

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006

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CONTENTS	Page
Chairman's statement	1
Group profit and loss account	2
Group balance sheet	3
Group cash flow statement	4
Reconciliation of net cash flow to net funds	5
Reconciliation of movements in Group shareholders' funds	6
Notes to the financial statements	7 - 9
Independent review report	10

SERVISION PLC

CHAIRMAN'S STATEMENT

REPORT AND FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

I am pleased to announce the Company's Interim results for the first six months of 2006.

Turnover for the period was US\$1.56 million compared to US\$1.0 million for the same period last year - and US\$ 1.9 million for the whole of 2005. Gross profit has grown to US\$ 592,000 (38% of revenues) compared with US\$ 287,000 for the same period last year and US\$ 439,000 (23% of revenues) for the whole of 2005.

This major improvement in gross margins was due largely to the improved stability of products together with our successful efforts to reduce the bill of materials.

During the period we successfully completed development of the "IVG series", our state of the art awards winning mobile DVR. The first 300 units have already been sold, and additional units installed in many testing and demo sites throughout the world. I am confident that significant sales will be generated from these sites.

We also launched our advanced HVG product earlier in the year and made 140 successful installations. The development of this professional cost effective product means that SerVision can now penetrate the wide market of small businesses and retail customers.

For the first time we also exhibited our three families of products in a trade show in Brazil. Local interest was high and we are expecting to sign a distribution agreement with a Brazilian company in the upcoming months.

In addition to this show, our products were also exhibited by three major US distributors at the recent ISC West security trade show in Las Vegas, and our products were demonstrated by GE Security at the UK's IFSEC show in May 2006. We have since received initial purchase orders by GE Security and I strongly believe those orders will grow significantly in the upcoming years.

SerVision continues to make steady progress towards achieving its goals and we hope to announce encouraging contract news in the near future. On a personal note, I would like to thank all of our dedicated staff for their loyalty and hard work throughout the period.

Gidon Tahan

Chairman and Chief Executive Officer

28 September 2006

SERVISION PLC

GROUP PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Note	Six months to 30 June 2006 Unaudited \$'000	Six months to 30 June 2005 Unaudited \$'000	Year to 31 December 2005 Audited \$'000
TURNOVER	1,2	1,559	1,000	1,882
Cost of sales		(967)	(713)	(1,443)
GROSS PROFIT		592	287	439
Administrative expenses		(1,956)	(1,759)	(3,026)
OPERATING LOSS		(1,364)	(1,472)	(2,587)
Net interest payable		(48)	(15)	(18)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,412)	(1,487)	(2,605)
Tax on loss on ordinary activities	3	-	-	-
RETAINED LOSS		(1,412)	(1,487)	(2,605)
Loss per share				
Basic and diluted	7	(7.37c)	(8.33c)	(14.55c)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months to 30 June 2006 Unaudited \$'000	Six months to 30 June 2005 Unaudited \$'000	Year to 31 December 2005 Audited \$'000
Loss for the financial period	(1,412)	(1,487)	(2,605)
Exchange rate movements	297	(225)	(488)
Total recognised losses relating to the period	(1,115)	(1,712)	(3,093)

SERVISION PLC**GROUP BALANCE SHEET**

AT 30 JUNE 2006

	Notes	As at 30 June 2006 Unaudited \$'000	As at 30 June 2005 Unaudited \$'000	As at 31 December 2005 Audited \$'000
FIXED ASSETS				
Tangible assets	4	169	199	181
CURRENT ASSETS				
Stock		315	741	601
Debtors		714	443	269
Cash at bank		1,211	581	231
		2,240	1,765	1,101
CREDITORS: amounts falling due within one year		(1,504)	(818)	(1,446)
NET CURRENT ASSETS/(LIABILITIES)		736	947	(345)
TOTAL ASSETS LESS CURRENT LIABILITIES		905	1,146	(164)
CREDITORS: amounts falling due within one year		(292)	-	-
		613	1,146	(164)
CAPITAL AND RESERVES				
Called up share capital	5	426	337	339
Share premium account	6	7,046	5,172	5,241
Merger reserve	6	1,979	1,979	1,979
Profit and loss account	6	(8,838)	(6,342)	(7,723)
EQUITY SHAREHOLDERS' FUNDS		613	1,146	(164)

SERVISION PLC**GROUP CASH FLOW STATEMENT****FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	Six months to 30 June 2006 Unaudited \$'000	Six months to 30 June 2005 Unaudited \$'000	Year to 31 December 2005 Audited \$'000
Operating loss	(1,364)	(1,472)	(2,587)
Depreciation	60	28	64
(Increase)/decrease in debtors	(445)	219	393
Decrease/(increase) in stock	286	(128)	12
Decrease in creditors	(189)	(174)	(117)
CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,652)	(1,527)	(2,235)
RETURN ON INVESTMENT AND SERVICING OF FINANCE			
Interest payable	(48)	(15)	(18)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of fixed assets	(30)	(38)	(56)
CASH OUTFLOW BEFORE FINANCING	(1,730)	(1,580)	(2,309)
FINANCING			
Issue of shares in Servision Plc (net of issue costs)	1,892	-	71
Net loans received	521	-	302
INCREASE/(DECREASE) IN CASH IN THE PERIOD	683	(1,580)	(1,936)

SERVISION PLC**RECONCILIATION OF NET CASH FLOW TO NET FUNDS/(DEBT)****FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	Six months to 30 June 2006 Unaudited \$'000	Six months to 30 June 2005 Unaudited \$'000	Year to 31 December 2005 Audited \$'000
Increase/(decrease) in cash in the period	683	(1,580)	(1,936)
Exchange rate differences	297	(225)	(488)
Cash inflow from movement in debt	(521)	-	(302)
	<hr/>	<hr/>	<hr/>
Movement in net debt in the period	459	(1,805)	(2,726)
	<hr/>	<hr/>	<hr/>
Net (debt)/funds at beginning of period	(407)	1,953	2,319
	<hr/>	<hr/>	<hr/>
Net funds/(debt) at end of period	52	148	(407)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

SERVISION PLC**RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS/(DEFICIT)****FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	Six months to 30 June 2006 Unaudited \$'000	Six months to 30 June 2005 Unaudited \$'000	Year ended 31 December 2005 Audited \$'000
Loss for the financial period	(1,412)	(1,487)	(2,605)
New shares issued in Servision Plc (net of issue costs)	1,892	-	71
Exchange rate differences	297	(225)	(488)
Net movement in shareholders' funds/(deficit)	<u>777</u>	<u>(1,712)</u>	<u>(3,022)</u>
Opening shareholders' (deficit)/funds	(164)	2,858	2,858
Closing shareholders' funds/(deficit)	<u><u>613</u></u>	<u><u>1,146</u></u>	<u><u>(164)</u></u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 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

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

The information set out in this interim report for the six months ended 30 June 2006 does not comprise statutory accounts within the meaning of section 240 of The Companies Act 1985.

(b) Basis of Consolidation

Subsidiary undertakings are accounted for from the effective date of acquisition. The parent Company, Servision Plc was incorporated on 2 June 2005 and acquired Servision Ltd (and its wholly owned subsidiary Servision Inc.) on 20 July 2005 by way of a share for share exchange. Under Financial Reporting Standard 6, merger accounting has been adopted as the basis for consolidation.

(c) Turnover

Turnover represents the value of goods and services supplied.

(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 period end rate used was £1 to \$1.81595 (December 2005: £1 to \$1.72080, June 2005: £1 to \$1.91589)

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

(j) Share based payments

The Group is required to adopt FRS 20 "Share Based Payments" for the first time for accounting periods commencing on or after 1 January 2006. 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.

SERVISION PLC**NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)****FOR THE SIX MONTHS ENDED 30 JUNE 2006****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.

3. 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.

4. TANGIBLE FIXED ASSETS

	Leasehold premises \$'000	Other tangible fixed assets \$'000	Total \$'000
Cost or valuation			
At 1 January 2006	42	248	290
Additions	-	30	30
	<hr/>	<hr/>	<hr/>
At 30 June 2006	42	278	320
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 January 2006	6	85	91
Charge for the period	2	58	60
	<hr/>	<hr/>	<hr/>
At 30 June 2006	8	143	151
	<hr/>	<hr/>	<hr/>
Net Book Value			
At 30 June 2006	34	135	169
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2005	35	146	181
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2005	36	163	199
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

5. 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.

Allotted, called up and fully paid:

	30 June 2006 US\$'000
22,781,663 (31 December 2005: 17,846,990) ordinary shares of £0.01 each	425
384,615 deferred ordinary shares of £0.001 each	1
	<hr/>
	426
	<hr/> <hr/>

The company has granted options over 30,000 £0.01 ordinary shares to Mr Eitan Yanuv, the financial director. 20,000 options have vested with the final 10,000 vesting in December 2006, all at an exercise price of £0.15 per share.

During the period, the company issued 4,934,673 ordinary shares of £0.01 each at a premium of £0.2037. Of these 635,795 shares were subscribed for by Mr Gideon Tahan and 127,159 were subscribed for by Mr Chaim Levy, both of whom are directors of the company.

SERVISION PLC**NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)****FOR THE SIX MONTHS ENDED 30 JUNE 2006**

6. RESERVES	Share Premium \$'000	Merger Reserve \$'000	Profit and loss account \$'000	Total \$'000
As at 1 January 2006	5,241	1,979	(7,723)	(503)
Retained loss for the period	-	-	(1,412)	(1,412)
Issue of shares in the period (net of costs)	1,805	-	-	1,805
Exchange differences	-	-	297	297
	<u>7,046</u>	<u>1,979</u>	<u>(8,838)</u>	<u>187</u>
At 30 June 2006	<u>7,046</u>	<u>1,979</u>	<u>(8,838)</u>	<u>187</u>

7. LOSS PER SHARE

The loss per share of 7.37c (31 December 2005: 14.55c; 30 June 2005: 8.33c) has been calculated on the weighted average number of share in issue during the year namely 19,168,196 (31 December 2005: 17,909,727; 30 June 2005: 17,846,990) and losses of US\$1,412,191 (31 December 2005: US\$2,605,231; 30 June 2005: US\$1,487,098).

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

8. POST BALANCE SHEET EVENTS

Since 30 June 2006, the company issued 50,000 ordinary £0.01 shares at a premium of £0.2037.

INDEPENDENT REVIEW REPORT TO SERVISION PLC

We have been instructed by the company to review the financial information for the six months ended 30 June 2006, which comprise the Consolidated Profit and Loss Account, the consolidated statement of total recognised gains and losses, the Consolidated Balance Sheet, the Consolidated Cash Flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Respective responsibilities of directors

The interim report, including the financial statements contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules of the London Stock Exchange which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied and adequately disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

haysmacintyre
Chartered Accountants
Registered Auditors

28 September 2006

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