

**SERVISION PLC**  
**REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2006**  
**Company Number: 51433241**

**SERVISION PLC**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

---

<b>CONTENTS</b>	<b>Page</b>
Chairman's statement	1
Directors' report	2 - 3
Auditor's report	4
Consolidated profit and loss account	5
Consolidated statement of total recognised gains and losses	5
Consolidated balance sheet	6
Parent balance sheet	7
Consolidated cash flow statement	8
Reconciliation of movements in Group shareholders' funds	9
Notes to the financial statements	10 - 15

# **SERVISION PLC**

## **CHAIRMAN'S STATEMENT**

### **REPORT AND FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2006**

---

I am pleased to announce the Company's audited results for the year to 31 December 2006.

Turnover for the year almost doubled to US\$3.5 million compared to US\$1.8 Million for the full year 2005. Gross profit increased by 196% to US\$1.3 million (2005: US\$439,000) with gross profit margins increased to 37% (2005: 23%). Our operational loss, excluding exchange rate differences, was \$1,991,000 compared to a like for like operating loss in 2005 of \$2,989,000, an improvement of 33.4%.

The new contract wins that we announced recently, combined with our new business pipeline, provide confidence that we will see further strong growth in 2007. To date we have processed \$2.5 million of orders from our customers. Following our increased geographical reach into France, Brazil and Mexico, as well as enhancing our presence in the USA, we will look to broaden our distribution networks even further afield.

A significant development in the period has been the deployment of our state of the art, award winning mobile DVR (The IVG series) in 175 buses in Brazil. The Board is confident that, upon completion of this initial project, we can expect further major orders for our IVG products.

I am also pleased to announce that our R&D team has managed to develop and improve our HVG series. This professional cost effective product, will now have four video channels and will be competitive on price. I am confident that SerVision will gain penetration into the SME and retail markets and we are currently considering various routes to market.

SerVision continues to make steady progress towards achieving its goals and we look forward to the future with confidence. On a personal note, I would like to thank all of our dedicated staff for their loyalty and hard work throughout the period that was essential for our significant progress and growth.

Gidon Tahan

Chairman and Chief Executive Officer

28 June 2007

## SERVISION PLC

### DIRECTORS' REPORT

#### FOR THE YEAR ENDED 31 DECEMBER 2006

---

The directors present the annual report together with the financial statements and auditors report for the year ended 31 December 2006.

#### PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The group's principal activity is the development and sale of video surveillance equipment.

There have been no events since the balance sheet date, which materially affect the position of the company

#### RESULTS AND DIVIDENDS

The profit and loss account is set out on page 4 and shows the loss for the period.

The directors do not propose a final dividend (2005: £nil)

#### DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their direct and indirect beneficial interest in the company's issued share capital are:-

	Ordinary shares of £0.01 each	
	31 December 2006	31 December 2005
G Tahan	6,977,057	6,341,262
C Levy	157,479	30,320
E T Yanuv	-	-

The company granted options over 30,000 £0.01 ordinary shares to Mr Eitan Yanuv, the financial director, the options are fully vested and are exercisable at a price of £0.15 per share.

#### SUBSTANTIAL SHAREHOLDINGS

In addition to the directors' shareholdings, the directors are aware of the following substantial shareholdings (>3%) in the company:

	Ordinary shares of £0.01 each			
	31 December 2006		31 December 2005	
	Number of shares	Per cent	Number of shares	Per cent
Orfali Wireless Plc	4,252,887	18.58	3,514,024	19.55
Moises Cohen Chaiyo	1,069,977	4.67	1,069,977	5.95
Hanna and Shlomo Ankri	896,109	3.91	896,109	4.99
Charles Street Securities Inc	545,000	2.38	545,000	3.03

#### CHARITABLE AND POLITICAL DONATIONS

The Group made \$7,201 (2004: \$27,844) of charitable donations to various religious organisations in Jerusalem in lieu of G Tahan's salary. The group did not make any political donations.

## **SERVISION PLC**

### **DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

---

#### **DIRECTORS' INTERESTS IN CONTRACTS**

No director was, or is, materially interested in any contract subsisting during, or at the end of the financial year which was significant in relation to the business of the Group.

#### **DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to;

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

#### **SUPPLIER PAYMENT POLICY**

It is the group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. Trade creditors at the year end amount to 81 days (2005: 83 days) of average supplies for the year.

#### **AUDITORS**

A resolution reappointing haysmacintyre will be proposed at the AGM in accordance with S385(2) of the Companies Act 1985.

#### **ON BEHALF OF THE BOARD**

**G TAHAN**  
Director

**28 June 2007**

Registered Office

90 Gloucester Place  
London  
W1U 6EH

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

### SERVISION PLC

---

We have audited the financial statements of Servision Plc for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report and the Chairman's Statement is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We report to you whether in our opinion the information given in the directors' report and the Chairman's Statement is consistent with the financial statements.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of its group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report and the Chairman's statement is consistent with the financial statements.

**haysmacintyre**  
**Chartered Accountants**  
**Registered Auditors**  
28 June 2007

**Fairfax House**  
**15 Fulwood Place**  
**London**  
**WC1V 6AY**

**SERVISION PLC****CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2006**

---

	<b>Notes</b>	<b>2006 US\$'000</b>	<b>2005 US\$'000</b>
<b>TURNOVER</b>	1,2	3,534	1,882
Cost of sales		(2,240)	(1,443)
<b>GROSS PROFIT</b>		1,294	439
Research and development expenses		(1,581)	(1,553)
Selling and marketing expenses		(1,060)	(837)
Administrative expenses		(644)	(1,038)
Exchange rate movements		(734)	402
<b>OPERATING LOSS</b>	3	(2,725)	(2,587)
Interest payable and similar charges	6	(77)	(18)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(2,802)	(2,605)
Tax on loss on ordinary activities	7	-	-
<b>RETAINED LOSS</b>		(2,802)	(2,605)
<b>LOSS PER SHARE</b>			
Basic and diluted	18	(14.32c)	(14.55c)

All activities arose from continuing activities.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	<b>2006 US\$'000</b>	<b>2005 US\$'000</b>
Loss for the financial year	(2,802)	(2,605)
Exchange rate movements	643	(488)
Total recognised losses relating to the year	(2,159)	(3,093)

**SERVISION PLC****CONSOLIDATED BALANCE SHEET****AT 31 DECEMBER 2006**

	Notes	2006 US\$'000	2005 US\$'000
<b>FIXED ASSETS</b>			
Tangible assets	9	147	181
<b>CURRENT ASSETS</b>			
Stock	11	323	601
Debtors	12	989	269
Cash at bank		371	231
		1,683	1,101
<b>CREDITORS: amounts falling due within one year</b>	13	(1,924)	(1,446)
<b>NET CURRENT LIABILITIES</b>		(241)	(345)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		(94)	(164)
<b>CREDITORS: amounts falling due in more than one year</b>	14	(279)	-
<b>NET LIABILITIES</b>		(373)	(164)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	429	339
Share premium account	16	7,101	5,241
Merger reserve	16	1,979	1,979
Profit and loss account	16	(9,882)	(7,723)
<b>EQUITY SHAREHOLDERS' DEFICIT</b>		(373)	(164)

These financial statements were approved by the Board of Directors on 28 June 2007 and signed on its behalf by:-

E Yanuv  
Director

G Tahan  
Director

**SERVISION PLC****PARENT COMPANY BALANCE SHEET****AT 31 DECEMBER 2006**

	Notes	2006 US\$'000	2005 US\$'000
<b>FIXED ASSETS</b>			
Investments	10	231	231
<b>CURRENT ASSETS</b>			
Debtors	12	-	4,255
Cash at bank		17	15
		17	4,270
<b>CREDITORS: amounts falling due within one year</b>	13	(53)	(108)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		(36)	4,162
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		195	4,393
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	429	339
Share premium account	16	7,101	5,241
Profit and loss account	16	(7,335)	(1,187)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		195	4,393

These financial statements were approved by the Board of Directors on 28 June 2007 and signed on its behalf by:-

E Yanuv  
Director

G Tahan  
Director

**SERVISION PLC**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>2006</b> <b>US\$'000</b>	<b>2005</b> <b>US\$'000</b>
Operating loss	(2,725)	(2,587)
Depreciation	58	64
(Increase)/decrease in debtors	(720)	393
Decrease in stock	278	12
Increase/(decrease) in creditors	506	(117)
	<u>(2,603)</u>	<u>(2,235)</u>
<b>CASH OUTFLOW FROM OPERATING ACTIVITIES</b>		
<b>RETURN ON INVESTMENT AND SERVICING OF FINANCE</b>		
Interest payable	(77)	(18)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Purchase of fixed assets	(24)	(56)
	<u>(2,704)</u>	<u>(2,309)</u>
<b>CASH OUTFLOW BEFORE FINANCING</b>		
<b>FINANCING</b>		
Issue of shares in Servision Plc (net of issue costs)	1,950	71
Net loans undertaken	293	302
	<u>(461)</u>	<u>(1,936)</u>
<b>DECREASE IN CASH IN THE YEAR</b>		

**RECONCILIATION OF NET CASH FLOW TO NET DEBT**

	<b>2006</b> <b>US\$'000</b>
Decrease in cash in the year	(461)
Loans undertaken in the year	(293)
Exchange differences	643
	<u>(111)</u>
Movement in net debt in the year	(111)
Net debt at beginning of year	(407)
	<u>(518)</u>
Net debt at end of year	<u>(518)</u>

<b>ANALYSIS OF CHANGES IN NET DEBT</b>	<b>At 1 January 2006</b> <b>US\$'000</b>	<b>Cash flows</b> <b>US\$'000</b>	<b>Exchange differences</b> <b>US\$'000</b>	<b>At 31 December 2006</b> <b>US\$'000</b>
Cash at bank and in hand	231	(503)	643	371
Bank overdraft	(336)	42	-	(294)
	<u>(105)</u>	<u>(461)</u>	643	77
Loans	(302)	(293)	-	(595)
	<u>(407)</u>	<u>(754)</u>	643	<u>(518)</u>
	<u><u>(407)</u></u>	<u><u>(754)</u></u>	<u><u>643</u></u>	<u><u>(518)</u></u>

**SERVISION PLC****RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' DEFICIT****FOR THE YEAR ENDED 31 DECEMBER 2006**

---

	<b>2006</b> <b>US\$'000</b>	<b>2005</b> <b>US\$'000</b>
Loss for the year	(2,802)	(2,605)
Exchange rate differences	643	(488)
New shares issued in Servision Plc (net of issue costs)	1,950	71
	<hr/>	<hr/>
Net movement in shareholders' (deficit)/funds	(209)	(3,022)
	<hr/>	<hr/>
Opening shareholders' (deficit)/funds	(164)	2,858
	<hr/>	<hr/>
Closing shareholders' deficit	(373)	(164)
	<hr/> <hr/>	<hr/> <hr/>

## SERVISION PLC

### NOTES TO THE REPORT AND FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2006

---

#### 1. ACCOUNTING POLICIES

The accounting policies, applied on a consistent basis in the preparation of the financial information, are as follows:

##### (a) Basis of Preparation and Going Concern

The financial statements are prepared on the historical cost basis in accordance with the applicable accounting standards. The financial statements are prepared under UK GAAP.

Although the company has net liabilities, the financial statements are prepared on a going concern basis as the directors are in the process of raising funds, through the issue of shares, that they believe to be sufficient to allow them to meet their creditors as and when they fall due. Further to this, Mr Gideon Tahan, an executive director, has personally guaranteed to support the company for up to \$1,000,000, to be drawn down, by the company, if required.

##### (b) Basis of Consolidation

Subsidiary undertakings are accounted for from the effective date of acquisition. Under Financial Reporting Standard 6, merger accounting has been adopted as the basis for consolidation.

##### (c) Turnover

Turnover relates to unit sales and the sale of ancillary products.

##### (d) Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset by equal monthly instalments over its expected useful life, as follows:-

Leasehold improvements	10% per annum
Motor vehicles	15% per annum
Office furniture and equipment	6-15% per annum
Computer equipment	20-33% per annum

##### (e) Stock

Stock is valued at the lower of cost and net realisable value.

##### (f) Other income

Grants receivable from the Israeli Government are recognised at the time the Company is entitled to such grants. These revenue grants are shown as other income.

##### (g) Reporting currency

The majority of the Group's turnover is generated in US Dollars. For the purpose of reporting requirements, the financial information has been reported in US Dollars. The year end rate used was £1 to \$1.95910 (2005: £1 to \$1.72080)

##### (h) Research and development

All expenditure relating to research and development expenditure is expensed directly to the profit and loss account.

##### (i) Foreign Currency

The results of the parent company are translated into US Dollars at the average rate of exchange for the year. The assets and liabilities of the parent company are translated into US Dollars at the rate of exchange ruling at the year end. Currency translation adjustments on exchange are included in the profit and loss account.

##### (j) Share based payments

FRS 20 requires the Group to recognise an expense in respect of the granting over shares to employees and directors. This expense, which is calculated by reference to the fair value of the options granted, is recognised on a straight line basis over the vesting period based on the Group's estimate of options that will eventually vest. The Directors have used the Black Scholes model to estimate the value of options granted in the current and prior periods.

#### 2. BUSINESS SEGMENT ANALYSIS

The turnover, loss on ordinary activities before taxation and net assets of the Group are attributable to one activity, that of developing and selling video surveillance equipment.

**SERVISION PLC**

**NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

<b>3. OPERATING LOSS</b>	<b>2006</b>	<b>2005</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Operating loss is stated after charging/(crediting):-		
Depreciation	58	64
Exchange rate movements	734	(402)
Auditors – audit fees	28	24
- other	10	18
	<u>          </u>	<u>          </u>

**4. STAFF COSTS**

The staff costs for the year ending 31 December 2006, totalled US\$1,916,000 (2005: US\$1,768,000). There were no pension expenses for the company for the year ending 31 December 2006 (2005: \$nil). The average number of persons (including directors) employed by the Group during the year was 40 (2005: 37).

<b>5. DIRECTORS' REMUNERATION</b>	<b>2006</b>	<b>2005</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Directors' emoluments	180	112
	<u>          </u>	<u>          </u>

**6. NET INTEREST PAYABLE**

Bank interest payable	97	59
Interest receivable	(20)	(41)
	<u>          </u>	<u>          </u>
	77	18
	<u>          </u>	<u>          </u>

**7. TAXATION**

The Company is controlled and managed by its Board in Israel. Accordingly, the interaction of UK domestic tax rules and the taxation agreement entered into between the U.K. and Israel operate so as to treat the Company as solely resident for tax purposes in Israel. The Company undertakes no business activity in the UK such as might result in a Permanent Establishment for tax purposes and accordingly has no liability to UK corporation tax.

**(a) Analysis of charge in the year**

Corporation tax	-	-
	<u>          </u>	<u>          </u>

**(b) Factors affecting tax charge for the year**

The tax assessed for the year is different than the standard rate of corporation tax in Israel of 35%. The differences are explained below:

Loss on ordinary activities before taxation	(2,802)	(2,605)
	<u>          </u>	<u>          </u>
Multiplied by the standard rate of corporation tax in Israel of 35%.	(981)	(911)
Effects of:		
Disallowable expenditure	121	246
Losses carried forward	860	665
	<u>          </u>	<u>          </u>
Current year tax charge	£ -	£ -
	<u>          </u>	<u>          </u>

**(c) Factors affecting future tax charges**

The directors believe that the future tax charge will be reduced by the use of tax losses carried forward which can be used against the profits made from the trading activity in the Israeli subsidiary.

**SERVISION PLC**

**NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

**8. LOSS FOR THE FINANCIAL YEAR**

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The group loss for the period includes a loss after taxation of \$6,791,000 (2005: US\$351,000) which is dealt with in the financial statements of the company.

<b>9. TANGIBLE FIXED ASSETS GROUP</b>	<b>Leasehold improvements US\$'000</b>	<b>Office furniture and equipment US\$'000</b>	<b>Motor vehicles US\$'000</b>	<b>Total US\$'000</b>
<b>Cost or valuation</b>				
At 1 January 2006	41	222	45	308
Additions	6	18	-	24
At 31 December 2006	47	240	45	332
<b>Depreciation</b>				
At 1 January 2006	6	104	17	127
Charge for the year	4	47	7	58
At 31 December 2006	10	151	24	185
<b>Net Book Value</b>				
At 31 December 2006	37	89	21	147
At 31 December 2005	35	118	28	181

**10. INVESTMENTS**

**Group**

<b>Name of undertaking</b>	<b>Country of registration</b>	<b>Proportion held by parent company</b>	<b>Nature of business</b>
Held by parent company: Servision Ltd	Israel	100%	Video surveillance equipment

On 20 July 2004, the Company purchased the entire issued share capital of Servision Ltd, and Israeli registered Company by way of a share for share exchange resulting in the issue of 10,627,988 ordinary shares of £0.01 each and 1,732,583 convertible preference shares of £0.01 each in consideration. As mentioned in the accounting policies, this has been accounted for under Financial Reporting Standard 6, whereby merger accounting has been adopted as the basis of consolidation.

Held by subsidiary: Servision Inc	USA	100%	Video surveillance equipment
--------------------------------------	-----	------	------------------------------

**Company**

**Investment in subsidiary company**

As at 1 January 2006 and 31 December 2006	231
---	-----

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2006

11. STOCK			2006 US\$'000	2005 US\$'000
<b>Group</b>				
Goods held for resale			323	601
			<u>323</u>	<u>601</u>
<b>12. DEBTORS</b>	<b>Group 2006 US\$'000</b>	<b>Company 2006 US\$'000</b>	<b>Group 2005 US\$'000</b>	<b>Company 2005 US\$'000</b>
Amounts owed by group undertakings	-	-	-	4,254
Trade debtors	918	-	220	-
Other debtors	66	-	36	1
Prepayments and accrued income	5	-	13	-
	<u>989</u>	<u>-</u>	<u>269</u>	<u>4,255</u>
	<u>989</u>	<u>-</u>	<u>269</u>	<u>4,255</u>
<b>13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
Bank loans and overdraft	610	-	638	-
Trade creditors	713	-	266	-
Other creditors	298	-	164	-
Other taxes and social security	207	-	221	-
Accruals and deferred income	96	53	157	108
	<u>1,924</u>	<u>53</u>	<u>1,446</u>	<u>108</u>
	<u>1,924</u>	<u>53</u>	<u>1,446</u>	<u>108</u>
<b>14. CREDITORS: AMOUNTS FALLING IN MORE THAN ONE YEAR</b>				
Bank loans	279	-	-	-
	<u>279</u>	<u>-</u>	<u>-</u>	<u>-</u>

The loan is repayable over 24 monthly instalments until June 2008.

**15. CALLED UP SHARE CAPITAL**

**Authorised:**

The authorised share capital consists of 30,000,000 ordinary shares of £0.01 each and 1,000,000 deferred ordinary shares of £0.001 each.

<b>Allotted, called up and fully paid:</b>	2006 US\$'000	2005 US\$'000
22,890,304 (2005:17,972,564) ordinary shares of £0.01 each	428	338
384,615 deferred ordinary shares of £0.001 each	1	1
	<u>429</u>	<u>339</u>
	<u>429</u>	<u>339</u>

At 31 December 2006, there were 30,000 options in issue to a director, however the directors believe that any charge to the profit and loss account under FRS 20 would be immaterial.

**SERVISION PLC**

**NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

<b>16. SHARE PREMIUM AND RESERVES</b>	<b>Share premium US\$'000</b>	<b>Merger reserve US\$'000</b>	<b>Profit and loss account US\$'000</b>
<b>Group</b>			
At 1 January 2006	5,241	1,979	(7,723)
Issue of shares in the year	1,860	-	-
Exchange rate differences	-	-	643
Retained loss for the period	-	-	(2,802)
	<u>7,101</u>	<u>1,979</u>	<u>(9,882)</u>
At 31 December 2006	<u>7,101</u>	<u>1,979</u>	<u>(9,882)</u>

The merger reserve represents the share capital and share premium in Servision Ltd less the investment by Servision Plc in Servision Ltd.

<b>Company</b>	<b>Share premium US\$'000</b>	<b>Profit and loss account US\$'000</b>
At 1 January 2006	5,241	(1,187)
Issue of shares in the year	1,860	-
Exchange rate differences	-	643
Retained loss for the period	-	(6,791)
	<u>7,101</u>	<u>(7335)</u>
At 31 December 2006	<u>7,101</u>	<u>(7335)</u>

**17. OPERATING LEASE COMMITMENTS**

At 31 December 2006, the group had annual commitments under non-cancellable operating leases expiring as follows:-

	<b>2006</b>		<b>2005</b>	
	<b>Land and buildings US\$'000</b>	<b>Other US\$'000</b>	<b>Land and buildings US\$'000</b>	<b>Other US\$'000</b>
Within one year	<u>84</u>	<u>10</u>	<u>84</u>	<u>10</u>

**18. LOSS PER SHARE**

The loss per share of 14.32c (2005: 14.55c) has been calculated on the weighted average number of share in issue during the year namely 19,568,894 (2005: 17,909,727) and losses of US\$2,802,212 (2004: US\$2,605,231).

FRS 22 does not require the calculation of diluted earnings per share, where the figure would be similar to basic earnings per share.

**19. CONTINGENT LIABILITIES**

Under the company's research and development agreement with the Office of the Chief Scientist and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3-6% of sales for products developed with funds provided by the Office of the Chief Scientist, up to an amount equal to 100% of the grant received plus interest based on the 12 month LIBOR rate applicable to dollar deposits. The Company is obligated to repay the Israel Government for the grants received only to the extent that there are sales for the funded products.

As at 31 December 2006, the Company had a contingent obligation to pay royalties of \$899,000 (2005: US\$916,000). This amount has not been provided for, due to the likelihood of repayment being remote.