 540,993 and € 631,709 respectively.

Leasehold improvements contain an amount for asset retirement obligations that SinnerSchrader recognised upon the initial adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations", on 1 September 2002 and that it depreciates over the remaining term of the lease. Upon adoption of SFAS No. 143 SinnerSchrader determined the fair value of the asset retirement obligations stipulated in the lease contracts,

credited the amount to long-term liabilities and correspondingly increased the carrying value of fixed assets concerned. As of 31 August 2005 and 31 August 2004, the net book value of the capitalised asset retirement obligation amounted to € 11,343 and € 24,954 respectively.

3.2 Other Current Assets and Prepaid Expenses

The major components of other current assets and prepaid expenses are shown in Table 8. The tax receivables shown in Table 8 relate to taxes on capital gains, a withholding tax levied on interest and other capital gains received. Due to loss carry-forwards and a negative net income for tax purposes respectively, SinnerSchrader is entitled to a refund of the withholding tax paid vis-à-vis the tax authorities. In 2004/2005 and 2003/2004, SinnerSchrader paid withholding taxes to the amount of € 52,757 and € 125,517 respectively.

Tab. 7 | Fixed assets in €

	01.09.2004	Additions	Disposals	31.08.2005
Acquisition costs:				
Computer hard- and software	1,458,983	207,065	29,997	1,636,051
Furniture and fixtures	1,154,159	11,264	7,623	1,157,800
Leasehold improvements	1,157,841	11,270	9,719	1,159,392
Total property and equipment	3,770,983	229,599	47,339	3,953,243
Total fixed assets	3,770,983	229,599	47,339	3,953,243
	01.09.2004	Additions	Disposals	31.08.2005
Accumulated depreciation, amortisation and write-downs:				
Computer hard- and software	1,276,852	136,507	27,259	1,386,100
Furniture and fixtures	611,387	93,369	5,832	698,924
Leasehold improvements	588,909	311,117	5,564	894,462
Total property and equipment	2,477,148	540,993	38,655	2,979,486
Total fixed assets	2,477,148	540,993	38,655	2,979,486
	31.08.2004			31.08.2005
Net book value:				
Computer hard- and software	182,131			249,952
Furniture and fixtures	542,772			458,876
Leasehold improvements	568,932			264,930
Total property and equipment	1,293,835			973,758
Total fixed assets	1,293,835			973,758

Notes

Tab. 8 Other current assets and prepaid expenses in €	31.08.2005	31.08.2004
Tax receivables	178,274	568,417
Remaining other current assets	39,531	30,712
Prepaid expenses	113,346	187,268
Total other current assets and prepaid expenses	331,151	786,397

3.3 Accrued Expenses

Accrued expenses consist of the items shown in Table 9.

3.4 Liabilities to Shareholders

On 28 January 2004, SinnerSchrader AG's shareholders passed a resolution to distribute € 20,768,780 from its capital reserve to all shareholders by means of an increase of common stock capital from the capital reserve 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 para. 2 of the German Stock Corporation Act ("Aktiengesetz", "AktG"), the capital was distributed to shareholders on 8 November 2004, six months after the day on which the resolution's entry into the trade register was publicly announced. In the balance sheets of 31 August 2004 the amount of € 20,768,780 to be distributed had been subtracted from the shareholders' equity and was shown as a liability to shareholders. Due to the execution of the payment to shareholders, the liability was paid off and, consequently, no liability to shareholders is shown in the balance sheets of 31 August 2005.

3.5 Other Short-Term Liabilities and Deferred Income

Other short-term liabilities and deferred income consist of the components presented in Table 10.

3.6 Long-Term Liabilities

The long-term liability of € 86,841 shown in the balance sheets as of 31 August 2004 concerned asset retirement obligations from the lease contract for the office building in Hamburg, which will become due upon termination of that contract at the earliest date possible, which is 30 June 2006. As of 31 August 2005 the respective liability had to be classified as short-term. It is presented in Table 10 with its value as of the balance sheet date of € 93,788. The changes in the liability from asset retirement obligations by € 6,947 and € 6,433 in 2004/2005 and 2003/2004 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 2005 future annual minimum lease payments from those contracts amount to the sums shown in Table 11.

Total rent expense for the years 2004/2005 and 2003/2004 were € 1,466,317 and € 1,158,511 respectively. The expense was partly offset by income from subleases amounting to € 18,640 and € 13,860 respectively.

Tab. 9 Accrued expenses in €	31.08.2005	31.08.2004
Accrued compensation	911,062	564,853
Accrued warranty expense	228,268	235,682
Accrued rent and related expenses	134,250	70,539
Accrued losses on contracts	—	24,907
Other accruals	191,806	185,608
Total accrued expenses	1,465,386	1,081,589

Tab. 10 Other liabilities and deferred revenue in €	31.08.2005	31.08.2004
Liabilities from income tax	102,862	168,245
Liabilities from social security and similar obligations	157,856	181,798
Liabilities from value added tax	137,280	138,348
Liabilities from restructuring measures	—	183,628
Deferred revenue	25,109	72,599
Liabilities from asset retirement obligations	93,788	—
Liabilities from rental charges	306,775	—
Other liabilities	8,027	17,886
Total other liabilities and deferred revenue	831,697	762,504

In addition, the Group has certain contingent liabilities that arise in the ordinary course of business activities. The Group will accrue contingent liabilities if it considers it probable that future expenditure will be made and such expenditure is measurable.

The consolidated Group companies are subject to various legal claims primarily related to employment issues and issues regarding the refurbishment of the companies' office space. As of 31 August 2005 and 31 August 2004, accruals related to those claims amounted to € 190,000 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, but the company deems it probable that it will have to pay the estimated amount. However, the potential loss could be higher or lower than the sums accrued by the Group.

In the relationships to its customers, 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 or financial damage incurred in connection with SinnerSchrader's operations or to late delivery of systems to be implemented under contracts with its customers. Indemnifications regularly concern any claim filed against its customers for infringement of intellectual property rights through the systems delivered by SinnerSchrader and used by the customers. Additionally, SinnerSchrader warrants that the systems developed for its customers 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 usually obliged to refund its customers any fees in case of a system defect, although in some contracts the customer has retained the right to renege on a contract in case SinnerSchrader cannot remedy the defects.

The maximum potential amount of future payments or costs incurred under the liabilities, indemnifications, and warranties from the companies' customer relationships is unlimited.

Tab. 11 Financial commitments in €	31.08.2005	31.08.2004
01.09.2005–31.08.2006	996,802	1,297,461
01.09.2006–31.08.2007	23,437	17,765
01.09.2007–31.08.2008	12,407	2,886
01.09.2008–31.08.2009	2,162	—
after 01.09.2009	—	—
Total	1,034,808	1,318,112

Notes

SinnerSchrader, however, regularly stipulates limitations to the commitments in its contracts as well as in its terms and conditions 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 procedures in its contracts for testing and customer acceptance that are designed to reduce 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 cost to be incurred due to warranty-related claims. The amounts accrued as of 31 August 2005 and 31 August 2004 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 terminated on 31 May 2005. As of 31 August 2004 the remaining lease obligations amounted to € 56,018. In July 2005, SinnerSchrader had to pay € 19,262 as the guarantor and recorded a receivable against the tenant. Since then that receivable has been honoured regularly. It amounted to € 16,053 as of 31 August 2005.

In preparation of the execution of the repayment of equity to shareholders as resolved by the shareholders' meeting in January 2004, SinnerSchrader AG was required by the landlord of its Hamburg office to secure the minimum obligations from the lease contract according to Article 225 AktG. SinnerSchrader AG delivered the security by ways of a bank guarantee in the amount of € 2,532,260, which was reduced regularly by the amount of the monthly lease payment made. As of 31 August 2005 the amount of the bank guarantee stood at € 1,478,668. According to an agreement with the bank issuing the guarantee, SinnerSchrader can dispose of liquid funds of an equivalent amount only with the permission of that bank.

4 Components of the Statement of Operations

4.1 Costs and Operating Expenses by Expenditure

The total costs of revenues plus selling and administrative as well as research and development expenses by expenditure was divided as shown in Table 12.

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.

In the 2004/2005 financial year, SinnerSchrader did not undertake new workforce-related restructuring measures. However, as of 31 August 2005, accruals had to be increased by € 49,500 due to unsettled law suits relating to workforce reductions in the years 2003/2004 and 2002/2003. An amount of € 92,977 from accruals and liabilities related to personnel measures was paid out. Consequently, total accruals and liabilities for workforce-related restructuring measures amounted to € 90,000 and € 133,477 in 2004/2005 and 2003/2004 respectively.

With respect to the consolidation of office space, an increase of accruals and liabilities was necessary in 2004/2005. In order to adjust the current office space in Hamburg of approx. 6,500 sqm to the reduced headcount, SinnerSchrader had to terminate the rent agreement early, with effect from 30 June

2006. The early termination triggered a one-time compensation obligation of € 306,775 payable at the end of the rent agreement. As of 31 August 2005, a liability to cover that obligation is recorded. The accrual of € 67,376 shown as of 31 August 2004 was used up completely.

Hence, in the 2004/2005 period, total restructuring charges amounted to € 356,275. In 2003/2004 the restructuring costs were € 557,647 split into € 546,685 and € 10,962 for workforce reductions and for the consolidation of facilities respectively. 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 respective 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.

Table 13 summarises restructuring and other related charges for the years ended 31 August 2005 and 31 August 2004 as well as the amount of accrued restructuring expenses and restructuring liabilities as of the respective balance sheet dates.

Tab. 12 | Operating costs excluding restructuring costs by expenditure in €

	2004/2005	2003/2004
Personnel expenses	7,735,293	7,801,121
Costs of materials and services in cost of revenue:		
Materials	190,180	144,502
Services	617,288	500,094
Depreciation of property and equipment	540,993	631,709
Other operating expenses	2,685,356	2,607,927
Total	11,769,110	11,685,353

Notes

Tab. 13 | Restructuring charges in €

2004/2005	Balance 01.09.2004	Additional charges	Utilised		Dissolved	Balance 31.08.2005
			Non-cash	Cash		
Workforce	133,477	49,500	—	-92,977	—	90,000
Facilities	67,376	306,775	—	-67,376	—	306,775
Total	200,853	356,275	—	-160,353	—	396,775
2003/2004	Balance 01.09.2003					Balance 31.08.2004
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

4.3 Financial Income

The financial income and expenses item consists of the components listed in Table 14.

The income on investments results from a payment on a non-current loan, which was already written off in earlier periods. The loan was granted to the subsidiary of an investment of the Company. The payment was received from an individually liable partner.

5 Pension Plans

Since January 2003, SinnerSchrader has been offering its employees to participate in a defined contribution pension plan. In accordance with this plan, in 2004/2005 and 2003/2004 SinnerSchrader contributed up to a maximum of € 5,563 and € 4,601 per employee respectively to individual pension/life insurance contracts provided by a third party insurance company. Total Group contributions to this plan in the 2004/2005 and 2003/2004 periods amounted to € 40,423 and € 53,151 respectively. They were recorded under the cost of revenue and operating expense items according to the position of the participating employee.

Tab. 14 | Financial income in €

	2004/2005	2003/2004
Interest income	39,240	536,556
Realised gains/losses, net, on the sale of marketable securities	173,911	288,261
Income from investments and participations	25,565	—
Interest expense	-19,927	-1,093
Total financial income	218,789	823,724

6. Shareholders' Equity

6.1 Common Stock

On 31 August 2005 and 31 August 2004 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 2005 and 31 August 2004, 11,411,417 shares and 10,937,164 shares respectively of all shares issued were outstanding. The remaining respective 131,347 and 605,600 shares were held by SinnerSchrader AG as treasury stock (see note 6.5).

6.2 Capital Reserve

The capital reserve stems primarily from SinnerSchrader AG's initial public offering ("IPO") in November 1999. At 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 costs resulting from the initial public offering were charged against the capital reserve 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 the capital reserve to all shareholders by means of an increase of common stock capital from the capital reserve 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 capital reserve was reduced by € 20,768,780 as of 31 August 2004.

In 2004/2005 the reserve increased by € 1,001,165 through the sale of shares from the treasury stock.

On 31 August 2005 and 31 August 2004 the Company's capital reserve amounted to € 17,596,005 and € 16,594,840 respectively.

6.3 Authorised Capital

On 28 January 2004, the shareholders of SinnerSchrader AG cancelled their authorisation of 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 in so far as that authorisation had not already been used.

At the same time the shareholders of SinnerSchrader AG authorised 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.

The authorisation to increase the common stock was not used in either 2004/2005 or in 2003/2004.

6.4 Conditional Capital

On 31 August 2005 and 31 August 2004, 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 note 7.1.

6.5 Treasury Stock

As of 31 August 2005 and 31 August 2004 the number of shares in treasury stock amounted to 131,347 and 605,600 shares respectively. In the 2004/2005 financial year a total of 455,235 shares from treasury stock were sold through the stock exchange at an average price of € 3.68 per share.

19,018 shares were issued to employees exercising their stock options at an average exercise price of € 2.76. In 2003/2004, 6,227 shares from treasury stock were issued to employees exercising their stock options at € 2.76 per share. In 2004/2005 and 2003/2004, SinnerSchrader AG repurchased 0 and 1,404 shares at average prices of 0 and € 2.01 respectively.

7 Share-Based Compensation

7.1 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 aforementioned groups. Under the 1999 Plan the Management Board and the Supervisory Board were 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 after the date of grant. As of 31 August 2005, a total of 186,343 stock options from the 1999 Plan were outstanding and were granted with an average exercise price of € 19.95. In 2004/2005 and 2003/2004, employees exercised 0 and 2,559 options at an average exercise price of 0 and € 2.76 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 aforementioned 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 after the date of grant. As of 31 August 2005 a total of 107,794 stock options from the 2000 Plan were outstanding and were granted with an average exercise price of € 2.37. In 2004/2005 and 2003/2004, employees exercised 19,018 and 3,668 options at an average exercise price of € 2.76 and € 2.76 respectively.

Table 15a summarises the changes in the number of options outstanding from the 1999 Plan and 2000 Plan for the years which ended on 31 August 2005 and 31 August 2004.

Tab. 15a | Outstanding stock options in € and number

	Number of options	Weighted average exercise price	Weighted average grant date fair value
Outstanding on 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 on 31 August 2004	340,283	12.00	5.84
Granted	—	—	—
Exercised	-19,018	2.76	1.42
Cancelled	-27,128	2.07	1.11
Outstanding on 31 August 2005	294,137	13.51	6.56

Additional information on all options outstanding on 31 August 2005 is listed in Table 15b.

7.2 Share-Based Compensation for the Management Board

In the 2004/2005 financial year a cash compensation arrangement was awarded to a member of the Management Board. According to this arrangement, the Board member is entitled to a cash bonus in January 2008 based on the stock price performance of the SinnerSchrader stock until 31 December 2007. The bonus will be calculated as the difference between the average closing price of the SinnerSchrader stock on the last ten trading days prior to 1 January 2008 and € 1.61 per share times 200,000. The compensation arrangement was awarded with effect from 1 January 2005.

Tab. 15b | Outstanding stock options according to exercise price in €, number and years

Range of exercise price	Options outstanding			Options exercisable	
	Number	Weighted average remaining contractual life	Weighted average exercise price	Number	Weighted average exercise price
0.00–5.00	166,684	2.35	2.53	101,645	2.62
5.01–10.00	14,970	1.62	6.76	14,970	6.76
10.01–30.00	61,740	0.47	15.40	61,740	15.40
30.01–50.00	26,204	0.89	36.01	26,204	36.01
50.01–90.00	24,539	0.54	63.43	24,539	63.43
Total	294,137	1.64	13.51	229,098	16.67

Notes

8 Income Tax

The income tax provisions/benefits presented in the statement of operations of the 2004/2005 and 2003/2004 financial years are split into current and deferred tax provisions/benefits as shown in Table 16a.

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 financial years which ended on 31 August 2005 and 31 August 2004 the statutory income tax rate was at 40.4 %, consisting of municipal trade tax ("Gewerbsteuer") at 19.0 %, corporate tax ("Körperschaftsteuer") at 25 % and a corporate tax surcharge ("Solidarit tszuschlag") of 5.5 %. The computation of the total statutory income tax rate takes into account that the municipal trade tax charge reduces the tax base for corporate tax purposes (including the surcharge).

Table 16b 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.

The deferred tax positions as of 31 August 2005 and 31 August 2004 is shown in Table 16c.

As of 31 August 2005 and 31 August 2004 SinnerSchrader had tax loss carry-forwards in Germany, the UK, and the Netherlands. Table 16d shows the volume of those carry-forwards for each tax jurisdiction together with the applicable tax rate.

In all countries the losses for tax purposes can be carried forward indefinitely. The loss carry-forwards in the non-German subsidiaries will most likely not be used since operating business was ceased in those countries. Due to the formation of a group for tax purposes between SinnerSchrader AG and its domestic subsidiaries effective from the beginning of the 2003/2004 financial year, the use of the carry-forwards of losses on the subsidiaries level from periods prior to the formation of the tax group is postponed until after the dissolution of the 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

Tab. 16a | Current and deferred taxes for the period in €

	2004/2005	2003/2004
Current tax liabilities	—	1,559
Deferred tax liabilities	-148,412	-52,559
Total	-148,412	-51,000

Tab. 16b | Tax reconciliation in €

	2004/2005	2003/2004
Tax provision (+) and tax credit (-) at statutory rate	160,299	-235,100
Non-deductible amortisation of deferred stock compensation	—	8,793
Other non deductible expense/non taxable income	9,238	6,583
Utilised loss carry-forwards	-100,310	—
Changes in valuation allowance for deferred tax assets of domestic Group companies	-219,041	162,876
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	1,402	656
Current taxes relating to previous years	—	1,559
Other	—	3,633
Credit for income tax	-148,412	-51,000

Tab. 16c Deferred tax positions in €	31.08.2005	31.08.2004
Deferred tax assets:		
Current:		
Loss carry-forwards	148,412	—
Non-current:		
Loss carry-forwards	1,327,717	1,543,155
Valuation of accrued expenses	17,152	62,261
Valuation allowance	-1,221,263	-1,507,330
Total deferred tax assets	272,018	98,086
Deferred tax liabilities:		
Current:		
Valuation of unfinished/unbilled services	101,748	72,518
Valuation of unrealised gains on marketable securities available for sale	279	-939
Valuation of current assets	5,937	4,564
Non-current:		
Valuation of fixed assets	17,092	19,420
Total deferred tax liabilities	125,056	95,563
Total deferred tax asset/liabilities, net	146,962	2,523
thereof:		
Deferred tax asset	148,412	—
Accumulated other comprehensive income/loss	-1,450	2,523

Tab. 16d Loss carry-forwards and statutory income tax rates in € and %	31.08.2005		31.08.2004	
	Loss carry-forwards	Tax rate	Loss carry-forwards	Tax rate
For corporate tax:				
Germany	-2,406,369	25.0	-2,610,006	25.0
thereof in tax group	-2,276,471	25.0	-2,480,108	25.0
Great Britain	-985,879	30.0	-944,861	30.0
Netherlands	-174,617	34.5	-166,193	34.5
For municipal trade tax:				
Germany	-3,465,064	19.0	-3,668,700	19.0
thereof in tax group	-2,823,666	19.0	-3,027,302	19.0
Great Britain	—	—	—	—
Netherlands	—	—	—	—

9 Related Party Transactions

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 a valuation allowance was recorded for the deferred tax assets on the loss carry-forwards of the foreign subsidiaries and the loss carry-forwards of the domestic subsidiaries up to the value that is covered by deferred tax liabilities on a tax entity by tax entity basis as of 31 August 2005 and 31 August 2004.

Regarding the losses carried forward by SinnerSchrader AG for the domestic group for tax purposes as of 31 August 2005, the valuation allowance on the deferred tax asset was adjusted in a way that the remaining tax asset covers the deferred tax liabilities and the income tax on the taxable income planned for the 2005/2006 financial year, since SinnerSchrader deems it probable that the plan will be achieved. As of 31 August 2004, the valuation allowance covered the entire deferred tax asset on loss carry-forwards up to the amount of deferred tax liabilities.

In 2004/2005 and 2003/2004, SinnerSchrader generated revenues with companies in which members of its Supervisory Board hold Supervisory Board positions of € 2,898,682 and € 1,952,208 respectively. The total of accounts receivable and unbilled services net of bad debt allowances to those companies on 31 August 2005 and 31 August 2004 amounted to € 166,218 and € 408,758 respectively.

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

In May 2005, SinnerSchrader entered into a consultancy agreement with a former member of the Management Board who had resigned from his position in April 2004. Under the terms of the agreement, SinnerSchrader receives advice on the development of its operating services business for approximately € 20,000. Of that total, € 10,000 were recorded in 2004/2005.

10 Major Events after the Balance Sheet Date

In November 2005, SinnerSchrader signed a new rent agreement for offices in Hamburg for the time after the termination of the current rent agreement on 30 June 2006. Through the new agreement the total space rented will be reduced from approximately 6,500 sqm to 3,200 sqm. Thus, the total cost of office space will be cut approximately in half as from 30 June 2006.

11 Supplementary Information Required by the German Commercial Code

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 Corporation Act (AktG) are presented in the notes to the financial statements of SinnerSchrader AG.

Employees

In the 2004/2005 and 2003/2004 financial years, an average of 137.5 (including 2 members of the Management Board, 6 Managing Directors and 10 interns) and 147 persons respectively were employed by SinnerSchrader.

12 Summary of Significant Differences between US-GAAP and German Law with Regard to Accounting, Valuation and Consolidation Principles

12.1 General

The Consolidated Financial Statements of SinnerSchrader AG as of 31 August 2005 were drawn up in accordance with Article 292a of the German Commercial Code ("Handelsgesetzbuch", "HGB") applying the US Generally Accepted Accounting Principles ("US-GAAP") and German Accounting Standard ("Deutscher Rechnungslegungs Standard", "DRS") No. 1 of the German Accounting Standards Committee ("Deutscher Standardisierungsrat DRSC e.V.") as consolidated financial statements with discharging effect.

The regulations of the Commercial Code and of the German Stock Corporation Act 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 German Commercial Code, all balance sheet and income statement lines must be presented in the form and sequence specified in Articles 266 and 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.

12.2 Property and Equipment

Unlike in the HGB accounts, acquired standard software for internal use is not shown as an intangible asset but is included in the property and equipment item 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 a tangible asset. In the reporting period 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 Article 7 German Income Tax Act ("Einkommensteuergesetz", "EStG") is stated as special reserves and dissolved as expenses over the useful life of the assets concerned. In accordance with US-GAAP depreciation only permissible under tax legislation 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 the asset was put to use.

12.3 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 benefits have to be realised as tax assets. These deferred tax assets have to be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realised. The valuation allowance should be sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realised.

12.4 Employee Stock Options

Under US-GAAP, stock-based compensation paid to staff in the form of stock options can be accounted for 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.

12.5 Asset Retirement Obligations

As defined in the German Commercial Code, 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 financial year which started on 15 June 2002, US-GAAP governs balance sheet procedures for recording asset retirement obligations as defined in SFAS No. 143. With the introduction of SFAS No. 143, companies are required to record liabilities for asset retirement obligation at fair value. In 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.

12.6 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 unused office space, US-GAAP requires the respective space to be separable, while under HGB the cost of non-separable unused 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 been 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.

12.7 Shareholders' Equity

Under HGB, SinnerSchrader AG would have had to draw up Consolidated Financial Statements for the first time following the acquisition of SinnerSchrader Interactive Marketing GmbH and Sinner-Schrader 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 individual 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 these transactions under US-GAAP.

12.8 Treasury Stock

According to HGB, treasury stock has to be shown as a current asset. Thus, the strict lower of cost or market value principle according to Article 253, para. 3 has to be adopted, i.e. treasury stock has to be written off if the market price at the balance sheet date is lower than the purchase price. Earnings from the sale of treasury stock have to be accounted for as other operating income.

Under US-GAAP treasury stock is shown as an off-setting item at purchase price directly in shareholder's equity. Changes in the market price of treasury stock are not accounted for by adjustments of the respective equity position. Earnings from the sale of treasury stock are credited to capital surplus.

12.9 Deferral of Personnel Expenses

In connection with the acquisition of Netmatic Internet/Intranet Solutions GmbH, part of the purchase price paid in shares of the Company was 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 dissolved 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.

Notes

12.10 Revenue Recognition

Under US-GAAP, revenue for services is recognised in accordance with SOP No. 81-1, "Accounting for Performance of Construction Type and Certain Production Type Contracts". Under US-GAAP, services in process are 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.

12.11 Valuation of Marketable Securities

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 the shareholders' equity and are part of the comprehensive income.

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

Hamburg, November 2005

Matthias Schrader

Thomas Dyckhoff

Auditors' Opinion

We have issued the following opinion on the Consolidated Financial Statements and Group Status Report, which was combined with the Status 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 flows, changes in shareholders' equity, notes and Group Status Report for the financial year from 1 September 2004 to 31 August 2005. The preparation and the content of the Consolidated Financial Statements are 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 Status 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 State-

ments. 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 Status Report for the financial year from 1 September 2004 to 31 August 2005, which is the responsibility of the Management Board, has not given rise to any reservations. In our opinion the combined Status and Group Status Report conveys a suitable presentation of the situation of the Group taken as a whole and adequately presents the risks to its future developments. Additionally, we confirm that the Consolidated Financial Statements and the combined Status and Group Status Report for the financial year from 1 September 2004 to 31 August 2005 meet the requirements for an exemption to prepare Consolidated Financial Statements and a combined Status and Group Status Report in accordance with the rules and regulations of the German Commercial Code.

Hamburg, 22 November 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Schneider
Auditor

Schiersmann
Auditor

03



Annual Financial Statements of SinnerSchrader AG

Balance Sheet

Balance Sheet of SinnerSchrader AG

as of 31 August 2005 and 31 August 2004

Assets in €	Notes No./Page	31.08.2005	31.08.2004
Fixed assets			
Intangible assets:			
Concessions, industrial property rights and similar rights and assets, as well as licences in such rights and assets		78,061	29,443
Tangible assets:			
Other equipment, plant and office equipment	4.1/90	298,898	359,821
Leasehold improvements	4.1/90	252,854	541,453
Total tangible assets		551,752	901,274
Financial assets:			
Shares in affiliated companies	4.1/90	11,500,000	8,000,000
Total financial assets		11,500,000	8,000,000
Total fixed assets		12,129,813	8,930,717
Current assets			
Receivables and other assets:			
Receivables from affiliated companies	4.4/91	1,608,675	1,917,996
Other assets	4.4/91	209,814	568,956
Total receivables and other assets		1,818,489	2,486,952
Securities:			
Treasury stock	4.3/91	182,572	926,438
Other securities	4.2/91	145	25,701,594
Total securities		182,717	26,628,032
Cash on hand and in banks		8,385,326	189,743
Total current assets		10,386,532	29,304,727
Prepaid expenses	4.5/91	31,266	50,919
Total assets		22,547,611	38,286,363

Liabilities and shareholder's equity in €	Notes No./Page	31.08.2005	31.08.2004
Shareholders' equity			
Subscribed capital (conditional capital: € 750,000; previous year: € 750,000)	4.6/91	11,542,764	11,542,764
Capital reserve	4.7/92	2,603,673	2,603,673
Reserves:			
Reserve for treasury stock	4.8/92	182,572	926,438
Other reserves	4.9/92	6,241,150	401,467
Retained earnings/accumulated deficit		531,939	—
Total shareholders' equity		21,102,098	15,474,342
Accruals			
Other accrued expenses	4.10/92	806,066	1,661,500
Total accrued expenses		806,066	1,661,500
Liabilities			
Liabilities to shareholders	4.11/92	—	20,768,780
thereof with a remaining term of up to one year: € 0 (previous year: € 20,768,780)			
Trade accounts payable	4.11/92	57,382	69,666
thereof with a remaining term of up to one year: € 57,382 (previous year: € 69,666)			
Other liabilities	4.11/92	582,065	308,075
thereof with a remaining term of up to one year: € 582,065 (previous year: € 308,075)			
thereof taxes: € 154,031 (previous year: € 162,022)			
thereof relating to social security and similar obligations: € 18,056 (previous year: € 21,229)			
Total liabilities		639,447	21,146,521
Deferred revenues		—	4,000
Total liabilities and shareholders' equity		22,547,611	38,286,363

Statement of Operations

Statement of Operations of SinnerSchrader AG

for the 2004/2005 and 2003/2004 financial years

in €	Notes No./Page	2004/2005	2003/2004
Revenues	5.1/93	2,294,843	1,597,017
Other operating income	5.2/93	4,739,985	336,556
Material expenses:			
Expenses for benefits		-50,254	-65,170
Personnel expenses:			
Wages and salaries		-973,716	-1,248,901
Social security		-162,945	-175,696
Total personnel expenses		-1,136,661	-1,424,597
Depreciation of intangible assets, property and equipment		-412,313	-445,847
Other operating expenses	5.5/93	-1,687,821	-1,771,943
Income from profit/loss transfer agreement	5.3/93	1,792,061	780,617
Other interest and similar income	5.4/93	107,799	546,095
thereof from affiliated companies: € 9,452 (previous year: € 6,541)			
Depreciation of financial assets and securities classified as current assets		—	-4,887
Interest and similar expenses	5.4/93	-20,552	-7,061
thereof from affiliated companies: € 1,733 (previous year: € 6,148)			
Income from ordinary activities		5,627,087	-459,220
Taxes on income		—	-1,559
Other taxes		669	353
Net income/loss		5,627,756	-460,426
Withdrawal from capital surplus		—	450,900
Income from capital reduction		—	20,768,780
Liabilities to shareholders due to capital reduction		—	-20,768,780
Withdrawal from reserves:			
– from reserves for treasury stock		—	9,526
– from other reserves		—	2,819
Additions to reserves:			
– to reserves for treasury stock		—	-2,819
– to other reserves		-5,095,817	—
Balance sheet profit	5.6/93	531,939	—

Notes to the Annual Financial Statements

1 Statutory Foundations

The annual report of SinnerSchrader Aktiengesellschaft ("SinnerSchrader AG" or "Company") has been compiled in accordance with the regulations of the German Commercial Code ("Handelsgesetzbuch") and the German Stock Corporation Act ("Aktiengesetz"). The Company is considered to be a large company limited by shares within the meaning of Article 267 of the German Commercial Code.

2 Accounting Principles and Standard of Valuation

The report has been compiled in euros (€).

The intangible assets and the property and equipment are reported at procurement or manufacturing costs, minus regular depreciation. Depreciation is linear, in accordance with usage period. Low-value items with procurement costs of up to € 410 are fully depreciated in the year of acquisition. Depreciation of leasehold improvements has been linear over the remaining term of the rental contract since moving into the premises in September 2001. At the start of the last financial quarter of 2002/2003 this was shortened to the time of the one-off special right of notice.

The financial assets are reported either at acquisition costs or at the value to be ascribed on the balance sheet date, whichever is lower.

If the value of fixed assets determined according to the principles above is above the value to be ascribed to them on the report date, this shall be taken account of by means of non-scheduled depreciation. If the reasons for depreciation implemented in previous financial years no longer pertain, the original value will be reinstated. Receivables and other assets are reported at their face value. Foreign currency debts are included on the balance sheet either at the original rate or at the rate applicable on the balance sheet date, whichever is lower.

Marketable securities are included on the balance sheet either at acquisition costs or at a value to be ascribed to them, whichever is lower. Other accrued expenses cover all recognizable risks and uncertain liabilities. Evaluation is at a level that appears necessary according to sound business judgement.

3 Deviations from Balancing and Evaluation Methods

Unlike in the previous year, the dissolving of the reserve for treasury stock is not reported in the analysis of the appropriation of profits following the annual profit within the income statement, but rather is transferred to the other revenue reserves within the shareholders' equity with a neutral impact on profit.

Notes

4 Explanations of Balance Sheet Items

4.1 Fixed Assets

The development of the Company's fixed assets is shown in the following assets table:

Tab. 1 | Assets table

Acquisition and manufacturing costs in €	01.09.2004	Additions	Disposals	31.08.2005
Intangible assets:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	440,516	86,214	257,256	269,474
Tangible assets:				
Other equipment, plant and office equipment	709,190	24,467	20,379	713,278
Leasehold improvements	1,077,648	11,270	4,486	1,084,432
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	27,284,420	121,951	282,121	27,124,250
Accumulated depreciation in €	01.09.2004	Additions	Disposals/ write-ups	31.08.2005
Intangible assets:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	411,073	36,454	256,114	191,413
Tangible assets:				
Other equipment, plant and office equipment	349,369	79,309	14,298	414,380
Leasehold improvements	536,195	296,550	1,167	831,578
Financial assets:				
Shares in affiliated companies	16,838,037	—	3,500,000	13,338,037
Investments	167,900	—	—	167,900
Loans to investee companies	51,129	—	—	51,129
Total	18,353,703	412,313	3,771,579	14,994,437
Net book values in €	31.08.2004			31.08.2005
Intangible assets:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	29,443			78,061
Tangible assets:				
Other equipment, plant and office equipment	359,821			298,898
Leasehold improvements	541,453			252,854
Financial assets:				
Shares in affiliated companies	8,000,000			11,500,000
Investments	—			—
Loans to investee companies	—			—
Total	8,930,717			12,129,813

Thanks to the positive development of the operating subsidiaries of SinnerSchrader AG, a permanent depreciation of the participation value is no longer to be expected as of 31 August 2005. Due to the appreciation order under commercial law according to Article 280 para. 1 of the German Commercial Code, the participation book value was appreciated by € 3.5 million to € 11.5 million.

4.2 Other Securities

As of 31 August 2004 the securities item was largely made up of shares in money market funds and similar funds with a residual term of less than one year, which are reported either at acquisition costs or at a value to be ascribed on the balance sheet date, whichever is lower. This stock was almost completely depleted as of 31 August 2005.

4.3 Treasury Stock

On 31 August 2005 the Company held 131,347 treasury stock with a calculated face value of € 131,347. They represent 1.14% of the share capital. The treasury stock was acquired for an average price of € 1.53 and, with regard to use, is kept for the purposes cited in the relevant resolutions of the Annual Shareholders' Meetings.

The treasury stock is either entered in the balance sheet at acquisition cost or at the value to be ascribed, whichever is lower. Accordingly, the number of treasury stock on 31 August 2005 should be depreciated to the closing price of this date of € 1.39 per share. A reserve for treasury stock is formed in the amount of the balance sheet item.

Of the 605,600 treasury stock held on 31 August 2004, 19,018 shares were issued to employees in return for payment of the exercise price of € 2.76 per share within the framework of exercising the employee options over the financial year, and 455,235 shares were sold freely via the stock market for an average price of € 3.68.

4.4 Accounts Receivable and Other Assets

All accounts receivable and other assets to the tune of € 1,818,489 (previous year: € 2,486,952) have a remaining term of up to one year. Claims receivable from affiliated companies are made up of claims due to profit and loss transfer agreements (€ 1,792,061; previous year: € 780,617), accounts receivable (€ 39,546; previous year: € 338,816) and other liabilities, especially in connection with tax integration (€ 109,404; previous year: € 823,897). Other current liabilities to affiliated companies (€ 332,336; previous year: € 25,334), especially from a cash pool, have been balanced with the debts.

The other assets largely comprise tax reimbursement claims receivable from the Tax Office from taxes on income (€ 172,952; previous year: € 568,956).

4.5 Prepaid Expenses

The prepaid expenses to the tune of € 31,266 (previous year: € 50,919) largely contain payments for Investor Relations services, maintenance contracts and insurance policies relating to the year.

4.6 Share Capital

As of 31 August 2005 the Company's share capital amounted to € 11,542,764. It is formed by 11,542,764 individual no-par-value share certificates with a calculated face value of € 1 issued in the name of the owner.

The Annual General Meeting of 28 January 2004 authorised the Management Board to increase the share capital once or repeatedly by up to a total of € 5,770,000 until 15 January 2009 with the approval of the Supervisory Board by issuing individual share certificates issued in the name of the owner in return for a contribution in cash or a contribution in kind, excluding the shareholders' subscription right. At the same time the decision was taken to raise the previously approved capital in the amount of € 3,082,236 in accordance with Article 5 para. 1 of the Statutes. Neither the Management Board nor the Supervisory Board made use of the approved capital in the 2004/2005 financial year nor in the 2003/2004 financial year, meaning that it was still € 5,770,000 as of 31 August 2005.

The Annual General Meeting decision of 26 October 1999 created authorised but unissued capital in the amount of € 375,000 for granting rights to subscribe to 375,000 no-par-value individual share certificates to employees and members of the management of the Company or affiliated companies ("1999 Stock Option Plan"). As of 31 August 2005 186,343 options from the 1999 Plan with an average exercise price of € 19.95 were in circulation. In the 2004/2005 financial year no options from the 1999 Plan were exercised. In the previous year, by contrast, 2,559 options from the 1999 Plan were exercised with an average exercise price of € 2.76.

The Annual General Meeting decision of 12 December 2000 created authorised but unissued capital in the amount of € 375,000 for granting rights to subscribe to 375,000 no-par-value individual share certificates to employees and members of the management of the Company or affiliated companies ("2000 Stock Option Plan"). As of 31 August 2005 107,794 options from the 2000 Plan with an average exercise price of € 2.37 were in circulation. In the 2004/2005 and 2003/2004 financial years, 19,018 options or 3,668 options respectively from the 2000 Plan were exercised with an average exercise price of € 2.76.

4.7 Capital Reserve

The capital reserve remained unchanged in the 2004/2005 financial year compared to the previous year.

4.8 Reserve for Treasury Stock

In the 2004/2005 financial year the reserve for treasury stock diminished by the use of 19,018 own shares to exercise employee options and by the open sale of 455,235 own shares in the amount of the proportion of the reserve accounted for by these shares, i.e. € 743,866. As of 31 August 2005 the reserve for treasury stock reached the level of € 182,572 (previous year: € 926,438).

4.9 Other Revenue Reserves

Items were allocated to other revenue reserves to the tune of € 3,500,000 according to Article 58 para. 2a of the German Stock Corporation Act, since the annual profit of the 2004/2005 financial year arose in this amount due to the reinstatement of original value of the participation approach for the shares in affiliated companies. By decision of the Management Board and Supervisory Board, 75 % of the remaining annual profit or € 1,595,817 were reported in the other revenue reserves according to Article 58 para. 2 of the German Stock Corporation Act in conjunction with the Statutes of the Company.

In addition, € 743,866 were allocated to other revenue reserves from the dissolving of the reserves for treasury stock. This ensures that, after the dissolving, the funds needed for the reserve will be allocated to the same area of expertise from which they were previously taken.

Tab. 2 | Other reserves of SinnerSchrader AG in €

Other reserves as at 31.08.2004	401,467
Allocation from dissolution of reserves from treasury stock	743,866
Allocation to other reserves acc. to Article 58 para. 2a of the German Stock Corporation Act	3,500,000
Allocation to other reserves acc. to Article 58 para. 2 of the German Stock Corporation Act in conjunction with the Statutes of the Company	1,595,817
Other reserves as at 31.08.2005	6,241,150

4.10 Accrued Expenses

The other accrued expenses in the amount of € 808,066 (previous year: € 1,661,500) comprise € 395,903 (previous year: € 835,070) from accrued expenses for rental obligations for unused office space. Furthermore, accrued expenses have been formed for outstanding invoices, litigation risks, reporting and auditing expenses as well as personnel expenses, especially for holiday and overtime claims and bonuses. In the 2004/2005 financial year, accrued expenses for imminent charges from the use of special rights of notice with respect to rented office space in Hamburg (previous year: € 406,775) after issuing notice as of 30 June 2006 were reclassified as liabilities.

4.11 Liabilities

All liabilities to the tune of € 639,447 (previous year: € 21,146,521) have a remaining term of up to one year. In the amount of € 406,775 they comprise liabilities vis-à-vis the landlord of the office space at the Hamburg site resulting from the early termination of the rental contract. The remaining amount is made up of trade accounts payable, turnover tax liabilities for the German turnover tax authorities, as well as social security, income tax and church tax levies that are not yet due.

The capital reduction decided on the balance sheet date of the previous year on the basis of a decision taken at the Annual General Meeting on 28 January 2004 to reimburse existing liabilities vis-à-vis shareholders in the amount of € 20,768,780 was paid on 8 November 2004 by paying the amount to the shareholders.

5 Explanations of Statement of Operations Items

5.1 Revenues

Revenues in the amount of € 2,294,843 come from the management and administrative services provided by the Company for the consolidated affiliated companies and from charging on the costs of the centrally administered infrastructure in the consolidated group.

5.2 Other Operating Income

The other operating income in the amount of € 4,739,985 largely comprises income from the reinstatement of the original value according to Article 280 of the German Commercial Code of the shares in the 100 % subsidiary SinnerSchrader Deutschland GmbH (€ 3,500,000) and income from the sale of treasury stock (€ 1,001,165). Furthermore, the other operating income includes income from the sale of other securities, from liabilities already depreciated in previous years, from the resolution of accrued expenses and from taxing benefits in money's worth.

5.3 Income from Transfer of Profits

In December 2003 the Company and its 100 % subsidiary SinnerSchrader Deutschland GmbH concluded a profit transfer agreement with effect from 1 September 2003, which the Annual General Meeting agreed to on 28 January 2004. Income of € 1,792,061 was earned from the profit transfer agreement in the 2004/2005 financial year.

5.4 Interest Income and Expenses

The interest income comes from investing the Company's liquid funds. Interest expenditure mainly arose from charging commission on guaranty within the context of bank guarantees for rent that were used.

5.5 Other Operating Expenses

The other operating expenses in the amount of € 1,591,964 mainly contain costs of office space, advertising costs, legal and consulting costs as well as communication costs.

5.6 Appropriation of Profits

The Management Board and the Supervisory Board propose that the Annual General Meeting carry forward to a new account the balance sheet profit in the amount of € 531,939.

6 Other Information

6.1 Other Financial Liabilities

The financial liabilities largely concern fixed-term rental contracts. Expenditures on rental obligations for unused office space and from the use of special rights of notice are recorded as other accrued expenses or as liabilities.

Tab. 3 | Obligations from rent and lease contracts in €

01.09.2005–31.08.2006	575,694
01.09.2006–31.08.2007	2,048
01.09.2007–31.08.2008	—
01.09.2008–31.08.2009	—
After 01.09.2009	—
Total	577,742

The rental contracts for office space in Hamburg and Frankfurt have been terminated with effect from 30 June 2006 and 31 May 2006 respectively. A new rental contract effective as of 1 July 2006 was signed for the Hamburg site in November 2005.

6.2 Employees

On 31 August 2005 and on average for the 2004/2005 financial year, the Company had 16 employees (without directors).

6.3 Management Board

In the 2004/2005 financial year the following persons were members of the Management Board.

- » Matthias Schrader, Businessman, Chairman
- » Thomas Dyckhoff, Businessman, Finance Director

On 21 December 2004 the appointment of Mr Dyckhoff was renewed for the period to 31 December 2007. The members of the Management Board performed their duties on a full-time basis. The remuneration of the Management Board members was made up as follows:

Notes

Tab. 4 Remuneration of the Management Board members 2004/2005	Fixed salary in €	Other benefits in €	Variable com- ponents in €	Stock options in number
Matthias Schrader	127,920	15,787	—	—
Thomas Dyckhoff	113,333	12,689	37,500	—
Total	241,253	28,476	37,500	—

In the 2004/2005 financial year the total remuneration for the Management Board amounted to € 307,229.

As part of his reappointment, a bonus agreement was reached with Mr Dyckhoff in addition to his fixed salary and the variable remuneration relating to the year in question; under this bonus agreement for the period from 1 January 2005 to 31 December 2007 Mr Dyckhoff will receive additional variable remuneration in the amount of the difference between the average share price of the SinnerSchrader share on the ten trading days before 31 December 2007 and the price of € 1.61 in respect of 200,000 shares. As of 31 August 2005 the share price was below the threshold of € 1.61 from which the additional variable remuneration would be calculated.

6.4 Supervisory Board

In the 2004/2005 financial year the following persons were members of the Supervisory Board:

Dr Markus Conrad, Businessman, Chairman

- » Managing Partner of Libri GmbH, 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
- » Member of the Supervisory Board of FERI Finance AG, Bad Homburg

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

Remuneration for the members of the Supervisory Board in the 2004/2005 financial year was made up as follows. Another benefit for every member of the Supervisory Board is the proportionate premium for the economic loss indemnity insurance for organs of legal persons taken out by the Company.

Tab. 5 Remuneration of the Supervisory Board members 2004/2005	Fixed salary in €	Other benefits in €	Variable com- ponents in €	Stock options in number
Dr Markus Conrad	8,000	218	4,000	—
Reinhard Pöllath	6,000	218	3,000	—
Frank Nörenberg	4,000	218	2,000	—
Total	18,000	654	9,000	—

6.5 Participations

The proportionate ownership of SinnerSchrader Aktiengesellschaft is broken down as follows:

Tab. 6a | Beteiligung der SinnerSchrader AG

Company	Share in %	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	1,792,061	yes	01.09.04–31.08.05
SinnerSchrader UK Ltd., London, UK ²⁾	100.00	GBP	100,000	-517,207	-28,275	no	01.09.04–31.08.05
SinnerSchrader Benelux BV, Rotterdam, The Netherlands ²⁾	100.00	EUR	18,000	-169,268	-8,413	no	01.01.04–31.12.04
LetMeShip GmbH, Hamburg ³⁾	24.94	EUR	53,250	—	—	no	—

¹⁾ Before profit/loss transfer agreement with 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.

Tab. 6b | Beteiligung der SinnerSchrader Deutschland GmbH

Company	Share in %	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	707,134	yes	01.09.04–31.08.05
SinnerSchrader Studios GmbH, Hamburg	100.00	EUR	25,000	341,030	132,621	yes	01.09.04–31.08.05
SinnerSchrader Studios Frankfurt GmbH, Frankfurt am Main	100.00	EUR	25,000	125,932	181,105	yes	01.09.04–31.08.05

¹⁾ Before profit/loss transfer agreement with SinnerSchrader AG

6.6 Declaration of Compliance Under Article 161 of the German Stock Corporation Act

On 21 December 2004 the Management Board and Supervisory Board submitted the Declaration of Compliance with the Corporate Governance Code required by Article 161 of the German Stock Corporation Act and made it permanently accessible to the shareholders on the Company's website.

Notes

7 Additional Information (Unaudited)

Directors' Holdings of Shares and Subscription Rights to Shares (Directors' Dealings)

The following table shows the number of shares in SinnerSchrader AG and the number of subscription rights to these shares held by directors of SinnerSchrader AG as of 31 August 2005 and their changes in the 2004/2005 financial year:

Tab. 7 Shares and options held by the Board members in number	31.08.2004	Additions	Disposals	31.08.2005
Shares				
Management Board members:				
Matthias Schrader	2,342,675	—	—	2,342,675
Thomas Dyckhoff	49,950	—	—	49,950
Total shares held by the Management Board	2,392,625	—	—	2,392,625
Supervisory Board members:				
Dr Markus Conrad	127,500	—	—	127,500
Reinhard Pöllath	—	—	—	—
Frank Nörenberg	1,000	—	—	1,000
Total shares held by the Supervisory Board	128,500	—	—	128,500
Total shares held by the Board members	2,521,125	—	—	2,521,125
Options				
Management Board members:				
Matthias Schrader	—	—	—	—
Thomas Dyckhoff	25,000	—	—	25,000
Total options held by the Management Board	25,000	—	—	25,000
Supervisory Board members:				
Dr Markus Conrad	—	—	—	—
Reinhard Pöllath	—	—	—	—
Frank Nörenberg	—	—	—	—
Total options held by the Supervisory Board	—	—	—	—
Total options held by the Board members	25,000	—	—	25,000

Hamburg, November 2005

Matthias Schrader

Thomas Dyckhoff

Auditors' Opinion

The following is the auditors' opinion on the Financial Statements and Status Report, which was combined with the Group Status Report:

We have audited the Annual Financial Statements, together with the bookkeeping system, and the Status Report, which was combined with the Group Status Report, of SinnerSchrader Aktiengesellschaft for the financial year from 1 September 2004 to 31 August 2005. The keeping of the books and records and the preparation of the Annual Financial Statements and Status 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 Status Report, based on our audit.

We conducted our audit of the Annual Financial Statements in accordance with Article 317 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 Status 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 Status 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 Status 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 Status Report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Hamburg, 21 November 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Schneider	Schiersmann
Auditor	Auditor

For your Notes:

Key figures of the SinnerSchrader Group, 5 years in € 000s, € and number	01.09.2000	01.09.2001	01.09.2002	01.09.2003	01.09.2004
	31.08.2001	31.08.2002	31.08.2003	31.08.2004	31.08.2005
Revenues	17,935	14,544	12,359	12,325	14,315
Gross profit	4,692	2,954	3,000	3,649	4,698
EBITDA	-215	-3,608	-929	-752	719
EBITA	-631	-4,284	-1,621	-1,384	178
Net income/loss	-2,452	-17,901 ²⁾	-923	-531	545
Net income/loss per share ¹⁾	-0.23	-1.55 ²⁾	-0.08	-0.05	0.05
Shares outstanding ¹⁾	10,735	11,533	11,165	10,933	11,334
Cash flows from operating activities	609	-328	-1,637	2,291	2,615
Employees, full-time equivalents	222	221	169	139	132
	31.08.2001	31.08.2002	31.08.2003	31.08.2004	31.08.2005
Liquid funds and marketable securities	29,283	27,465	24,603	27,038	10,570 ³⁾
Shareholders' equity	43,610	30,985	29,375	8,054	10,334
Balance sheet total	53,337	35,026	31,473	31,252	13,746 ³⁾
Employees, end of period	259	205	166	145	130

¹⁾ Weighted average shares outstanding (diluted)

²⁾ Including cumulative effect of accounting change of € -14.6 million or € -1.26 per share

³⁾ Effect of special distribution of € 20.8 million

Financial calendar 2005/2006

1 st Quarterly Report (September 2005–November 2005)	12 January 2006
Annual General Meeting	27 January 2006
2 nd Quarterly Report (December 2005–February 2006)	12 April 2006
3 rd Quarterly Report (March 2006–May 2006)	12 July 2006
Annual Report 2005/2006	November 2006

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