

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2008

Company Number: 5143241

SERVISION PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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SERVISION PLC

CHAIRMAN'S STATEMENT

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

I am pleased to announce SerVision's condensed group financial statements for the twelve months ending 31 December 2008. The period under review was one of continued worldwide financial turmoil and SerVision has not been immune from feeling the effects of this crisis. Despite this however I am delighted to announce that we saw moderate revenue growth compared with 2007.

Additionally, after seven years of operating and investing heavily in research and development, the company reached break even point in the last six months of 2008 making the yearly loss slightly less than the loss announced in the first six months of the year. Achieving this milestone despite the worldwide economic instability is extremely encouraging and I thank the shareholders for their continued support through the research and development phase.

Operating Review

In the period we have widened our distribution network and territorial reach by signing new distribution agreements. We have recently announced major distribution contracts in China and India and we hope to announce further agreements in the coming months. This expansion of our customer base and the growth in sales to existing customers has translated into a pleasing growth in revenue.

Research and development

The company's research and development team has finished developing an eight channel mobile system which will enable vehicle operators to use a more efficient cost effective solution in larger vehicles doubling the number of channels in each system installed. If internal timetables are met, and market demand looks promising, this new technology could be commercialised in the fourth quarter of the current financial year.

In addition, the company is about to release to the market its new light weight (75 grams) one channel system that can be deployed on individuals such as policemen and soldiers. This product has the potential to reach customers who would not previously have had a need for SerVision's products. The widening of our target market we hope will contribute to the company's future growth. Distribution of this new product is expected for both the military and civil markets through cooperation with cellular providers and could occur as early as the fourth quarter of the current financial year.

Financials

As mentioned above in the last six months of the period the company reached break even point for the first time since established.

Turnover for the annual period increased 15.5% to US\$4.73m compared to US\$4.09m for the same period last year. Losses of US\$1.06m (2007 loss: US\$1.48m) were well below the same period in 2007 representing a reduction of 28%.

SerVision is tendering for a greater number of large contracts than in previous years and maintains a healthy indicative order book for 2009.

I am pleased that SerVision continues to make steady progress towards achieving its goals and we look forward to the future with cautious optimism. 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

30 June 2009

SERVISION PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present the annual report together with the financial statements and auditors report for the year ended 31 December 2008.

The Company was incorporated in the UK but its principal place of business is in Israel.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The group's principal activity is the development and sale of video surveillance equipment. The results for the Group can be found on page 7.

ACCOUNTS PRODUCTION

The financial statements for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards.

DIVIDENDS

The directors do not propose a final dividend (2007: £nil).

DIRECTORS

The directors who served during the year are:-

G Tahan
C Levy
E T Yanuv

CHARITABLE AND POLITICAL DONATIONS

The Group did not make any charitable or political contributions during the year.

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPLIANCE

As an AIM listed company, the Combined Code is not mandatory and the Company has therefore not produced a separate Corporate Governance or Directors' Remuneration Report.

SERVISION PLC

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent 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 parent company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a directors' report to comply with that law and those regulations.

In determining how amounts are presented within terms in the profit and loss account and balance sheet, the Directors have had regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.

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.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

SERVISION PLC

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

RISKS

Foreign exchange risks

Most of the group's sales and income are in US dollars and the US dollar is the currency which the company reports in. The expenses however are divided between the US dollar and the Israeli Shekel. The cost of goods (components) are paid in dollars and part of the operational costs such as rent and other service providers quote their fees in dollars. Labour costs however are paid in Israeli Shekels. The group has therefore a partial currency risk in the event the Israeli Shekel strengthens against the US dollar, that could influence the bottom line of the group's financial results.

The group subscribes to a weekly circular from the two Israeli main banks regarding the main financial institutions expectations for foreign currency changes. The management reviews them carefully and will consider with the board whether it should purchase financial instruments sold by local banks, to protect itself from this foreign exchange risk.

Interest Rate Risks

The group is exposed to interest risks as it uses credit lines and loans from its banks. Changes in the effective "Prime" interest rate published monthly by the bank of Israel can influence the financing costs of the group. The group diversified its credit lines in order to minimise its exposures to interest rates fluctuations by dividing its financing instruments into three categories:

1. Variable interest rate facilities (has interest rate fluctuations exposure)
2. Fixed rate facilities (does not have interest rate fluctuations exposure)
3. Shekel-dollar facilities (does not have interest rate fluctuations exposure)

Credit Risk

The group is exposed to credit risks if its customers fail to pay for goods supplied by the group. In order to minimize this risk the company has a policy of:

1. Selling only to respectable integrators and distributors and not to the end customer.
2. Orders from customers in certain regions or small orders shipped only after an approved by the group's bank is opened.
3. New customers have to fully pay in advance.
4. On going customers must pay 50% before shipping.
5. Only high rated customers receive credit from the group

Capital Risk management

The group manages its cash carefully. In order to reduce its risk, the group may take measurements to reduce its fixed costs (labour) if performance is below the group's expectations. The group may conduct placing for new shares of the company to raise additional capital as required when monitoring its performance, to continue its operations

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 88 days (2007: 81 days) of average supplies for the year.

CREST

The Company's ordinary shares are eligible for settlement through CREST, the system for securities to be held and transferred in electronic form rather than in paper. Shareholders are not obliged to use CREST and can continue to hold and transfer shares in paper without loss of rights.

SERVISION PLC

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

AUDITORS

The auditors, haysmacintyre, will be proposed for appointment in accordance with Section 485 of the Companies Act 2006.

ELECTRONIC COMMUNICATIONS

The Company may deliver shareholder information including Annual and Interim Reports, Forms of Proxy and Notices of General Meetings in an electronic format to shareholders.

If you would like to receive shareholder information in electronic format, please register your request on the Company's Registrar's electronic database at www.capitaregistrars.com. You will initially need your unique 'investor code' which you will find at the top of your share certificate. There is no charge for this service. If you wish to subsequently change your mind, you may do so by contacting the Company's Registrars by post or through their website.

If you elect to receive shareholder information electronically, please note that it is the shareholder's responsibility to notify the Company of any change to their name, address, email address or other contact details. Shareholders should also note that, with electronic communication, the Company's obligations will be satisfied when it transmits the notification of availability of information or such other document as may be involved to the electronic address it has on file. The Company cannot be held responsible for any failure in transmission beyond its control any more than it can for postal failure. In the event of the Company becoming aware that an electronic notification is not successfully transmitted, a further two attempts will be made. In the event that the transmission is still unsuccessful a hard copy of the notification will be mailed to the shareholder. In the event that specific software is required to access information placed on the Company's website it will be available via the website without charge. Before electing for electronic communications shareholders should ensure that they have the appropriate equipment and computer capabilities sufficient for the purpose. The Company takes all reasonable precautions to ensure no viruses are present in any communication it sends out but cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that shareholders subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company that is found to contain any virus will not be accepted.

Shareholders wishing to receive shareholder information in the conventional printed form will continue to do so and need take no further action.

Should you have any further questions on this, please contact the Company's Registrars, Capita Registrars on 0870 162 1313.

ON BEHALF OF THE BOARD

G TAHAN

**Chairman
Executive Director**

**4th Floor
70 Gray's Inn Road
London
WC1X 8BT**

30 June 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SERVISION PLC

We have audited the group and parent company financial statements of Servision Plc for the year ended 31 December 2008, which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the parent company balance sheet, the parent company cash flow statement, consolidated statement of changes in equity, parent company statement of changes in equity and the related notes. These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the Statement of Directors Responsibilities.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 to be audited. 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 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 to be audited 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 to be audited.

Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made within the accounting policies concerning the company's ability to continue as a going concern. The Group incurred a net loss of US\$1,064,000 during the year ended 31 December 2008. This along with the other matters explained within the accounting policies, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulations; and
- the information given in the Directors' report is consistent with the financial statements.

haysmacintyre
Chartered Accountants
Registered Auditors

30 June 2009

Fairfax House
15 Fulwood Place
London
WC1V 6AY

SERVISION PLC**CONSOLIDATED INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2008**

		2008	2007
	Notes	\$'000	\$'000
REVENUE	1,2	4,732	4,097
Cost of sales	3	(2,505)	(2,182)
GROSS PROFIT		<u>2,227</u>	<u>1,915</u>
Administrative expenses		(2,040)	(1,821)
Depreciation and amortisation		(1,142)	(1,327)
Exchange rate differences		98	(117)
OPERATING LOSS	4	<u>(857)</u>	<u>(1,350)</u>
Net finance expenditure	5	(207)	(129)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(1,064)</u>	<u>(1,479)</u>
Tax on ordinary activities	6	-	-
LOSS FOR THE PERIOD		<u><u>(1,064)</u></u>	<u><u>(1,479)</u></u>
LOSS PER SHARE			
Basic and diluted	19	<u><u>(4.12c)</u></u>	<u><u>(6.21c)</u></u>

All activities arose from continuing activities.

The notes on pages 14 to 25 are an integral part of these consolidated financial statements

SERVISION PLC**CONSOLIDATED BALANCE SHEET****AT 31 DECEMBER 2008**

	Notes	2008 \$'000	2007 \$'000
ASSETS			
Non-current assets			
Intangible assets	8	3,860	3,456
Property, plant and equipment	9	66	96
		<u>3,926</u>	<u>3,552</u>
Current assets			
Inventories	11	563	557
Trade and other receivables	12	1,455	1,010
Cash and cash equivalents		136	381
		<u>2,154</u>	<u>1,948</u>
		<u>6,080</u>	<u>5,500</u>
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	13	556	467
Share premium account		9,776	8,075
Merger reserve		1,979	1,979
Retained earnings and translation reserves		(10,060)	(8,566)
TOTAL EQUITY		<u>2,251</u>	<u>1,955</u>
LIABILITIES			
Non-current liabilities			
Bank loans	15	428	415
Loan from the office of the chief scientist	1	882	865
Post employment benefits	1, 17	194	256
		<u>1,504</u>	<u>1,536</u>
Current liabilities			
Bank loans and overdrafts	15	558	814
Loan from the office of the chief scientist	1	109	104
Trade and other payables	14	1,658	1,091
		<u>2,325</u>	<u>2,009</u>
TOTAL LIABILITIES		<u>3,829</u>	<u>3,545</u>
TOTAL EQUITY AND LIABILITIES		<u>6,080</u>	<u>5,500</u>

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2009 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 25 are an integral part of these consolidated financial statements

SERVISION PLC**PARENT COMPANY BALANCE SHEET****AT 31 DECEMBER 2008**

	Notes	2008 \$'000	2007 \$'000
ASSETS			
Non-current assets			
Investments	10	231	231
Current assets			
Trade and other receivables	12	140	-
		<u>371</u>	<u>231</u>
Total assets		<u><u>371</u></u>	<u><u>231</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	13	556	467
Share premium account		9,776	8,075
Retained earnings and translation reserves		(10,073)	(8,360)
TOTAL EQUITY		<u>259</u>	<u>182</u>
LIABILITIES			
Current liabilities			
Trade and other payables	14	112	49
TOTAL EQUITY AND LIABILITIES		<u>371</u>	<u>231</u>

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2009 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 25 are an integral part of these consolidated financial statements

SERVISION PLC**CONSOLIDATED CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2008**

	2008	2007
	\$'000	\$'000
Cash flows from operating activities		
Loss before taxation	(1,064)	(1,479)
Adjustments for:		
Net finance expense	207	129
Net interest paid	(207)	(129)
Depreciation and amortisation	1,140	1,327
Loss on disposal of fixed assets	9	-
Movement in trade and other receivables	(305)	(21)
Movement in inventories	(6)	(234)
Movement in grant from the office of the chief scientist	22	52
Movement in post retirement benefits	(62)	108
Movement in trade and other payables	567	(16)
	<hr/>	<hr/>
Net cash generated from operating activities	301	(263)
Cash flow from investing activities		
Purchase of property, plant and equipment and intangibles	(1,523)	(1,512)
	<hr/>	<hr/>
Net cash used in investing activities	(1,523)	(1,512)
Cash flows from financing activities		
Issue of shares	1,650	1,012
Net loans undertaken less repayments	127	166
	<hr/>	<hr/>
Cash generated from financing activities	1,777	1,178
Cash and cash equivalents at beginning of period	(87)	77
Net cash generated from all activities	555	(597)
Non-cash movement arising on foreign currency translation	(430)	433
	<hr/>	<hr/>
Cash and cash equivalents at end of period	38	(87)
	<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents comprise		
Cash (excluding overdrafts) and cash equivalents	136	381
Overdrafts	(98)	(468)
	<hr/>	<hr/>
	38	(87)
	<hr/> <hr/>	<hr/> <hr/>

SERVISION PLC**PARENT COMPANY CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2008**

	2008	2007
	\$'000	\$'000
Cash flows from operating activities		
Loss before taxation	(1,283)	(1,458)
Adjustments for:		
Net finance expense	(194)	(653)
Net interest paid	194	653
Movement in trade and other receivables	-	-
Movement in trade and other payables	63	(4)
	<u>(1,220)</u>	<u>(1,462)</u>
Net cash used in operating activities		
Cash flows from financing activities		
Issue of shares	1,650	1,012
	<u>1,650</u>	<u>1,012</u>
Cash generated from financing activities		
Cash and cash equivalents at beginning of period	-	17
Exchange rate differences	(430)	433
Net cash used in all activities	430	(450)
	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of period		
	<u><u>-</u></u>	<u><u>-</u></u>
Cash and cash equivalents comprise		
Cash (excluding overdrafts) and cash equivalents	<u><u>-</u></u>	<u><u>-</u></u>

SERVISION PLC**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2008**

	Share Capital \$'000	Share Premium \$'000	Merger Reserve \$'000	Retained Earnings \$'000	Translation Reserve \$'000	Total \$'000
At 1 January 2007	429	7,101	1,979	(7,674)	154	1,989
Total recognised income and expenses	-	-	-	(1,479)	-	(1,479)
Exchange rate differences	-	-	-	-	433	433
Issue of shares (net of costs)	38	974	-	-	-	1,012
At 31 December 2007	467	8,075	1,979	(9,153)	587	1,955
Total recognised income and expenses	-	-	-	(1,064)	-	(1,064)
Exchange rate differences	-	-	-	-	(430)	(430)
Issue of shares (net of costs)	89	1,701	-	-	-	1,790
At 31 December 2008	556	9,776	1,979	(10,217)	157	2,251

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Share Capital \$'000	Share Premium \$'000	Retained Earnings \$'000	Translation Reserve \$'000	Total \$'000
At 1 January 2007	429	7,101	(7,489)	154	195
Total recognised income and expenses	-	-	(1,458)	-	(1,458)
Exchange rate differences	-	-	-	433	433
Issue of shares (net of costs)	38	974	-	-	1,012
At 31 December 2007	467	8,075	(8,947)	587	182
Total recognised income and expenses	-	-	(1,283)	-	(1,283)
Exchange rate differences	-	-	-	(430)	(430)
Issue of shares (net of costs)	89	1,701	-	-	1,790
At 31 December 2008	556	9,776	(10,230)	157	259

1. ACCOUNTING POLICIES

Basis of Preparation

These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (June 2009). The policies set out below have been consistently applied to all the years presented.

These consolidated financial statements have been prepared under the historical cost convention.

No separate profit and loss account is presented for the parent company as provided by Section 230, Companies Act 1985.

Basis of Consolidation

Group accounts consolidate the accounts of the company and its subsidiary undertakings made up to 31 December 2008.

All intercompany balances and transactions have been eliminated in full. Subsidiary undertakings are accounted for from the effective date of acquisition until the effective date of disposal.

Going concern

Since the year end, the group has performed in line with expectations but this continues to impact on the cash flow position. The directors are currently negotiating further financing to alleviate this situation and allow the group to continue with its current strategy.

Subject to the successful completion of further funding, the directors consider that it is appropriate to prepare the financial statements on the going concern basis. If additional financing by whatever means is not secured in the next twelve months, then it is unlikely that the company will be able to continue with its current strategy.

The ability of the group to continue as a going concern for the foreseeable future, is dependent on the following factors:

- Securing further financing.
- On the continued support in the form of grants receivable from the Office of the Chief Scientist.
- Achieving its forecast results for the period to 30 June 2010 which the directors believe are achievable.
- Continued support from the banks in terms of the loans/overdrafts currently in place.
- If further financing does not occur then the group is able to scale down their operations to ensure that expenses are met.

Based on the above factors, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would be necessary should this basis not be appropriate.

Segment reporting

The Company has one business segment that of developing and selling video surveillance equipment. Segmental reporting is produced on a geographical basis by place of sale.

Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts.

1. ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of systems

The subsidiary generates revenues mainly from sales of systems. The subsidiary sells its products directly through its distribution networks worldwide.

Revenues from systems sales are recognised mostly upon delivery of the system or upon installation at the customer site, where applicable, the system fee is fixed or determinable and persuasive evidence of an arrangement exists.

For transactions of the "charged and held" type, for which delivery of inventory was postponed until after the balance sheet date, revenue is recorded upon completion of the system only upon the condition that the customer confirms in writing the terms of the postponed delivery.

Sale of products

Revenues from the sale of purchased products are recognised upon delivery of the products to the customers.

Warranty costs

The subsidiary generally offers a one year warranty for all its products. The subsidiary includes in its statements of operations an allowance for warranty claims totalling 2% of annual sales at the time revenues are recognised, for estimated material costs during the warranty period.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is calculated to write down the cost of all tangible fixed assets by equal monthly instalments over their estimated useful lives at the following rates:-

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. The functional and presentational currency of the Group is the US Dollar.

The exchange rate used at 31 December 2008 was £1 = US\$1.438 (2007: £1 = US\$1.986)

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement as incurred.

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice value less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Investments

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposit held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Inventories

Inventories represent work in progress and goods for resale and stated at the lower of cost and net realisable value.

Research and development

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

Expenditure for the development activities of technology used in the production of systems sold by the Company, are capitalised and presented as an asset in the balance sheets only if all of the following conditions are met:

- Development costs of the technology are identifiable and separable.
- It is probable that the developed technology will generate future economic benefits.
- The development costs of the technology can be measured reliably.

Development costs meeting these criteria are capitalised and amortised on a straight-line basis over their useful lives once the related technology is available for use.

Software

Intangible assets purchased separately, such as software licenses that do not form an integral part of related hardware, are capitalised at cost and amortised over their useful economic life.

1. ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 which the estimates of future cash flows have been adjusted.

Post retirement benefits

The subsidiary operates defined benefit plans for the payment of severance pay in accordance with the Severance Pay Law of Israel at the termination of employment of employee services for the subsidiary. According to the law in Israel employees are entitled to receive severance pay in the event that they are fired or if they retire. The severance is calculated according to the last month's salary of the employee at the termination period of services multiplied by the number of years of service at the subsidiary.

The subsidiary deposits funds for its obligations towards severance pay for a part of its employees in an ongoing manner to pension funds and insurance companies and to a general fund deposited in a banking institution (hereafter the "Plan Assets").

The calculation of the liabilities, prepared by an authorised actuary, was established by the use of techniques of an actuarial estimate which includes established assumptions which include among other items the capitalisation rate, the expected rate of return on plan assets, the rate of increase to salaries, and the rate of employee turnover. There exist material uncertainties for these estimates since the plan is long-term.

Liabilities for post employment benefits recorded in the balance sheets represent the present value of the defined benefit plans according to the fair value of plan assets. Assets derived from this calculation are limited to the prior cost of services provided in addition to the present value of available funds and less future amounts to be deposited to the plans.

Changes in the post employment liabilities were attributed, according to the actuarial report, to salaries and interest expenses in the profit and loss statement and to actuarial gains or losses in a separate statement of recognised income and expenses.

Grants from the Office of the Chief Scientist

Prior grants received from the Office of the Chief Scientist ("OCS") to finance research and development costs of the subsidiary were presented as a long-term loan at the date of receipt. The loan is repaid by the payment of royalties to the Chief Scientist and is calculated as a percentage of sales of the subsidiary.

The subsidiary is required to pay to the OCS under the subsidiary's research and development agreements with the OCS and pursuant to applicable laws royalties at the rate of 3-5% of sales for products developed with funds provided by the OCS, up to an amount equal to 100% of the OCS research and development grants received plus interest based on the 12-month LIBOR rate applicable to dollar deposits.

The subsidiary is obligated to repay the Israeli Government for the grants received only to the extent that there are sales for the funded products.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

2. BUSINESS SEGMENT ANALYSIS

	UK \$'000	Europe \$'000	Middle East \$'000	North America \$'000	Rest of the world \$'000	Total \$'000
Year ended 31 December 2007:						
Revenue						
External sales	-	2,037	359	509	1,192	4,097
Loss						
Segment operating loss	(130)	(458)	(389)	(112)	(261)	(1,350)
Net finance costs						(129)
Loss before taxation						(1,479)
Capital expenditure	-	-	1,512	-	-	1,512
Depreciation and amortisation	-	-	1,327	-	-	1,327
At 31 December 2007:						
Assets and liabilities						
Segment assets	-	18	4,332	262	507	5,119
Segment liabilities	(49)	(1)	(3,069)	(23)	(22)	(3,164)
Net (liabilities)/assets	(49)	17	1,263	239	485	1,955
Year ended 31 December 2008:						
Revenue						
External sales	-	2,044	561	833	1,294	4,732
Loss						
Segment operating loss	(149)	(305)	(84)	(124)	(195)	(857)
Net finance costs						(207)
Loss before taxation						(1,064)
Capital expenditure	-	-	1,523	-	-	1,523
Depreciation and amortisation	-	-	1,140	-	-	1,140
At 31 December 2008:						
Assets and liabilities						
Segment assets	140	134	4,617	349	704	5,944
Segment liabilities	(112)	(17)	(3,499)	(51)	(14)	(3,693)
Net (liabilities)/assets	28	117	1,118	298	690	2,251

3. COST OF SALES

	2008 \$'000	2007 \$'000
Materials and parts	1,966	1,606
Employee benefit expense	325	339
Sub contractors	-	56
Other costs	214	181
	<u>2,505</u>	<u>2,182</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

4. EXPENSES BY NATURE	2008 \$'000	2007 \$'000
Employee benefit expense (see below)	2,077	1,644
Exchange rate differences	98	(117)
Depreciation and amortisation	1,140	1,327
Operating lease rentals	76	76
Auditors' remuneration		
- statutory audit services	15	15
- audit-related regulatory reporting	5	5
	<u> </u>	<u> </u>

Employee benefit expense (including directors)

The staff costs for the year ending 31 December 2008, totalled US\$2,077,000 (2007: US\$2,239,000). There were no pension expenses for the company for the year ending 31 December 2008 (2007: US\$nil).

The directors' remuneration for the year ending 31 December 2008 is US\$213,333 (2007: US\$253,333).

	No.	No.
The average number of persons (including directors) employed by the group during the period was as follows:	34	39
	<u> </u>	<u> </u>

5. FINANCE EXPENDITURE	\$'000	\$'000
Interest receivable	(16)	(22)
Interest payable and similar charges on bank loans and overdrafts	223	151
	<u> </u>	<u> </u>
	207	129
	<u> </u>	<u> </u>

6. 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) The taxation charge comprises:		
Current corporation tax for the period	-	-
	<u> </u>	<u> </u>
(b) Factors affecting tax charge for the period		
The tax assessed for the period is different than the standard rate of corporation tax.		
The differences are explained below:		
Loss on ordinary activities before taxation	(1,064)	(1,479)
	<u> </u>	<u> </u>
Multiplied by the standard rate of corporation tax of 30% (2007: 30%)	(319)	(444)
Effects of:		
Utilisation of tax losses brought forward	319	444
	<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. Tax losses carried forward in the Group at 31 December 2008 are US\$10,200,000 (2007: US\$9,300,000).		

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

7. 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 year includes a loss after taxation of US\$1,283,000 (2007: loss US\$1,458,000) which is dealt with in the financial statements of the Company.

8. INTANGIBLE FIXED ASSETS GROUP

	Software \$'000	Development expenditure \$'000	Total \$'000
Cost or valuation			
At 1 January 2007	16	4,529	4,545
Additions	-	1,500	1,500
At 31 December 2007	16	6,029	6,045
Additions	-	1,517	1,517
At 31 December 2008	16	7,546	7,562
Amortisation			
At 1 January 2007	-	1,309	1,309
Charge in the year	9	1,271	1,280
At 31 December 2007	9	2,580	2,589
Charge in the year	5	1,108	1,113
At 31 December 2008	14	3,688	3,702
Net Book Value			
At 31 December 2008	2	3,858	3,860
At 31 December 2007	7	3,449	3,456

9. TANGIBLE FIXED ASSETS

Group	Leasehold improvements \$'000	Office furniture and equipment \$'000	Motor Vehicles \$'000	Total \$'000
Cost				
At 1 January 2007	47	230	45	322
Additions	-	12	-	12
Disposals	(6)	(51)	-	(57)
At 31 December 2007	41	191	45	277
Additions	-	6	-	6
Disposals	-	-	(45)	(45)
At 31 December 2008	41	197	-	238
Depreciation				
At 1 January 2007	10	151	24	185
Charge in the year	4	36	7	47
Eliminated on disposal	-	(51)	-	(51)
At 31 December 2007	14	136	31	181
Charge in the year	4	18	5	27
Eliminated on disposal	-	-	(36)	(36)
At 31 December 2008	18	154	-	172
Net book value				
At 31 December 2008	23	43	-	66
At 31 December 2007	27	55	14	96

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

10. INVESTMENTS **\$'000**

Company

At 31 December 2007 and 31 December 2008 231

At 31 December 2008 the group held 20% or more of a class of the allotted share capital of the following:

	Country of incorporation	Class of share capital	Proportion held by Servision Plc	Proportion held by group	Nature of Business
Servision Limited	Israel	Ordinary	100%	100%	Video surveillance equipment
Servision Inc.	USA	Ordinary	0%	100%	Video surveillance equipment

11. INVENTORIES

Group

	2008	2007
	\$'000	\$'000
Raw materials	367	173
Work in progress	70	70
Finished goods	126	314
	<u>563</u>	<u>557</u>

12. TRADE AND OTHER RECEIVABLES

	2008	2008	2007	2007
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Trade receivables	1,110	-	916	-
Other receivables	307	140	92	-
Prepayments and accrued income	38	-	2	-
	<u>1,455</u>	<u>140</u>	<u>1,010</u>	<u>-</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

13.	CALLED UP SHARE CAPITAL	2008	2007
		\$'000	\$'000
	Authorised:		
	The authorised share capital consists of 300,000,000 ordinary shares of £0.01 each and 2,000,000 deferred shares of £0.001 each.		
	Allotted, called up and fully paid:		
	29,881,490 (2007: 24,773,637) ordinary shares of £0.01 each	1,550	1,461
	384,615 deferred shares of £0.001 each	2	2
		<u>1,552</u>	<u>1,463</u>
		<u><u>1,552</u></u>	<u><u>1,463</u></u>

In October 2008, the company issued 5,107,853 ordinary shares of £0.01 each for a total consideration of £1,021,750 (US\$1,790,000), of which US\$140,000 was unpaid at the year end.

14.	TRADE AND OTHER PAYABLES	2008		2007	
		Group	Company	Group	Company
		\$'000	\$'000	\$'000	\$'000
	Trade payables	423	-	490	-
	Other taxes and social security	911	-	369	-
	Other payables	167	-	144	-
	Accruals and deferred income	157	112	88	49
		<u>1,658</u>	<u>112</u>	<u>1,091</u>	<u>49</u>
		<u><u>1,658</u></u>	<u><u>112</u></u>	<u><u>1,091</u></u>	<u><u>49</u></u>

15.	BANK LOANS AND OVERDRAFTS	2008	2007
		\$'000	\$'000
	Group		
	Bank overdraft	98	468
	Bank loans: amounts due within one year	460	346
		<u>558</u>	<u>814</u>
	Current liability	558	814
	Bank loans: amounts due within two to five years	224	415
	Bank loans: amounts due after five years	204	-
		<u>986</u>	<u>1,229</u>
	Total bank loans and overdrafts	<u><u>986</u></u>	<u><u>1,229</u></u>

The Group has five loans. The first loan is with Bank Leumi for US\$115,000 and it repayable in monthly instalments until September 2009. The second loan is with Bank Otzar for US\$296,000 and is repayable in monthly instalments until November 2011. The third loan is with Bank Mizrahi for US\$204,000 and is repayable in monthly instalments until December 2018 at an interest rate of 5.36%. Another loan with Bank Mizrahi for US\$130,000 and is renewable every two months. The fifth loan is with Bank Hapoalim for US\$144,000 and is repayable in monthly instalments until January 2012.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

16. OPERATING LEASES

The Group leases business premises in Israel under operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in note 4.

	2008	2007
	\$'000	\$'000
The future aggregate minimum lease payments under operating leases are as follows:-		
No later than 1 year	76	76
	<u>76</u>	<u>76</u>

17. POST EMPLOYMENT BENEFITS

Labour laws and severance laws in Israel obligate the group too pay severance pay to employees in the event that they are fired or if they retire. The severance is calculated for employee benefits according to valid employment contracts and upon the salary of the employees which according to management creates the entitlement to receive severance. Plan assets include funds deposited to managers' insurance policies and to a central severance fund deposited in a banking institution.

	2008	2007
	\$'000	\$'000
Obligations for defined benefits plan	212	286
Assets	(18)	(30)
Net obligation	<u>194</u>	<u>256</u>

Expenses for defined benefit plan:

	2008	2007
	\$'000	\$'000
Cost of current services fees	48	89
Interest expenses for obligations	13	43
Expected return on assets	(3)	(6)
Actuarial gain	(3)	(13)
	<u>55</u>	<u>113</u>

Activities at fair value of obligations for defined benefits plan

	2008	2007
	\$'000	\$'000
Balance at beginning of year	286	245
Interest expense	13	43
Cost of current service fees	48	89
Severance paid	(127)	(66)
Actuarial gain	(8)	(25)
Balance at end of the year	<u>194</u>	<u>286</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

17. POST EMPLOYMENT BENEFITS (continued)

Activities at fair value of assets	2008 \$'000	2007 \$'000
Balance at beginning of year	30	97
Expected return	3	6
Deposits by employers	2	6
Severance paid	(12)	(66)
Actuarial loss	(5)	(12)
Balance at the end of the year	18	30
Primary assumptions in establishing obligations	2008	2007
Capitalisation rate of obligations	5.9%	5.8%
Expected real rate of return for assets	3.3%	3.3%
Expected real rate of salary increase	2.0%	-

18. FINANCIAL RISK MANAGEMENT

The Group's activities give rise to a number of financial risks: market risk, credit risk and liquidity risk. Market risk includes foreign exchange risk and cash flow and fair value interest rate risk. The Group has in place risk management policies that seek to limit the adverse effects on the financial performance.

Foreign exchange risk

Most of the Group's sales and income are in US dollars, however the expenses are divided between the US dollar and the Israeli Shekel. The cost of goods (components) are paid in dollars and part of the operational costs such as rent and other service providers quote their fees in dollars. Labour costs however are paid in Israeli Shekels. The Group has therefore a partial currency risk in the event the Israeli shekel is strengthened against the US dollar, that could influence the bottom line of the Group's financial results.

The Group subscribes to a weekly circular from the two Israeli main banks regarding the main financial institutions expectations for foreign currency changes. The management reviews them carefully and will consider with the board whether it should purchase financial instruments sold by local banks, to protect itself from this foreign exchange risk.

Financial instruments

The Group does not use derivative financial instruments but has bank loans. The Company finances its operations simply using bank balances and overdraft, plus debtors and creditors. The cash flow is regularly monitored and the overdraft is occasionally extended to meet requirements as they arise.

Capital risk management

The Group manages its cash carefully. In order to reduce its risk, the group may take measurements to reduce its labour costs if performance is below the Group's expectations. The Group may conduct placing for new shares of the Company to raise additional capital as required when monitoring its performance, to continue its operations.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

18. FINANCIAL RISK MANAGEMENT (continued)

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 1 to the financial statements.

Accounting policies for financial instruments are applied on the following Balance Sheet items:

All of the Group's liabilities have been classified as other financial liabilities. The Group does not have liabilities which are classified as 'Liabilities at Fair value through profit and loss'.

Fair value of financial instruments

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market price;

the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market price;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

The Group applied the following methods and assumptions during the estimation of fair value of financial instruments:

Receivables and deposits at banks

For assets which mature within 3 months, carrying value is similar to fair value due to shortness of these instruments. For longer-term assets, contracted interest rates do not significantly defer from current market interest rates, and due to that their fair value is similar to its carrying value.

Loan liabilities

Fair value of short term liabilities is similar to its carrying value due to shortness of these instruments, for long term liabilities, contracted interest rates do not significantly defer from current market interest rates, and due to that their fair value is similar to its carrying value.

Other financial instruments

Financial instruments of the Group which are not valuated at fair value are trade accounts receivable, other receivables, trade accounts payable and other payables. Historic carrying value of assets and liabilities, including the provisions, which are in accordance with the usual business conditions, is similar to its fair value.

18. FINANCIAL RISK MANAGEMENT (continued)

Financial risk management objectives

The Group's management 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.

(a) Liquidity risk

At 31 December 2008 the consolidated net cash position(excluding loans) in amount of \$38,000 and there is currently no procedure to centralise and manage cash by a treasury manager.

The Group manages its liquid resources so as to obtain the best available rates of return on cash investments, whilst retaining access to those resources. Cash that is not needed for short term requirements is deposited for periods of one month (or more), based on the Directors' assessment of prevailing interest rate trends, the interest rates available and the liquid resource requirements of the Group. In addition, cash is placed on instant access deposit with the Group's bankers, which is available for shorter-term requirements.

(b) Interest rate risk

The Company, nor any of its subsidiaries, has any debt subject to rate indexation. Hence there is no major impact on our finances from potential rate variations. The only impact could be on the cost of the invoice discounting facilities but this would be marginal unless there would be an increase of the several points on the Bank of England or LIBOR rates.

(c) Currency risk

The Company has not implemented a specific policy to protect against currency fluctuations. The fact that the Group is trading in the three main international currencies could have a negative impact.

(d) Credit risk management

The group is exposed to credit risks if its customers fail to pay for goods supplied by the group. In order to minimize this risk the company has a policy of:

1. Selling only to respectable integrators and distributors and not to the end customer.
2. Orders from customers in certain regions or small orders shipped only after an approved by the group's bank is opened.
3. New customers have to fully pay in advance.
4. On going customers must pay 50% before shipping.
5. Only high rated customers receive credit from the group

19. LOSS PER SHARE

The loss per share of 4.12c (2007: loss 6.21c) has been calculated on the weighted average number of shares in issue during the year namely 25,865,120 (2007: 23,831,197) and losses of US\$1,064,500 (2007: US\$1,478,953).

20. ULTIMATE CONTROLLING PARTY

The Directors do not believe there to be an ultimate controlling party.