



ANNUAL REPORT
2007

COMPANY HISTORY

2007

The establishment of a 100% subsidiary called Synergon Retail Systems Trading and Service Ltd., with an equity capital of 40 million HUF, into which the current Retail Business Division will be transferred.

Sale of the 68.11% share in the Span d.o.o. Croatian subsidiary.

The establishment of a regional level strategic cooperation agreement with Novell Hungary to support the open source code technology.

Renewal of the system integrator (1Tier) contract with Cisco Systems Hungary (again after two years).

2006

Change in ownership – the Company was acquired by an economic and financial investment group instead of technological and professional share holders.

Acquisition of the AQAP 2110 and the AQAP 160 certifications, which prove the ability of Synergon to meet the NATO special military requirements in addition to the traditional civil quality management requirements.

The Budapest Stock Exchange awarded the Company with the *'Issuer achieving the highest share price rise in the year'* and the *'Share with the best velocity of circulation in the year'* recognitions upon the 154% rise of the shares in 2006.

2004

With the aim of expanding its portfolio, Infinity a.s. acquires BrnoData-IS spol. s.r.o., a Czech IT firm engaged in the sale and implementation of Microsoft Business Solutions – Navision, which continues its operations under the name InfinityData s.r.o.

2003

The Infinity Slovakia representative office opens. The Synergon group is now active in the markets of four countries. Under a cooperation agreement, the company purchases the Hungarian affiliate of Atos Origin, one of the world's leading IT services firms: SAO-Synergon Kft (SAO) is formed.

2002

Integration of the foreign group member companies is stepped up; Synergon raises its stake in the firms. The company group greatly expands its business IT consulting activity. It also breaks into a new market segment: the rapidly growing small and medium-sized business sector.

2000

The company begins to build out its international network. It acquires a majority stake in Croatia's Span d.o.o., a market leader in Microsoft technology and IT training. Synergon also obtains a majority stake in the Czech Infinity a.s., thus acquiring one of the key IT systems integrators on the Czech market.

1999

In April an initial public offering (IPO) of Synergon shares takes place in Hungary, accompanied by an international private subscription. The company's shares – as the first of any Hungarian IT company – are listed on the Budapest Stock Exchange, and are also introduced to London's SEAQ electronic trading system.

1998

In April the company expands its offering to include SAP systems, thus rounding out its ERP portfolio. July sees another private equity-capital increase, this time of USD 3 million: the share of venture capital investors in the company climbs to 30%.

1997

In September Synergon implements a USD 5 million capital increase by means of a private share placement involving several venture capital investors, and thus venture capital investors come to own 26% of Synergon's share capital. The merger of Optotrans and Rolitron is announced. The name of the new company: Synergon. Through this, one of the largest systems integration companies in the Hungarian IT market is created. Synergon installs a quality assurance system conforming to ISO 9001 standards.

1993

Fibex Kft. and Span d.o.o. are founded.

1992

Infinity is founded.

1990

Optotrans is established, and soon becomes one of the leading companies in the Hungarian telecommunications market. In the same year, Rolitron changes its activity profile from manufacturing to the trading of office automation products, primarily PC systems and related software packages

OVERVIEW OF 2007

2007 was a difficult year for Synergon since the company had to hold its ground in an economic situation which was unfavourable for large scale IT investments, but in the end the expected results were achieved.

In relation to the change in ownership at the end of 2006 the company was screened from several aspects; the operational processes, the financial and human resource management, the commodity and service portfolio as well as the operation of the subsidiaries, all constituted the subject of a comprehensive inspection. The factors and processes indicated as a result of the inspection were rationalized during the year, defining the strategic objectives and setting Synergon onto a sustainable growth course was fulfilled.

The Company sold its Croatian subsidiary, SPAN d.o.o. shares that secured 68.11% influence in the Croatian subsidiary. However, Infinity a.s., the subsidiary operating on the much larger Czech and Slovakian markets, is handled as an important investment and a strategically significant element.

The new strategy focuses on developing and maintaining the ability to adapt to the dynamically changing macro and business environment, which is the primary principle for ensuring the survival and continuous success of an enterprise. Accordingly, the strategy also uses dynamic, primarily active tools and methods to achieve the objectives. It builds on Synergon's former values and using these as basis and is composed of partial strategies with different focuses, striving to develop by different means, reacting to the changes of the horizontal (commodity product/tool groups, applications, services) and the vertical (market players, branches, sectors) market features. The coherence of the created synergic effects creates the basic expectations and goals. Through all this it can be ensured that Synergon will become an innovative and profitable enterprise with a wide commodity portfolio and wide ranging competence, conveying business and economic added value.

One of the basic pillars supporting the fulfilment of the conceptualized strategic objectives, rebuilding the strategic partner relations, was successfully achieved. Novell Hungary and Synergon created a regional level strategic cooperation agreement on the support of open source code technology. After two years, Synergon and Cisco Systems Hungary renewed their system integrator (1Tier) contract, owing to which an even closer cooperation will develop between the commercial teams of the two enterprises.

The fact that after the poor first quarter the company group was still able to finish the year with nearly half a billion Hungarian Forint profit was mainly due to the new strategy announced the spring of 2007. Keeping the strategic key elements in view, the service content of sales was increased so the major financial indicators improved even with decreasing sales turnover.

The potential, inherent in the Synergon Group, and the justification of the established method of development were proven by the fact that each subsidiary closed a profitable year in 2007, to which there was formerly no example.

Synergon's objective is to produce outstanding professional success and financial profit in the forthcoming years as well, following the guidelines established in 2007.

Synergon Information Systems Plc.

CONTENTS

CONSOLIDATED BALANCE SHEET	4
CONSOLIDATED INCOME STATEMENT	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	5
CONSOLIDATED CASH-FLOW STATEMENT	6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	7
1. General information	7
2. Adoption of new standards	7
3. Significant accounting policies	7
4. Critical accounting judgements and key sources of estimation uncertainty	12
5. Property, Plant and Equipment	13
6. Goodwill	14
7. Other intangible assets	14
8. Inventory	15
9. Trade accounts receivable, net	15
10. Contract work-in-progress	16
11. Other current assets	16
12. Available-for-sale financial assets	16
13. Cash and short term deposits	16
14. Issued capital and reserves	16
15. Minority interest in consolidated subsidiaries	17
16. Interest-bearing loans and borrowings	17
17. Trade accounts payable	17
18. Other payables and accruals	17
19. Provisions for liabilities and charges	18
20. Segment information	18
21. Revenue	20
22. Materials and consumables used	20
23. General and administration expenses	20
24. Finance revenue and finance cost	20
25. Other income and other expense	20
26. Income taxes	21
27. Earnings per share	22
28. Acquisitions of subsidiaries	22
29. Disposal of business	23
30. Commitments and contingencies	24
31. Share based pay options	25
32. Related party disclosures	26
33. Dividends	26
34. Financial instruments	26
35. Cash flow reconciliations	28
36. Events after the balance sheet date	28
37. Approval of the financial statements	28

Synergon Information Systems Plc
Consolidated Financial Statements
For the year ended December 31, 2007

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Synergon Informatika Nyrt

We have audited the accompanying consolidated financial statements of Synergon Informatika Nyrt and subsidiaries, which comprise the consolidated balance sheet as at December 31, 2007, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of (or "present fairly, in all material respects,") the consolidated financial position of Synergon Informatika Nyrt and subsidiaries as of December 31, 2007, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, April 8, 2008


Gábor Gion

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Company Reg. No.: 01-09-071057



Attila Péter Horváth

Registered auditor
005173

A member of
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CONSOLIDATED BALANCE SHEET

	Note	December 31, 2007	December 31, 2006
ASSETS			
Non-current assets:			
Property, plant and equipment	5	1 340 402	1 431 856
Goodwill	6	162 267	162 267
Other intangible assets	7	259 787	333 375
Investments		2 697	11 546
Deferred tax		29 921	43 301
Loans and credits given		23 710	14 295
Total non-current assets		1 818 784	1 996 640
Current assets:			
Inventory	8	440 468	831 889
Trade accounts receivable, net	9	5 883 228	5 798 480
Other current assets	11	1 068 094	514 711
Available for sale financial assets	12	273 739	618 204
Cash and short term deposits	13	1 331 654	907 938
Total current assets		8 997 183	8 671 222
TOTAL ASSETS		10 815 967	10 667 862
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent:			
Issued capital	14	1 910 926	1 910 926
Treasury shares	14	(707 321)	(1 038 242)
Share premium		5 770 884	5 643 179
Capital reserve		27 980	28 685
Retained losses	14	(663 294)	(1 106 613)
Cumulative translation adjustment		96 537	77 440
Equity attributable to equity holders of the parent		6 435 712	5 515 375
Minority interest in consolidated subsidiaries	15	40 860	57 477
Total equity		6 476 572	5 572 852
Long-term liabilities			
		4 247	49 081
Current liabilities:			
Short-term loans and borrowings	16	-	4 600
Trade accounts payable	17	2 741 006	3 791 980
Other payables and accruals	18	1 495 857	1 167 855
Provision for expected liabilities and losses	19	98 285	81 494
Total current liabilities		4 335 148	5 045 929
TOTAL LIABILITIES AND EQUITY		10 815 967	10 667 862

(all amounts in thousand HUF)

CONSOLIDATED INCOME STATEMENT

	Note	December 31, 2007	December 31, 2006
CONTINUING OPERATIONS			
Sales revenue	21	16 966 950	19 582 185
Capitalized self development		96 636	30 053
Materials and consumables used	22	(11 195 007)	(13 875 053)
Employee benefits expense		(3 350 334)	(3 421 279)
Depreciation and amortization expense		(416 814)	(482 456)
Impairment losses of investments and goodwill		-	(460 340)
General and administration expenses	23	(1 848 226)	(2 118 182)
Finance revenue	24	94 373	115 160
Finance cost	24	(70 237)	-
Other gains	25	220 410	-
Other losses	25	(17 985)	(54 863)
Profit (loss) before tax		479 765	(684 775)
Income tax expense	26	(31 041)	(39 347)
Profit (loss) for the year from continuing operations		448 724	(724 122)
DISCONTINUED OPERATION			
Profit (loss) for the year from discontinued operations	29	9 919	(132 168)
Profit for the year		458 643	(856 290)
Attributable to:			
Equity holders of the parent		454 862	(780 072)
Minority interest	15	3 781	(76 218)
		458 643	(856 290)
Income per share attributable to ordinary equity holders of the parent			
	27		
From continuing and discontinued operations:			
- basic (HUF per share)		52	(85)
- diluted (HUF per share)		48	(82)
From continuing operations:			
- basic (HUF per share)		51	(70)
- diluted (HUF per share)		47	(68)

(all amounts in thousand HUF)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								
	Share Capital	Treasury Shares	Share Premium	Capital-Reserve	Retained Earnings	Cumulative Translation Adjustment	Total	Minority Interest	Total equity
Balance at January 1, 2006	1 910 926	(118 870)	5 643 179	28 685	(528 471)	52 966	6 988 415	133 695	7 122 110
Sale of treasury shares	-	142 570	-	-	201 930	-	344 500	-	344 500
Purchase of treasury shares	-	(1 061 942)	-	-	-	-	(1 061 942)	-	(1 061 942)
Currency translation adjustment	-	-	-	-	-	24 474	24 474	-	24 474
Net loss	-	-	-	-	(780 072)	-	(780 072)	(76 218)	(856 290)
Balance at December 31, 2006	1 910 926	(1 038 242)	5 643 179	28 685	(1 106 613)	77 440	5 515 375	57 477	5 572 852
Balance at January 1, 2007	1 910 926	(1 038 242)	5 643 179	28 685	(1 106 613)	77 440	5 515 375	57 477	5 572 852
Sale of treasury shares	-	1 237 092	-	-	(10 000)	-	1 227 092	-	1 227 092
Purchase of treasury shares	-	(906 171)	-	-	-	-	(906 171)	-	(906 171)
Currency translation adjustment	-	-	-	-	-	17 511	17 511	-	17 511
Merge and redesign of capital	-	-	127 705	(705)	(128 564)	1 586	22	1 564	1 586
Share based payment (IFRS 2)	-	-	-	-	127 021	-	127 021	-	127 021
Disposal of controlled subsidiary	-	-	-	-	-	-	-	(21 962)	(21 962)
Net profit	-	-	-	-	454 862	-	454 862	3 781	458 643
Balance at December 31, 2007	1 910 926	(707 321)	5 770 884	27 980	(663 294)	96 537	6 435 712	40 860	6 476 572

(all amounts in thousand HUF)

The accompanying notes on pages 7 to 28 are integral part of these consolidated financial statements.

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CONSOLIDATED CASH-FLOW STATEMENT

	Note	December 31, 2007	December 31, 2006
CONTINUING OPERATIONS			
Cash-flow from operating activities:			
Profit (loss) before interest and taxation	35	393 806	(843 436)
Depreciation and amortization		416 814	542 169
Impairment of investments and goodwill		-	472 769
Increase (decrease) in provisions		16 793	62 072
Impairment (reversal) of property plant and equipment		(23 938)	26 962
Impairment of intangible assets		4 888	49 651
Impairment of inventories		116 672	153 145
Impairment of trade receivables		107 945	154 234
Net foreign exchange (gain)/loss		84 327	4 302
Loss (gain) on sale of subsidiary		(168 714)	-
Loss (gain) on sale of fixed assets		(20 891)	9 743
Increase (decrease) in minority interest		5 344	(76 218)
Expense recognised in profit or loss in respect of equity-settled share-based payments		127 021	-
Changes in assets and liabilities:			
Accounts receivable and other current assets increase/decrease		(921 051)	1 267 674
Inventory increase/decrease		248 936	63 445
Payables and accruals increase/decrease		(60 681)	(599 136)
Cash generated from operations		327 271	1 287 376
Interest received		89 797	107 636
Interest paid		(2 276)	(16 384)
Income taxes paid		(62 421)	(141)
Net cash generated by operating activities		25 100	91 111
Cash flows from investing activities:			
Payments for property, plant and equipment		(257 006)	(188 581)
Payments for intangible assets		(124 878)	(108 688)
Payment for forward contract deposit		(351 802)	-
Increase (decrease) in the short term deposits		344 465	(560 247)
Increase (decrease) in the long term loans		(9 415)	(14 295)
Proceeds from sale of business		1 894	-
Acquisition of subsidiary	28	-	(21 074)
Proceeds from sale of fixed assets		151 767	34 881
Net cash used in investing activities		(244 975)	(858 005)
Cash-flows from financing activities			
Proceeds from sale of treasury shares		1 227 090	344 500
Acquisition/purchase of treasury shares		(906 171)	(1 061 942)
Increase (decrease) in loans payable		(4 600)	(41 422)
Net cash (used in / generated by) financing activities		316 319	(758 864)
Net increase in cash and cash equivalents		423 715	(238 382)
Cash and cash equivalents:			
at the beginning of the financial year		907 938	1 146 320
at the end of the financial year		1 331 654	907 938

(all amounts in thousand HUF)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007.

1. GENERAL INFORMATION

Synergon Information Systems Plc is a public limited liability company incorporated under the laws of the Republic of Hungary.

The registered office of Synergon Information Systems Plc is located at Baross utca 91-95, Budapest 1047, Hungary.

The main operations of the group are in the area of information systems integration and the provision of related maintenance services.

The results of 2006 are restated in the presently issued Financial Statements due to the discontinued operations included in the income statement the comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

2. ADOPTION OF NEW STANDARDS

Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see Note 34).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Early adoption of Standards and Interpretations

In addition, the Group has elected to adopt the following in advance of their effective dates:

IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);

IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009); and

IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008).

The revisions to IAS 23 have had no impact on the Group's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs when incurred, has no impact on these financial statements because it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

IFRS 8 is a disclosure Standard which has resulted in a redefinition of the Group's reportable segments (see Note 20), but has had no impact on the reported results or financial position of the Group.

Issued but not yet adopted

At the date of authorisation of these financial statements, the Standards and Interpretations that has already been issued but not yet effective have not been preliminary adopted by the Company. The Group expects that adoption of the issued but not yet effective pronouncements will have no impact on the Group's financial statements in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICES

1. Statement of compliance

These consolidated financial statements of Synergon and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRSs that have been adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there is no impact on these consolidated financial statements, had it been approved by the EU at the balance sheet date.

2. Basis of preparation

Synergon Plc. prepares its statutory unconsolidated financial statements in accordance with the requirements of the Hungarian Accounting Standards contained in Law C of 2000 on Accounting. Some of the accounting principles prescribed in this law differs from International Financial Reporting Standards ("IFRS").

The financial year is the same as the calendar year. The financial statements are prepared on the going concern basis.

The consolidated financial statements of the Group are presented in Thousands of Hungarian Forint (HUF 000) and all values are rounded to the nearest.

3. Basis of consolidation

The consolidated financial statements include the financial statements of Synergon Information Systems Plc (the parent company) and those companies in which the Group holds more than 50% of the voting rights as at December 31, 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

The consolidated financial statements include the financial statements of Synergon Information Systems Plc and the subsidiaries listed in the note 32. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Synergon Information Systems Plc. has control.

Minority interests represent the portion of profit or loss and net assets in Infinity a.s. and Span d.o.o., not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

4. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

5. Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

6. Foreign currency translation

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

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

7. Property, plant and equipment

Property, plant and equipment are stated at cost (or production cost) less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated economic useful life of the asset. The rates used by the company are between 15% and 20% for technical equipment, vehicles and machinery and 25% for computer software. Capitalised leasehold improvements are depreciated over the length of the corresponding lease. Land is not depreciated.

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

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication exists and where the carrying value exceeds the recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the general and administration expenses line item.

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

8. Intangible assets with finite useful life

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The rate used by the company is 25%.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development
- and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

9. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

10. Minority interest

The Company uses the parent entity extension method of accounting for changes in shareholdings of minority interests. Under this method any difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities reflected in the consolidated balance sheet at the date of the acquisition of the minority interest is treated as goodwill.

11. Recoverable amount of non-current assets

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

12. Investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. After initial recognition, investments, which are classified as held for trading and available for sale, are measured at fair value. Gains or losses on investments held for trading are recognised in profit and loss as they arise.

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

measured for certain investments, such investments are measured at amortized cost. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

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

13. Inventories

Inventory is stated at the lower of cost, on a first-in first-out basis, or net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Work in progress is valued by reference to the stage of completion of the transaction at the balance sheet date.

14. Trade receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. A provision for doubtful debts is made when the collection of the full amount is no longer probable.

Receivables from related parties are recognised and carried at cost. Bad debts are written-off when identified.

15. Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks, net of outstanding bank overdrafts.

16. Trade and other payables

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

Payables to related parties are recognised and carried at cost.

17. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

18. Provisions

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

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

19. Pensions

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

20. Leased assets

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

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

21. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

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

Rendering of services

When services are performed through an indefinite number of repetitive acts over a specified period of time (e.g., maintenance services, supporting services), revenue is recognized on a straight-line basis over the specified period unless some other method better represents the stage of completion. When a specific act is much more significant than any other acts, revenue is recognized only after the significant act is performed.

Construction contracts

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

Interest

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

22. Dividends

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

23. Segment reporting

The Group's operating businesses are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services or different markets.

The main activities associated with Business Solution Development (BSD) are in the development and installation of business solutions. The Infrastructure Systems Services (ISS) division is largely responsible for the architecture and implementation of infrastructure and further maintenance and on-going upgrades of previously installed infra-structures.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group.

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

Unallocated items mainly comprise corporate, general and administrative expenses that relate to the group as a whole, assets not directly attributable to the operations of the segments such as short and long term investments and liabilities that are incurred for financing rather than operating purposes. Segment results are determined before any adjustments for minority interest.

Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

Geographical information is based on the geographical location of customers.

24. Issued capital

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

25. Treasury shares

Treasury shares represents the cost of shares of the Company repurchased and is displayed as a reduction of shareholders' equity. Premiums and discounts on repurchase and subsequent disposal are credited and debited respectively directly to retained earnings.

26. Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

(i) except where the deferred income tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(iii) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(iv) in respect of deductible taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

27. Earnings per share

Basic earnings per share data is calculated based on the weighted average number of shares outstanding during the period excluding treasury shares held by the Company. Fully diluted earnings per share is calculated based on the weighted average number of shares outstanding as calculated for basic earnings per share and as adjusted for giving effect to the assumed issuance of all potentially dilutive securities. Net income is adjusted in the fully diluted earnings per share calculation for any income or expense associated with the potentially dilutive securities.

28. Financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other liabilities approximate their fair value due to their short term to maturity. The Group has no significant concentrations of credit risk.

Loans and borrowings are initially recognised at cost. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. As all loans bear variable rate interest, their fair value approximates the book value. In determining estimates of the fair value of financial instruments, the Group makes assumptions regarding current market interest rates, considering the term of the instrument and its risk. Current market interest rates are generally selected from a range of potentially acceptable rates and, accordingly, other effective rates and/or fair values are possible.

The de-recognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

29. Share based payments

For cash-settled share-based payment transactions the services received and the liability incurred are measured at the fair value of the liability at each reporting date. The liability is recognized over the period that services are rendered. At each reporting date, and ultimately at settlement date, the fair value of the liability is remeasured by Monte Carlo simulation, and any changes in fair value are recognized in profit or loss for the period. The total net cost recognized in respect of the transaction will be the amount paid to settle the liability.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Monte Carlo simulation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Further details on how the fair value of share-based transactions has been determined can be found in note 32.

30. Contingencies

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

31. Subsequent Events

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

32. Comparatives

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ from those estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 is Thousand HUF 162,267 (2006: HUF 162,267). More details are given in Note 6.

5. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment for the year ended December 31, 2007 was as follows:

	Land & Buildings	Office furniture, technical equipment machinery	Computer software	Vehicles	Under construction/capital projects	Total
COST OR VALUATION						
Balance at 1 January 2007	1 279 203	903 264	1 804 658	532 812	9 681	4 529 618
Additions	4 129	89 184	112 765	62 942	1 825	270 845
Transfer	(1)	95 182	(94 602)	7 059	(9 681)	(2 043)
Transfer from inventory	-	55 297	-	-	-	55 297
Sale of subsidiary	(24 426)	(103 641)	(130 581)	(18 447)	-	(277 095)
Disposals	-	(13 085)	(10 878)	(113 711)	-	(137 674)
Write-off	-	(19 732)	(11 039)	(4 511)	-	(35 282)
Write-off reimbursement	-	28 980	-	-	-	28 980
Net foreign currency exchange differences	5 461	17 359	7 049	32	1	29 903
Balance at 31 December 2007	1 264 366	1 052 808	1 677 372	466 176	1 826	4 462 549
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance at 1 January 2007	(494 057)	(793 038)	(1 596 003)	(214 664)	-	(3 097 762)
Eliminated on disposals of assets	-	9 110	7 987	60 717	-	77 814
Sale of subsidiary	24 426	78 049	81 638	14 947	-	199 060
Transfer	-	(51 639)	51 640	-	-	1
Write-off reimbursement	-	18 254	9 221	2 765	-	30 240
Depreciation expense	(56 791)	(102 619)	(78 863)	(66 390)	-	(304 663)
Net foreign currency exchange differences	(1 503)	(18 002)	(7 295)	(36)	-	(26 837)
Balance at 31 December 2007	(527 925)	(859 885)	(1 531 675)	(202 661)	-	(3 122 147)
CARRYING AMOUNT						
As at 31 December 2006	785 146	110 226	208 655	318 148	9 681	1 431 856
As at 31 December 2007	736 441	192 923	145 697	263 515	1 826	1 340 402

(all amounts in thousand HUF)

Fully depreciated assets

Included within property, plant and equipment at December 31, 2007 is technical equipment with a cost value of Thousand HUF 1,105,482 (2006: Thousand HUF 1,449,425) which is fully depreciated, but remains in use.

Finance leases

The carrying value of plant and equipment held under financial leases at December 31, 2007 is Thousand HUF 9,300 (2006; Thousand HUF 140). Leased assets are pledged as security for the related finance lease.

Changes in property, plant and equipment for the year ended December 31, 2006 was as follows:

	Land & Buildings	Office furniture, technical equipment machinery	Computer software	Vehicles	Under construction/capital projects	Total
COST OR VALUATION						
Balance at 1 January 2006	1 258 623	892 872	1 838 713	513 474	1 748	4 505 430
Additions	15 163	32 290	23 844	108 114	9 170	188 581
Transfer	-	(187)	(7 318)	-	(1 237)	(8 742)
Disposals	(122)	(21 463)	(42 203)	(82 880)	-	(146 668)
Write-off	(66)	(17 169)	(21 798)	(6 242)	-	(45 275)
Write-off reimbursement	(4 820)	(11 303)	-	-	-	(16 123)
Net foreign currency exchange differences	10 425	28 224	13 420	346	-	52 415
As at 31 December 2006	1 279 203	903 264	1 804 658	532 812	9 681	4 529 618
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance at 1 January 2006	(427 404)	(710 631)	(1 482 629)	(184 595)	-	(2 805 259)
Eliminated on disposals of assets	122.00	19 427	35 345	47 149	-	102 043
Write-off reimbursement	8.00	15 283	18 469	1 958	-	35 718
Depreciation expense	(64 256)	(93 973)	(156 497)	(78 984)	-	(393 710)
Net foreign currency exchange differences	(2 527)	(23 144)	(10 691)	(192)	-	(36 554)
As at 31 December 2006	(494 057)	(793 038)	(1 596 003)	(214 664)	0	(3 097 762)
CARRYING AMOUNT						
As at 31 December 2005	831 219	182 241	356 084	328 879	1 748	1 700 171
As at 31 December 2006	785 146	110 226	208 655	318 148	9 681	1 431 856

(all amounts in thousand HUF)

6. GOODWILL

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

	December 31, 2007	December 31, 2006
Balance at beginning of year	162 267	564 418
Additional amounts recognised from business combinations occurring during the year	-	21 075
Impairment losses recognised in the year	-	(423 226)
Balance at end of year	162 267	162 267
At the beginning of year		
Cost	1 778 439	1 757 364
Accumulated impairment	(1 616 172)	(1 192 946)
Net carrying amount	162 267	564 418
At the end of the year		
Cost	1 778 439	1 778 439
Accumulated impairment	(1 616 172)	(1 616 172)
Net carrying amount	162 267	162 267
Being:		
	December 31, 2007	2006. december 31.
Infinity a.s	117 546	117 546
Infinity Data s.r.o	44 721	44 721
	162 267	162 267

(all amounts in thousand HUF)

Impairment testing of goodwill

For the purposes of impairment testing, the goodwill acquired through this business combination has been allocated to the cash generating unit. The recoverable amount of the cash generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five year period. Based on the result of the impairment test there is no further impairment loss recognized in the current financial statements.

Key assumptions used in the value in use calculation of investments (Infinity a.s and Infinity Data s.r.o) for December 31, 2007 and December 31, 2006.

The discount rate applied to cash flow projections for valuation of Infinity a.s is 10.98% (2006; 10.98%). The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill.

Sales: expected to stagnate in 2007; after 2007, management have estimated an annual sales growth of a steady 3.0%, which is significantly below the assumed long-term growth rate within the IT sectors in which the business unit operates. Operating profit margin: management have estimated a profit margin of between 1.29 and 3.57%, which is consistent with the norms estimated within the IT sectors in which the business unit operates.

7. OTHER INTANGIBLE ASSETS

Changes in other intangible assets for the year ended December 31, 2007 was as follows:

	Internally generated intangible assets	Acquired intangible assets	Total
COST			
Balance at 1 January 2007	558 094	143 482	701 576
Additions	23 488	13 374	36 862
Additions from internal developments	96 636	-	96 636
Transfer	43 500	(2)	43 498
Sale of subsidiary	(28 241)	-	(28 241)
Disposals	(71 087)	(668)	(71 755)
Write-off	(155 926)	(100)	(156 026)
Net foreign currency exchange differences	2 450	-	2 450
Balance at 31 December 2007	468 914	156 086	625 000
HALMOZOTT AMORTIZÁCIÓ ÉS ÉRTÉKVESZTÉS			
	Internally generated intangible assets	Acquired intangible assets	Total
Balance at 1 January 2007	(320 344)	(47 857)	(368 201)
Eliminated on disposals of assets	-	557	557
Sale of subsidiary	8 881	-	8 881
Transfer	(43 500)	-	(43 500)
Write-off reimbursement	151 038	100	151 138
Amortization	(77 617)	(34 534)	(112 151)
Net foreign currency exchange differences	(1 937)	-	(1 937)
Balance at 31 December 2007	(283 479)	(81 734)	(365 213)
CARRYING AMOUNT			
As at 31 December 2006	237 750	95 625	333 375
As at 31 December 2007	185 435	74 352	259 787

(all amounts in thousand HUF)

The Group has developed intangible assets from internal sources in a value of Thousand HUF 30,132 and used external sources in a value of Thousand HUF 66,504 and other purchased assets in a value of Thousand HUF 23,488. The Group has in a carrying amount net of Thousand HUF 166,509 internally generated software intended for sale.

Changes in other intangible assets for the year ended December 31, 2006 was as follows:

	Internally generated intangible assets	Acquired intangible assets	Total
COST			
Balance at 1 January 2006	451 445	241 833	693 278
Additions	71 392	7 243	78 635
Additions from internal developments	30 053	-	30 053
Transfer	-	(1 664)	(1 664)
Write-off	-	(103 930)	(103 930)
Net foreign currency exchange differences	5 204	-	5 204
As at 31 December 2006	558 094	143 482	701 576
ACCUMULATED AMORTIZATION AND IMPAIRMENT			
Balance at 1 January 2006	(205 637)	(66 720)	(272 357)
Transfer	-	54 279	54 279
Write-off reimbursement	(113 043)	(35 416)	(148 459)
Net foreign currency exchange differences	(1 664)	-	(1 664)
As at 31 December 2006	(320 344)	(47 857)	(368 201)
CARRYING AMOUNT			
As at 31 December 2005	245 808	175 113	420 921
As at 31 December 2006	237 750	95 625	333 375

(all amounts in thousand HUF)

The Group developed intangible assets from internal sources in a value of Thousand HUF 39,954 and used external sources in a value of Thousand HUF 61,491. The Group had in a carrying amount net of Thousand HUF 147,234 internally generated software intended for sale.

8. INVENTORY

	December 31, 2007	December 31, 2006
Goods for sale	1 061 841	799 258
Construction contracts	12 164	-
Intermediated services	274	12 498
Demonstration inventory	-	13 078
Maintenance inventory	49 046	577 275
	1 123 325	1 402 109
LESS, PROVISION AND WRITE-OFF FOR OBSOLETE INVENTORY		
write-down of inventory opening	(570 220)	(417 075)
Effect of sale of Span d.o.o	4 036	-
Restated opening balance	(566 184)	(417 075)
write-down from previous years reversal	32 579	-
write -down inventory	(149 251)	(153 145)
Total provision and write - off	(682 856)	(570 220)
Total inventories at lower of cost and net realizable value	440 468	831 889
The amount of write-offs of inventories recognized as an expense, net	116 672	153 145

(all amounts in thousand HUF)

9. TRADE ACCOUNTS RECEIVABLE, NET

	December 31, 2007	December 31, 2006
Trade receivables	6 016 659	6 023 504
Less, reserve for doubtful accounts	(221 779)	(227 006)
	5 794 880	5 796 498
Gross amount receivable from customers for contract work	88 348	1 982
Trade accounts receivable, net	5 883 228	5 798 480

(all amounts in thousand HUF)

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

10. CONTRACT WORK-IN-PROGRESS

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

	December 31, 2007	December 31, 2006
Contract revenue recognised as revenue in the period	4 106 108	3 907 774
Contract costs incurred and recognised profits (less losses) to date	728 416	1 721 593
Progress billings	(640 068)	(1 752 121)
Gross amount due from customers for contract work	88 348	1 982
Gross amount due to customers for contract work	-	(32 510)

(all amounts in thousand HUF)

11. OTHER CURRENT ASSETS

	December 31, 2007	December 31, 2006
Income tax receivable	-	860
Forward contract deposit	351 802	-
Advances given for other assets	-	1 478
Advances for employee benefits	26 586	12 788
Advances given for other operating expenses	80 544	80 113
Advances given for subcontractors	9 605	2 617
Un-invoiced contract work	387 369	159 681
Accrued interest receivable	7 339	11 914
Accrued other gains/revenues	108 732	195 154
Short term loans given (third party)	-	4 410
Other	96 117	45 696
	1 068 094	514 711

(all amounts in thousand HUF)

Short term loans have been provided to independent parties at market rates and are due for repayment in 2008.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available for sale financial assets at December 31, 2007 comprised treasury bonds earning average interest of 7.458% (2006; 7.37% per annum payable upon maturity).

13. CASH AND SHORT TERM DEPOSITS

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

	December 31, 2007	December 31, 2006
Cash at bank and in hand	1 331 654	907 938
Short term deposits	-	-
	1 331 654	907 938

(all amounts in thousand HUF)

Cash at bank and in hand earns interest at floating rates based on the daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending upon the immediate cash requirements of the Group. The majority of the deposits earn interest based on daily bank deposit rates and are held in Hungarian Forint. The fair value of the cash and cash equivalents is Thousand HUF 1,331,654 (2006; 907,938).

14. ISSUED CAPITAL AND RESERVES

Issued capital

On December 31, 2007 the Group's issued and fully paid share capital consisted of 9,554,630 shares with a nominal value of Thousand HUF 200.

Treasury shares

On December 31, 2007 the Company held 434,900 (2006; 832,900) ordinary shares of nominal value Thousand HUF 200 each as treasury shares. 342,900 pieces of the shares were sold and repurchased on the open market place and resulted in a gain of Thousand HUF 111,800 (2006; Thousand HUF 201,930). 610,000 pieces of the shares were sold in compliance with the share based option plan (see Note 31) resulted in a loss of Thousand HUF 121,800.

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

	Ordinary Shares	Treasury Shares	Total
ACTUAL NUMBER OF SHARES:			
January 1, 2007	9 554 630	(832 900)	8 721 730
Sale of treasury shares	-	342 900	342 900
Sale as share option plan (see Note 31)	-	610 000	610 000
Purchase of treasury shares	-	(554 900)	(554 900)
December 31, 2007	9 554 630	(434 900)	9 119 730
Average weighted number of treasury shares during the year		757 700	

(all amounts in thousand HUF)

Share options granted under the share option plan

As at 31 December 2007, executives and key employees held options over 952,000 ordinary shares (of which none is vested), in aggregate, with 342,000 of those options expiring on 18 December 2009, and the remainder expiring on 17 December 2010 (see Note 31).

Retained earnings

	December 31, 2007	December 31, 2006
Balance at beginning of year	(1 106 613)	(528 471)
Net profit attributable to members of parent entity	454 862	(780 072)
Treasury share sale and buy-back (see Note 14)	111 800	201 930
Sale of treasury shares (see Note 14)	(121 800)	-
Infinity a.s. transferred as to retained earnings	(127 000)	-
Correction of minority interest in Span d.o.o	(1 564)	-
Share based payment fair value (see Note 31)	127 021	-
Balance at end of year	(663 294)	(1 106 613)

(all amounts in thousand HUF)

Capital reserves

Capital reserves are payments in the past received from the shareholders other than issued capital and share premium.

Cumulative translation adjustment reserve

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

15. MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES

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

	December 31, 2007	December 31, 2006
Opening balance	57 477	133 695
Losses attributable to minority shareholders	3 781	(76 218)
Disposal of controlled subsidiary	(21 962)	-
Correction of minority interest in Span d.o.o	1 564	-
Minority interest purchase in Infinity	-	-
Minority interest	40 860	57 477
Being:		
Infinity a.s.	40 860	40 242
Span d.o.o	-	17 235
	40 860	57 477

(all amounts in thousand HUF)

16. INTEREST-BEARING LOANS AND BORROWINGS

	December 31, 2007	December 31, 2006
Short-term loans	-	4 600
Interest-bearing loans and borrowings	-	4 600

(all amounts in thousand HUF)

The estimated fair value of the Group's interest-bearing loans and borrowings approximates to its carrying value as at December 31, 2007.

17. TRADE ACCOUNTS PAYABLE

	December 31, 2007	December 31, 2006
Trade payables	2 741 006	3 780 438
Other related party payables	-	11 542
	2 741 006	3 791 980

(all amounts in thousand HUF)

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

18. OTHER PAYABLES AND ACCRUALS

	December 31, 2007	December 31, 2006
Advances received	145	3 289
Value added tax payable (VAT)	549 753	404 399
Other taxes	52 853	106 760
Socials and insurances (personal)	150 973	135 492
Accruals of other operating expenses	179 347	245 475
Deferred service income	493 817	261 881
Accruals of other future revenues or gains	68 969	10 559
	1 495 857	1 167 855

(all amounts in thousand HUF)

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

Deferred service income represents amounts invoiced by the Company for the provision of support services, the costs of which will be incurred during 2008.

19. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges for the year ended December 31, 2007 was as follows:

	Penalties	Terminated benefits	Commitments relating to credit facilities	Legal Claims	Warranty provisions	Total
January 1, 2007	60 000	21 494	-	-	-	81 494
Arising during the year	10 456	7 502	13 898	25 647	5 784	63 287
Utilised	(25 000)	(21 496)	-	-	-	(46 496)
December 31, 2007	45 456	7 500	13 898	25 647	5 784	98 285

(all amounts in thousand HUF)

Penalties

The Synergon Plc. has started in 2006 a court proceeding because of a procedural fine in amount of Thousand HUF 35,000 which is not in enforceable by the time of release of the financial statement. The Synergon Plc. has made a provision for the late payment penalty which is estimated to be enforceable right of the client in the next coming months. Fibex Kft. made a provision for the tax penalty that is related to the reporting year.

Terminated benefits

SAO –Synergon Kft. has set aside a provision for the costs it expects to incur in relation to employees who, by the end of the year, had indicated their intention to leave the company.

Commitments relating to credit facilities

Synergon Plc. has made provision for the costs of the loans provided to the strategic employees.

Legal Claims

Synergon Plc. has made provision for the costs of parking and penalties. This fine is not yet legally enforceable at the time of publication of the financial statements, but the company has nonetheless set aside a provision for the amount.

Warranty provisions

Synergon Plc. set aside the sum of the estimated warranty cost which will arise relating to one special service contract after the implementation was approved by the client a year ago.

20. SEGMENT INFORMATION

Adoption of IFRS 8, Operating Segments

The Group has adopted IFRS 8 Operating Segments in advance of its effective date, with effect from 1 January 2007. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed.

Products and services from which reportable segments derive their revenues

Segment information reported externally is analysed on the basis of the types of goods supplied and received provided by the Group's operating divisions (i.e. infrastructure solutions and business solutions). The principal categories of customer for these type of sales are reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The Group's reportable segments under IFRS 8 are therefore as follows:

- ISS / Infrastructure System Solutions are selling networking solutions which consists of IT equipments, architecture and cabling
- BSS / Business System Solutions are selling intelligent systems which are tailored to the clients activities

Information regarding the Group's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Sales to third parties		Segment profit	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
CONTINUING OPERATIONS				
Infrastructure System Solutions	10 753 146	10 506 913	1 588 862	1 978 679
Business Development Solutions	6 213 804	9 075 272	1 081 077	815 903
Total for continuing operations	16 966 950	19 582 185	2 669 939	2 794 582
Corporate, general and administration expenses			(2 416 734)	(3 539 654)
Financial profit (loss) net			24 135	115 160
Other gains (losses) net			202 425	(54 863)
Profit before tax (continuing operations)			479 765	(684 775)
DISCONTINUED OPERATION				
Business Development Solutions of the sold subsidiary Span d.o.o	1 001 504	2 094 467	9 919	(153 514)
Profit before tax (discontinuing operations)			9 919	(153 514)
Income tax expense (continuing and discontinued)			(31 041)	(18 002)
Consolidated revenue and profit (loss) for the year	17 968 454	21 676 652	458 643	(856 290)
Inter segment sales	453 129	581 240		

(all amounts in thousand HUF)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, investment revenue and finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets

	December 31, 2007	December 31, 2006
Infrastructure System Solutions	5 955 646	4 831 802
Business Development Solutions	3 884 433	5 317 442
Total segment assets	9 840 079	10 149 244
Unallocated assets	975 888	518 618
Consolidated total assets	10 815 967	10 667 862

(all amounts in thousand HUF)

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the current and non current assets attributable to each segment. All assets are allocated to reportable segments other than corporate assets which are used for the back office service department and the management. Goodwill has been allocated to reportable segments as they are related to.

Other segment information

	Értécsökkenés és amortizáció		Befektetett eszközök növekedése	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Infrastructure System Solutions	58 095	84 625	54 571	66 380
Business Development Solutions	135 073	613 284	126 879	119 971
non allocated	223 646	244 887	210 079	192 091
	416 814	942 796	391 529	378 442

(all amounts in thousand HUF)

Geographical information

The Group operates in two principal geographical areas – Republic of Hungary and Czech Republic. The discontinued operation operated in Croatia which is listed as other. The Group's revenue from external customers and information about its segment assets (non-current assets) by geographical location are detailed below:

	Sales to third parties		Non-current assets	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Republic of Hungary	13 826 387	16 020 482	1 557 318	1 439 052
Czech Republic	3 140 563	3 561 703	439 322	416 959
Other	1 001 504	2 094 467		140 629
	17 968 454	21 676 652	1 996 640	1 996 640

(all amounts in thousand HUF)

21. REVENUE

	December 31, 2007	December 31, 2006 restated
Revenue from the sale of goods	8 671 808	9 007 805
Revenue from the rendering of services and Construction contracts	8 295 142	10 574 380
	16 966 950	19 582 185

(all amounts in thousand HUF)

22. MATERIALS AND CONSUMABLES USED

	December 31, 2007	December 31, 2006 restated
Cost of goods sold	7 732 930	10 104 156
Sub-contractor & recharged services	3 462 077	3 770 897
	11 195 007	13 875 053

(all amounts in thousand HUF)

23. GENERAL AND ADMINISTRATION EXPENSES

	December 31, 2007	December 31, 2006 restated
Office rent and maintenance	250 141	272 771
Phone costs & communication fees	96 181	115 775
Freight and Customs	24 349	45 760
Travel	88 599	85 875
Motor expenses	186 498	161 684
Fuel Cost	103 434	153 915
Legal, expert & tendering	436 758	465 467
Marketing & promotion	427 599	309 371
Rent, lease fee	25 500	33 087
Bank charge	21 938	5 285
Training	43 935	51 365
Stationary	15 323	25 131
Provision for liabilities and charges	16 791	62 072
Write off (reversal) of fixed assets	(19 050)	71 793
Write off receivables	107 945	123 772
Fines/penalties	1 824	82 596
Miscellaneous	20 461	52 463
	1 848 226	2 118 182

(all amounts in thousand HUF)

The average number of persons employed by the Group by the end of the year was 474 (2006; 488 with the discontinued operation was 547).

24. FINANCE REVENUE AND FINANCE COST

	December 31, 2007	December 31, 2006 restated
Interest income	94 373	104 052
Interest income from available for sale financial assets	51 471	43 707
Bank interest income	42 902	60 345
Foreign exchange gain, net	-	11 108
Finance revenue	94 373	115 160
Interest expense	2 276	-
Foreign exchange loss, net	67 962	-
Finance cost	70 237	-

(all amounts in thousand HUF)

25. OTHER INCOME AND OTHER EXPENSE

	December 31, 2007	December 31, 2006 restated
Net gain on disposal of property, plant and equipment	20 529	-
Gain on sale of subsidiary	168 714	-
Tax reimbursement	31 167	-
Other income	220 410	0
Net loss on disposal of property, plant and equipment	-	8 885
Guarantees, damage reimbursement, support services and other	7 832	28 532
Assets given free of charge	10 153	17 446
Other expense	17 985	54 863

(all amounts in thousand HUF)

26. INCOME TAXES

The Group's income tax expense is as follows:

	December 31, 2007	December 31, 2006 restated
Current income tax charge	45 258	39 282
Adjustments in respect of current income tax of previous years	-	65
Deferred income tax	(14 217)	0
Income tax expense reported in the consolidated income statement	31 041	39 347

(all amounts in thousand HUF)

Synergon Information Systems Plc. and most of its significant subsidiaries are subject to income tax at the Hungarian statutory rate of 16% (2006; 16%) on taxable income; tax rate at Infinity a.s., located in the Czech Republic is 20% (2006; 24%).

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

	December 31, 2007	December 31, 2006 restated
Income before tax	479 765	(838 288)
Income tax at statutory rate of 16%	77 604	(109 564)
Current year taxable losses carried forward that cannot be utilised with certainty against future taxable profit	(47 780)	54 189
Tax effect of timing differences for which no deferred tax has been recognised	-	32 856
Effect of different tax rates in other countries	1 217	(18 035)
Other	-	79 900
Current year tax charge	31 041	39 347

(all amounts in thousand HUF)

The companies within the group are subject to periodic audit by the tax authorities. Because the application of tax laws and regulations, many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities. The Hungarian Tax Authority has completed and finalised tax inspections for all years up to and including 2005.

Deferred tax assets (at the 16% tax rate in Hungary, 20% in the Czech Republic) are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

Synergon Plc. has tax losses of Thousand HUF 1,397,971 after, which are available to be carried forward and offset against taxable income. The Company has used Thousand HUF 208,613 for compensating tax gains.

	December 31, 2007	December 31, 2006
EXPIRY		
2008	1 177 170	1 222 761
without limitation	220 801	220 925
	1 397 971	1 443 686

(all amounts in thousand HUF)

Infinity a.s. has tax losses of Thousand HUF 37,406 which are available to be carried forward and offset against taxable income. Deferred tax assets have been recognised in respect of these losses as the Company believes they would be used with certainty to offset future taxable profits. The Company has used Thousand HUF 71,144 (2006; 405) for compensating tax gains.

	December 31, 2007	December 31, 2006
EXPIRY		
without limitation	37 406	104 901
	37 406	104 901

(all amounts in thousand HUF)

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

	Elszámolt		El nem számolt	
	2007	2006	2007	2006
Infinity a.s.	29 921	14 252	-	-
Infinity a.s. – not utilized tax losses carried forward	-	-	-	22 029
Span d.o.o.	-	29 049	-	-
Synergon Nyrt. – not utilized tax losses carried forward	-	-	279 594	288 737
	29 921	43 301	279 594	310 766

(all amounts in thousand HUF)

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2007	2006	2007	2006
Losses available for offset against future taxable income	7 481	29 049	14 216	21 345
Depreciation	830	6 540	-	-
Provision	34 080	7 713	-	-
Deferred tax from leasing	(462)	-	-	-
Internally generated software	(3 691)	-	-	-
Non finished construction contracts	(8 317)	-	-	-
	29 921	43 301	14 216	21 345

(all amounts in thousand HUF)

The Group has no significant deferred tax liabilities.

27. EARNINGS PER SHARE

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

Diluted earnings per share are calculated by dividing the net income attributable to the ordinary shareholders by the weighted average number of shares outstanding during the year adjusted for the number of ordinary shares purchased by the Company and held as treasury shares.

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

	December 31, 2007	December 31, 2006
Net income attributable to ordinary shareholders for basic and diluted Earnings per share	454 862	(780 072)
Profit (loss) for the year from discontinued operations	9 919	(132 168)
NUMBER OF SHARES		
Weighted average number of ordinary shares in issue outstanding during the year or basic earnings per share	8 796 930	9 228 833
Effect of dilution – treasury shares	757 700	325 797
Weighted average number of ordinary shares in issue outstanding during the year for diluted earnings per share	9 554 630	9 554 630
EARNINGS PER SHARE		
From continuing and discontinued operations:		
- basic (HUF per share)	52	(85)
- diluted (HUF per share)	48	(82)
From continuing operations:		
- basic (HUF per share)	51	(70)
- diluted (HUF per share)	47	(68)

(all amounts in thousand HUF)

Until the date of approval of the financial statements there were following treasury share transactions:

Number of shares at 31 December 2007.	434 900
Transactions with treasury shares until the date of approval of the financial statements	
purchase of treasury shares	64 500
sale of treasury shares	0
Number of shares at the date of approval of financial statements	499 400

(all amounts in thousand HUF)

28. ACQUISITIONS OF SUBSIDIARIES

(i) Infinity Data s.r.o

On March 25, 2004, Synergon Information Systems Plc, through its 67% holding in Infinity a.s., acquired 100% of the share capital of Infinity Data s.r.o., an unlisted company in the same line of business, registered and operating in the Czech Republic. The acquisition was effected by a cash payment of Thousand HUF 27,830. Since the identifiable fair value of the net assets acquired was Thousand HUF 4,782 as at the date of purchase, goodwill of Thousand HUF 23,048 was recognized in the group financial statements. The carrying amount of the related goodwill was adjusted by Thousand HUF 598 in 2005.

The following condition constituted a part of the purchase contract: In the event that the operating profit of the 'Navision' division of Infinity a.s. for the year ended December 31, 2006 exceeds CZK 14.27m (Thousand HUF 124,149), Synergon Information Systems Plc was required to pay an additional CZK 0.8m (Thousand HUF 6,960) by March 31, 2007 for the acquisition of Infinity Data s.r.o. The operating profit of the 'Navision' division of Infinity a.s. for the year ended December 31, 2006 was CZK 22,236 m (Thousand HUF 204,126), which resulted in an additional payment of CZK 2,296 m (Thousand HUF 21,075). The carrying amount of the associated goodwill has been adjusted by Thousand HUF 21,075 in 2006.

(ii) Acquisition - Infinity a.s

On September 4, 2007 Synergon increased the share capital of Infinity by Thousand HUF 375,821 (CZK 40,819 million), through which it increased its 91.7% holding in Infinity a.s. – an unlisted company in the same line of business, registered and operating in the Czech Republic – by 6.89%. The capital increase took place by cash movements.

On April 28, 2006 Synergon increased the share capital of Infinity by Thousand HUF 50,985 (CZK 5,500 million), through which it increased its 76.16% holding in Infinity a.s. – an unlisted company in the same line of business, registered and operating in the Czech Republic – by 15.54%. The capital increase took place by way of a conversion of the dividend payable by the company, and was not accompanied by any cash movements.

The carrying amount of the goodwill was tested and has not been adjusted since the it does not exceed the expected value of future yields. In the preceding year the company has adjusted the value of goodwill to Thousand HUF 117,546. The amount of goodwill impairment recognized in 2006 was Thousand HUF 390,650.

Infinity a.s contributed revenues of Thousand HUF 3,140,563 (2006: Thousand HUF 3,561,703) and a profit before tax of Thousand HUF 20,506 (2006: Thousand HUF 223,569 loss) to the group for the year ending December 31, 2007.

29. DISPOSAL OF BUSINESS

On 7 July 2007, the Synergon Plc.'s Board of Directors entered into a sale agreement to dispose of the Group's Croatian business (Span d.o.o). The proceeds of sale substantially exceeded the carrying amount of the related net assets, and accordingly, no impairment losses were recognised on the reclassification of these operations as held for sale. The disposal was completed on 7 July 2007, on which date control of the Span d.o.o passed to the acquirer. Details of the assets and liabilities disposed of are disclosed below.

Analysis of profit for the year from discontinued operations

The results of the discontinued operations included in the income statement are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

Profit for the year from discontinued operations

	December 31, 2007	December 31, 2006
Sales revenue	1 001 504	2 094 467
Capitalized self development	-	9 901
Materials and consumables used	(709 707)	(1 511 810)
Employee benefits expense	(173 047)	(409 095)
Depreciation and amortization expense	(20 343)	(59 713)
Impairment losses of investments and goodwill	-	(12 429)
General and administration expenses	(124 735)	(247 365)
Financial gains (losses) net	13 739	(16 551)
Other gains and losses, net	22 507	(918)
Profit (loss) before tax	9 919	(153 514)
Income tax expense	-	21 345
PROFIT (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	9 919	(132 168)

(all amounts in thousand HUF)

Cash- flows from discontinued operations

	December 31, 2007	December 31, 2006
Net cash flows from operating activities	104 307	(64 928)
Net cash flows from Investing activities	(779)	(19 170)
Net cash flows from financing activities	30 989	(38 450)
Net cash-flows	134 517	(122 548)

(all amounts in thousand HUF)

During the financial year, the Group disposed of its Croatian operations. Details of the disposal are as follows:

	December 31, 2007
BOOK VALUE OF NET ASSETS SOLD	
Current assets:	
Inventory	25 813
Trade accounts receivable, net	529 677
Other current assets	9 873
Cash and short term deposits	166 373
TOTAL CURRENT ASSETS	731 736
Non-current assets:	
Property, plant and equipment	64 285
Other intangible assets	10 782
Deferred tax	28 499
Loans and credits given	15 259
TOTAL NON-CURRENT ASSETS	118 825
Current liabilities:	
Short-term loans and borrowings	176 124
Trade accounts payable	493 899
Other payables and accruals	111 670
TOTAL CURRENT LIABILITIES	781 693
Long-term liabilities	48 939
Cumulative translation adjustment	(1 586)
NET ASSETS DISPOSED OF	21 515
Minority interest	(21 962)
Consideration	168 267
GAIN (LOSS) ON DISPOSAL	168 714
CONSIDERATION	
Consideration paid in cash and cash equivalents	168 267
Deferred sales proceeds	-
	168 267
NET CASH INFLOW ON DISPOSAL	
Consideration paid in cash and cash equivalents	168 267
Less cash and cash equivalent balance disposed of	(166 373)
	1 894

(all amounts in thousand HUF)

30. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

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

At December 31, 2007 the company had minimum lease rental commitments under non-cancellable operating leases as set out below:

	Land and Buildings		Other	
	2007	2006	2007	2006
OPERATING LEASES WHICH EXPIRE:				
Within one year	116,189	123,143	133,457	104,458
After one year but not more than five years	464,755	492,571	181,891	52,308
After more than five years	1,161,888	1,397,429	-	-
	1,742,832	2,013,143	315,348	156,766
FINANCIAL LEASE WHICH EXPIRE:				
Within one year	90,948,754	5,144		
After one year but not more than five years	181,897,203	8,737		
	272,845,956	13,881		

(all amounts in thousand HUF)

Guarantees

At December 31, 2007 a number of commercial banks have provided performance guarantees to the value of Thousand HUF 318,465 (2006; Thousand HUF 276,361) on behalf of the Company.

Possible future liabilities

Since 2004 Infinity is subject to legal dispute with Getronics (Czech Republic) s.r.o., resp. with its legal successor Kapsch s.r.o., whereas Infinity has been sued for reimbursement of unjust enrichment equal to Thousand HUF 31,416 (Thousand CZK 3,300). Recent development of court hearings with respect to existing documents and information makes Infinity's management confident that the dispute should not result in any payment obligation due in 2008 or following years. Due to expectations of positive results of disputes, the company did not account any accrual.

In 2004, local Tax Authority imposed additional tax duty (income tax and VAT) equal to Thousand HUF 27,608 (CZK 2,900 Thousand), and refused company's request for tax deduction equal to Thousand HUF 5,712 (CZK 600 Thousand). The company succeeded in dispute concerning the additional tax obligation, and the already paid tax had been refunded. The litigation concerning the claim on tax deduction had not been resolved yet; with respect to the fact that the arguments and circumstances of all tax issues is similar, the company expects to succeed in litigation (in case of tax deduction, no penalization may be imposed). Due to expectations of positive results of disputes, the company did not account any accrual.

31. SHARE BASED PAY OPTIONS

The Group has an ownership-based compensation scheme for executives and key employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at the preceding general meetings, executives and key employees with a prescribed years service with the Group may be granted options to purchase ordinary shares at an exercise price of Thousand HUF 1056 (option plan approved in 2006) and Thousand HUF 1900 (option plan approved in 2007) per ordinary share.

Each of the share option converts into one ordinary share of Synergon Information Systems Plc. on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The options granted expire within three years of their issue, or at the month of the resignation of the executive or senior employee, whichever is the earlier.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Option Series	Grant Date	Potential Number (ps)	Vesting Period	Pay-off price (HUF)	Fair value of the Call option	Weighted average fair value (HUF/ps)	Duration to the end (day)
related comments:		(1)		(2)			
06/a minimum "25%" price	12/18/06	310 000	from March 1, 2007	1 056	480	429	708
06/b minimum "50%" price	12/18/06	310 000	to Dec 18, 2009	1 056	430		
06/c minimum "75%" price	12/18/06	332 000		1 056	380		
07/a minimum "15%" price	12/17/07	200 000	from Dec 17, 2007	1 900	430	369	1 067
07/b minimum "30%" price	12/17/07	200 000	to Dec 17, 2010	1 900	370		
07/c minimum "45%" price	12/17/07	210 000		1 900	310		

(1) The maximum number is limited by Shareholders Meeting

(2) Is calculated from the closing stock prices of the 180 work days previously to the starting of vestion period

(all amounts in thousand HUF)

The shareholders have decided on a formula for determining the number of shares that may be exercised, which is linked to the increase in the share price. The formula is the same for all option holders and rewards them only for an improvement in the share price. Both of the share option program has three different series. The maximum number of shares allocated in the three series is limited, and these may be exercised if at any time between the initial vest date and the expiry date the market price of the shares exceeds the strike price by a minimum of 25% to 75% in the first plan, and 15% to 45% in the second plan .

Options were priced using a Monte Carlo simulation. Where relevant, the model has been adjusted based on management's best estimate.

Inputs into the Monte Carlo model

	'06 option series	'07 option series
Grant date share price (HUF)	1 259	1 830
Pay-off price (HUF)	1 056	1 900
Expected volatility	30%	22%
Exercise price (HUF)	1 056	1 900
Option life (days)	1 007	1 080
Dividend yield	0%	0%
Risk-free interest rate	8%	7,52%

The weighted average fair value of the share options granted in the financial year is Thousand HUF 390 per share options which sum is calculated from the potential option numbers and the weighted average fair value of the series outstanding by the end of the year.

The following reconciles the outstanding share options granted under the employee share option plan

	'06 option series		'07 option series	
	Potential Number (ps)	Weighted average fair value (HUF/ps)	Potential Number (ps)	Weighted average fair value (HUF/ps)
Balance at beginning of the financial year	-	-	-	-
Granted during the financial year	952 000	429	610 000	369
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	(610 000)	429	-	-
Expired during the financial year	-	-	-	-
Balance at end of the financial year	342 000	429	610 000	369
Exercisable at end of the financial year	-	-	-	-

The option series exercised in 2007 were performed from the available Treasury shares of the Company. .

Option series exercised in 2007 belonged to the Board of Directors.

At the time of the option serices beeing exercised the share price was 1800 HUF/ps.

(all amounts in thousand HUF)

The option series exercised in 2007 were performed from the available Treasury shares of the Company. At the time of the option series being exercised the share price was 1800 Thousand HUF per share. The total expense recognised for the period that arises from transactions accounted for as equity-settled share –based payment transactions was Thousand HUF Ths 127,021. The share options are recognized as equity-settled share based option plans.

32. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Synergon Information Systems Plc and the subsidiaries listed in the following table.

Name	Note	Country of corporation	% equity/voting interest	2007	2006
Fibex Kft.		Republic of Hungary	100%	100%	100%
SAO-Synergon Kft.		Republic of Hungary	100%	100%	100%
Synergon Retail Systems Kft.		Republic of Hungary	100%	-	-
Infinity a.s.		Czech Republic	99%	92%	92%
Infinity Data s.r.o.	28	Czech Republic	99%	92%	92%
Infinity Slovakia s.r.o.		Slovak Republic	99%	92%	92%
Span d.o.o.	29	Republic of Croatia	-	68%	68%
Span Rijeka d.o.o.	29	Republic of Croatia	-	68%	68%

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. For the years ended December 31, 2007 and 2006, the Group has not raised any provision for doubtful debts related to amounts owed by related parties as the payment history has been good. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

	December 31, 2007	December 31, 2006
Short term employee benefits	362 876	345 211
Share options	44 584	-
Total compensation paid to key management personnel	407 460	345 211
Short term employee benefits	2 726	13 508
Share options	82 438	-
Total remuneration Board of Directors	85 164	13 508
Short term benefits of Supervisory Board	11 657	7 918

(all amounts in thousand HUF)

Directors' loans and other interests

At December 31, 2007 Thousand HUF 0 (2006; HUF 12,231) loans, bearing interest at 6% per annum, have been provided by the Group, to the directors of Span d.o.o.

33. DIVIDENDS

Retained earnings available for distribution are based on the statutory financial statements of Synergon Information Systems Plc prepared in accordance with Hungarian Accounting Standards, as opposed to these financial statements which are prepared under International Financial Reporting Standards. The legally distributable reserves of Synergon Information Systems Plc at December 31, 2007 are Thousand HUF 0 (2006; Thousand HUF 0).

34. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2006. Synergon has significant cash amount and short term government securities, from these financial funds the Group finances its working capital and investment requirements without additional external sources of interest bearing loans.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Categories of financial instruments

	December 31, 2007	December 31, 2006
FINANCIAL ASSETS		
Financial assets at fair value through profit or loss	8 306 686	7 235 426
Held-to-maturity investments	-	-
Available-for sale financial assets	273 739	618 204
Financial assets measured at amortised cost	-	4 600
FINANCIAL LIABILITIES		
Financial liabilities measured at amortised cost	-	-
Financial liabilities at fair value through profit or loss	4 241 110	4 964 578

(all amounts in thousand HUF)

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	in Assets		in Liabilities	
	2007	2006	2007	2006
denominated in USD	21 732	269 536	446 015	637 570
denominated in EUR	308 332	192 141	788 803	953 638
denominated in CZK	903 582	1 215 028	598 925	838 497
denominated in HRK	-	621 768	-	558 097

(all amounts in thousand HUF)

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of USD and the EURO.

The following table details the Group's sensitivity to a 10% increase and decrease in the Thousand HUF against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A positive number below indicates an increase in profit and other equity where the Thousand HUF strengthens 10% against the relevant currency. For a 10% weakening of the Thousand HUF against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	in Assets		in Liabilities		total impact net	
	2007	2006	2007	2006	2007	2006
Currency USD impact	2 173	26 954	(44 601)	(63 757)	(42 428)	(36 803)
Currency EUR impact	30 833	19 214	(78 880)	(95 364)	(48 047)	(76 150)
Currency CZK impact	90 358	121 503	(59 892)	(83 850)	30 466	37 653

(all amounts in thousand HUF)

The Group's sensitivity to foreign currency has decreased during the current period mainly due to the disposal of HRK investments and the reduction in USD loan agreements in the third quarter of the financial year.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. EUR denominated sales are seasonal with higher sales volumes in the last quarter of the financial year, which results in an increase in EUR receivables at year end.

Interest rate risk management

The Group is exposed to interest rate risk as it has incomes from fixed rated deposits and securities. The Group follows its policy which means that cash and cash equivalent financial assets (fixed and floating): the disposable amount has to be invested to short term financial instruments. Considering the risk of the stock exchange and other financial markets, the Group has declared to avoid and reduce these types of risks; according to the policy the invested amounts can be in two types of instruments, 3 months government securities and bank deposits. These instruments are fixed interest rate bonds and securities. The duration (3 months) was determined by the operating management of the Group, considering the cash flow and business forecast and the expected but not contracted significant projects and the seasonal effects.

Based on the above mentioned issues and furthermore considering the fact, that the short side of the Hungarian yield curve has been higher than the long side, the Group has been preferred the short term investment opportunities.

Interest rate sensitivity analysis

If interest rate has been 50 basis points higher/lower and all other variables were held constant, the effect on the Group's financial achievement would have been changed by Thousand HUF 5,000.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2007	Weighted average interest rate	<1 month	1-3 month	3-12 month	1-5 year	>5 year	Total
Non- interest bearing		3 883 733	303 703	39 927	9 500	-	4 236 863
Trade accounts payable		2 442 132	249 447	39 927	9 500	-	2 741 006
Other payables and accruals		1 441 601	54 256	-	-	-	1 495 857
Fixed interest rate intruments		-	-	-	4 247	-	4 247
Long-term liabilities	7.12%	-	-	-	4 247	-	4 247
Total		3 883 733	303 703	39 927	13 747	0	4 241 110
2006	Weighted average interest rate	<1 month	1-3 month	3-12 month	1-5 year	>5 year	Total
Non- interest bearing		4 125 605	715 520	118 199	511	48 939	5 008 774
Trade accounts payable		3 000 778	672 492	118 199	511	-	3 791 980
Other payables and accruals		1 124 827	43 028	-	-	-	1 167 855
Long-term liabilities		-	-	-	-	48 939	48 939
Fixed interest rate intruments		-	-	4 600	142	-	4 742
Short- term loans and borrowings	6.00%	-	-	4 600	-	-	4 600
Long-term liabilities	7.12%	-	-	-	142	-	142
Total		4 125 605	715 520	122 799	653	48 939	5 013 516

(all amounts in thousand HUF)

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

2007	Weighted average interest rate	<1 month	1-3 month	3-12 month	1-5 year	>5 year	Total
Non- interest bearing		4 136 075	1 903 620	257 483	326 052	-	6 623 230
Trade accounts receivable, net		3 419 783	1 903 620	233 773	326 052	-	5 883 228
Other current assets		716 292	-	-	-	-	716 292
Loans and credits given	6.00%	-	-	23 710	-	-	23 710
Fixed interest rate intruments		715 541	625 541	-	-	-	1 341 082
Other current assets	7.10%	-	351 802	-	-	-	351 802
Available for sale financial assets	7.10%	-	273 739	-	-	-	273 739
Short term deposits	6.13%	715 541	-	-	-	-	715 541
Total		4 851 616	2 529 161	257 483	326 052	-	7 964 312
2006	Weighted average interest rate	<1 month	1-3 month	3-12 month	1-5 year	>5 year	Total
Non- interest bearing		4 976 885	1 063 880	237 390	35 036	-	6 313 191
Trade accounts receivable, net		4 462 174	1 063 880	237 390	35 036	-	5 798 480
Other current assets		514 711	-	-	-	-	514 711
Fixed interest rate intruments		915 655	-	14 295	-	-	929 950
Loans and credits given	6.00%	-	-	14 295	-	-	14 295
Available for sale financial assets	8.28%	618 204	-	-	-	-	618 204
Short term deposits	6.14%	297 451	-	-	-	-	297 451
Total		5 892 540	1 063 880	251 685	35 036	-	7 243 141

(all amounts in thousand HUF)

35. CASH FLOW RECONCILIATIONS

	December 31, 2007	December 31, 2006
Net income due to shareholders of the parent	454 862	(780 072)
Net interest received	(92 097)	(81 366)
Income taxes	31 041	18 002
Net income before interest and taxation	393 806	(843 436)

(all amounts in thousand HUF)

36. EVENTS AFTER THE BALANCE SHEET DATE

By the approving of the financial statements the company has carried out a review of the recoverable amount of its properties, plant and equipments, inventories, trade and other receivables. The recoverable amount has been determined and there were not additional impairment losses recognized.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements of Synergon Information Systems Plc ("the Company" or "Synergon") for the year ended December 31, 2007 have been approved and authorised for issue by the Board of Directors on April 8th, 2008.

STRATEGIC PARTNERS

CheckPoint



Synergon has been a gold partner of CheckPoint, one of the world's largest manufacturers of network and client security systems, since 2001. During this period we have supplied numerous security systems assembled from CheckPoint products. Our references include government agencies, financial institutions, industry service providers and organizations in the telecommunications sector.

Cisco



Synergon was among the first to earn Cisco Gold partner status in 1997, a rating that has been renewed each year since. The successful cooperation between Cisco and Synergon is reflected in the major Cisco reference projects that Synergon has implemented in the corporate, telecommunications and government sectors, as well as in the large active installed base and the latest Cisco technical certifications it possesses in every technological category.

EMC²



Synergon was among the first of Hungary's systems integrators to incorporate EMC solutions into its product portfolio. Over the years, content and process management have become the principal focus of the partnership. With regard to the EMC Documentum product range, Synergon is one of the leading partners for the supply of strategic solutions in Hungary.

Harmonic



Synergon has been Harmonic's sole Hungarian partner for more than 10 years. Our numerous nationwide network reference projects illustrate the depth of our experience in the implementation of hybrid fibre-coaxial (HFC), CWDM and digital television systems. Harmonic is a market leader in the area of HFC networks and satellite digital broadcasting.

HP



Synergon has forged a close relationship with HP over the years, as our partner is capable of providing cutting-edge solutions based on the precise requirements of clients – and at a competitive price. The substantial installed base that has resulted from the years of successful cooperation clearly shows that our joint efforts have contributed to increasing our clients' competitiveness and helping them achieve cost-efficiency in their operations. We will continue to regard the training of specialists in relation to HP products as a key priority in the future, since this will ensure we can keep delivering products and services of exceptional quality to our clients.

IBM



Synergon is a Premier partner of IBM Hungary, with an emphasis on the use of the IBM Tivoli Netcool product range from within IBM's portfolio. In relation to these products, our company has a team of professionals whose experience and training are unmatched on the market. For clients too, Synergon's close cooperation with IBM ensures continuous access to highly trained experts and to the very latest Tivoli expertise, thus enabling our clients to perform comprehensive professional project-planning and implementation tasks. Currently only a handful of companies are capable of deploying expertise that extends to every aspect of this area.

Microsoft



As a preferred direct business partner of Microsoft, with Gold Certified and Large Account Reseller status, Synergon has many years of experience in the configuration, installation and operation of systems based on Microsoft technologies, and is available to provide full assistance in relation to these systems. In the course of our work, besides drawing on the knowledge and experience of our own professionals, we have the full backup support of Microsoft Hungary to rely on.

Oracle



Oracle Hungary and Synergon enjoy a long-standing and multifaceted partnership, which has developed over the course of numerous cooperative endeavours and joint projects. Recently this relationship received new momentum when Oracle chose Synergon as its strategic partner for business intelligence (BI) solutions in respect of several sectors. The success of this cooperation is clearly illustrated by the fact that Synergon has one of the most extensive Oracle track records in the business, both in terms of the value and the complexity of projects. Based on the successes achieved so far, cooperation has also begun in the SOA and ERP areas too, where both companies hope to make major strides in the near future.

SAP



SAP has found in Synergon one of its most profitable business partners. Our firm's expertise, its consistent client-focused approach, and its flexibility of a degree uncommon among companies of Synergon's size, have greatly contributed to our joint achievements. It was due to these qualities that our company received the SAP Partner Award for the "Largest indirect software sales of SAP Business All-in-One" in 2007.

SUN



Synergon, including its predecessors, has been Sun Microsystems' partner since 1996, at present the Associate System Integrator Partner. Synergon, delivers reliable, highly available infrastructure based on the integration of Sun enterprise servers, backup, recovery and thin client systems, for its customers demanding for high profile IT solutions. Besides selling hardware systems, Synergon is the Sun's major partner in network identity solutions. The result of the successful common projects is the "Software of the Year" award won by Synergon in 2007.



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