

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2005
Company Number: 51433241

SERVISION PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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SERVISION PLC

CHAIRMAN'S STATEMENT

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

I am pleased to announce the Company's audited results for the year to 31 December 2005.

Turnover for the period was US\$1.88 million compared to US\$1.04 Million for the previous year. Trading for the first quarter of 2006 has demonstrated further growth, with first quarter sales exceeding US\$740,000 compared to US\$406,000 for the first quarter of 2005.

During the year your Company successfully completed the development of its SVG series products and made further strides in the development of its IVG and TVG series products.

During the last quarter of 2005, the first commercial installations of the IVG product were successfully made on some cash distribution vehicles in the UK. Other sales of the IVG product were achieved in continental Europe, where your Company sees considerable further growth potential. The IVG product won several awards in security trade-shows during 2005 and the management of SerVision believes that the IVG product is widely perceived in the security market as a best-of-breed product.

The official launch and first successful installations of the new TVG series products (the HVG 200) during the first quarter of 2006, have also created interest among communications and security equipment distributors. Your Company is currently cooperating with a large cellular provider in Israel for distribution of the HVG product through its distributions channels.

The Company is currently negotiating the signing of a number of major distribution agreements for its SVG, IVG and HVG products.

SerVision is gratified to note that its products were exhibited by three major US distributors at the recent ISC West security trade show in Las Vegas and we have further learned that at the IFSEC show in the UK in May 2006, our products were demonstrated by GE Security and initial orders were received.

This month, the company has completed a US\$1.53 million placing for cash to provide working capital for the continuing operation and progress of the company. Both Non executive director, Chaim Levy and I participated in this placing.

Your Board believes that SerVision has made steady progress towards achieving its goals and we hope to announce encouraging contract news in the near future as the company is now well positioned going forward. On a personal note, I would like to thank all of our dedicated staff for their loyalty and hard work over the last year.

Gidon Tahan
Chairman and Chief Executive Officer

29 June 2006

SERVISION PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

The directors present the annual report together with the financial statements and auditors report for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

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

On 20 July 2004, the company purchased the entire issued share capital of Servision Ltd, a company registered in Israel by way of a share for share exchange. Under Financial Reporting Standard 6, merger accounting has been adopted as the basis of consolidation.

DIVIDENDS

The directors do not propose a final dividend.

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 2005	31 December 2004
G Tahan	6,341,262	6,341,262
C Levy	30,320	30,320
E T Yanuv	-	-
Dr K W Gray CBE (resigned 14 June 2005)	76,923	76,923
N Steinberg (resigned 26 May 2005)	-	-

In December 2004, the company granted options over 10,000 £0.01 ordinary shares to Mr Eitan Yanuv, the financial director. The options are vested in December 2006, at an 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 2005		31 December 2004	
	Number of shares	Per cent	Number of shares	Per cent
Orfali Wireless Plc	3,514,024	19.55	3,514,024	19.69
Moises Cohen Chaiyo	1,069,977	5.95	1,069,977	6.00
Hanna and Shlomo Ankri	896,109	4.99	896,109	5.02
Charles Street Securities Inc	545,000	3.03	545,000	3.05

CHARITABLE AND POLITICAL DONATIONS

The Group made \$27,884 (2004: \$35,000) 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 2005

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.

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 83 days (2004: 85 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.

POST BALANCE SHEET EVENTS

Since the year end, Hoodless Brennan and Partners Plc have become brokers and nominated advisors to the company.

Since the year end, the company has issued 3,895,647 ordinary shares of £0.01 each at a price of £0.2137 each. Of these shares 635,795 shares were subscribed by G Tahan and 127,159 were subscribed by C Levy, both directors of the company.

ON BEHALF OF THE BOARD

G TAHAN

Director

29 June 2006

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 2005, which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the parent company balance sheet 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

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. We also report to you if, in our opinion, the Directors' Report and the Chairman's Statement 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 the Directors' Report and the Chairman's Statement and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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 company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

haysmacintyre
Chartered Accountants
Registered Auditors

29 June 2006

Fairfax House
15 Fulwood Place
London
WC1V 6AY

SERVISION PLC**CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2005**

	Notes	2005 US\$'000	2004 US\$'000
TURNOVER	1,2	1,882	1,041
Cost of sales		(1,443)	(815)
GROSS PROFIT		439	226
Administrative expenses		(3,026)	(3,085)
Other income	1	-	242
OPERATING LOSS	3	(2,587)	(2,617)
Interest payable and similar charges	6	(18)	(179)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,605)	(2,796)
Tax on loss on ordinary activities	7	-	-
RETAINED LOSS		(2,605)	(2,796)
LOSS PER SHARE			
Basic and diluted	17	(14.55c)	(20.05c)

All activities arose from continuing activities.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005 US\$'000	2004 US\$'000
Loss for the financial year	(2,605)	(2,796)
Exchange rate movements	(488)	(112)
Total recognised losses relating to the year	(3,093)	(2,908)

SERVISION PLC**CONSOLIDATED BALANCE SHEET****AT 31 DECEMBER 2005**

	Notes	2005 US\$'000	2004 US\$'000
FIXED ASSETS			
Tangible assets	9	181	189
CURRENT ASSETS			
Stock	11	601	613
Debtors	12	269	662
Cash at bank		231	2,386
		1,101	3,661
CREDITORS: amounts falling due within one year	13	(1,446)	(992)
NET CURRENT (LIABILITIES)/ASSETS		(345)	2,669
TOTAL ASSETS LESS CURRENT LIABILITIES		(164)	2,858
CAPITAL AND RESERVES			
Called up share capital	15	339	337
Share premium account	16	5,241	5,172
Merger reserve	16	1,979	1,979
Profit and loss account	16	(7,723)	(4,630)
EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS		(164)	2,858

These financial statements were approved by the Board of Directors on 29 June 2006 and signed on its behalf by:-

E Yanuv
Director

G Tahan
Director

SERVISION PLC**PARENT COMPANY BALANCE SHEET****AT 31 DECEMBER 2005**

	Notes	2005 US\$'000	2004 US\$'000
FIXED ASSETS			
Investments	10	231	231
CURRENT ASSETS			
Debtors	12	4,255	4,739
Cash at bank		15	442
		4,270	5,181
CREDITORS: amounts falling due within one year	13	(108)	(251)
NET CURRENT ASSETS		4,162	4,930
TOTAL ASSETS LESS CURRENT LIABILITIES		4,393	5,161
CAPITAL AND RESERVES			
Called up share capital	14	339	337
Share premium account	15	5,241	5,172
Profit and loss account	15	(1,187)	(348)
EQUITY SHAREHOLDERS' FUNDS		4,393	5,161

These financial statements were approved by the Board of Directors on 29 June 2006 and signed on its behalf by:-

E Yanuv
Director

G Tahan
Director

SERVISION PLC

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005	2004
	US\$'000	US\$'000
Operating loss	(2,587)	(2,617)
Depreciation	64	40
Decrease/(increase) in debtors	393	(323)
Decrease/(increase) in stock	12	(536)
(Decrease)/increase in creditors	(117)	667
	<u> </u>	<u> </u>
CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,235)	(2,769)
RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Interest payable	(18)	(179)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of fixed assets	(56)	(118)
Proceeds for the sale of fixed assets	-	4
	<u> </u>	<u> </u>
CASH OUTFLOW BEFORE FINANCING	(2,309)	(3,062)
FINANCING		
Issue of shares in Servision Plc (net of issue costs)	71	5,278
Issue of shares in Servision Ltd	-	161
Net loans undertaken/(repaid)	302	(180)
	<u> </u>	<u> </u>
(DECREASE)/INCREASE IN CASH IN THE YEAR	(1,936)	2,197
	<u> </u>	<u> </u>

RECONCILIATION OF NET CASH FLOW TO NET FUNDS/(DEBT)	2005
	US\$'000
Decrease in cash in the year	(1,936)
Loans undertaken in the year	(302)
Exchange differences	(488)
	<u> </u>
Movement in net funds in the year	(2,726)
Net funds at beginning of year	2,319
	<u> </u>
Net debt at end of year	(407)
	<u> </u>

ANALYSIS OF CHANGES IN NET FUNDS/(DEBT)	At 1 January 2005	Cash flows	Exchange differences	At 31 December 2005
	US\$'000	US\$'000	US\$'000	US\$'000
Cash at bank and in hand	2,386	(1,667)	(488)	231
Bank overdraft	(67)	(269)	-	(336)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loans	2,319	(1,936)	(488)	(105)
	-	(302)	-	(302)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>2,319</u>	<u>(2,238)</u>	<u>(488)</u>	<u>(407)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

SERVISION PLC**RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS****FOR THE YEAR ENDED 31 DECEMBER 2005**

	2005 US\$'000	2004 US\$'000
Loss for the year	(2,605)	(2,796)
	<u>(2,605)</u>	<u>(2,796)</u>
Exchange rate differences	(488)	(112)
New shares issued in Servision Plc (net of issue costs)	71	5,278
New shares issued in Servision Ltd (net of issue costs)	-	161
	<u>(3,022)</u>	<u>2,531</u>
Net movement in shareholders' funds	(3,022)	2,531
Opening shareholders' funds	2,858	327
	<u>2,858</u>	<u>327</u>
Closing shareholders' (deficit)/funds	<u>(164)</u>	<u>2,858</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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 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 a result of the funds that have been raised in the post balance sheet period (see note 19).

(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 2004 and acquired Servision Ltd (and its wholly owned subsidiary Servision Inc.) on 20 July 2004 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 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 \$1.72080 (2004: £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 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.

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 2005

3. OPERATING LOSS	2005 US\$'000	2004 US\$'000
Operating loss is stated after charging:-		
Depreciation	64	40
Auditors – audit fees	24	29
- other	18	49
Costs of admission to AIM	-	315
	<u> </u>	<u> </u>

4. STAFF COSTS

The staff costs for the year ending 31 December 2005, totalled US\$1,768,000 (2004: US\$1,427,000). There were no pension expenses for the company for the year ending 31 December 2005 (2004: \$nil). The average number of persons (including directors) employed by the Group during the year was 37 (2004: 35).

5. DIRECTORS' REMUNERATION	2005 US\$'000	2004 US\$'000
Directors' emoluments	<u>112</u>	<u>112</u>

6. NET INTEREST PAYABLE

Bank interest payable	59	179
Interest receivable	(41)	-
	<u>18</u>	<u>179</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>
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(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	<u>(2,604)</u>	<u>(2,796)</u>
Multiplied by the standard rate of corporation tax in Israel of 35%.	(911)	(979)
Effects of:		
Disallowable expenditure	246	130
Losses carried forward	665	849
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 2005

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 \$351,000 (2004: US\$348,000) which is dealt with in the financial statements of the company.

9. TANGIBLE FIXED ASSETS GROUP	Leasehold improvements US\$'000	Office furniture and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Cost or valuation				
At 1 January 2005	26	181	45	252
Additions	15	41	-	56
At 31 December 2005	41	222	45	308
Depreciation				
At 1 January 2005	3	49	11	63
Charge for the year	3	55	6	64
At 31 December 2005	6	104	17	127
Net Book Value				
At 31 December 2005	35	118	28	181
At 31 December 2004	23	132	34	189

10. INVESTMENTS

Group

Name of undertaking	Country of registration	Proportion held by parent company	Nature of business
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
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Company

Investment in subsidiary company

As at 1 January 2005 and 31 December 2005	231
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SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

11. STOCK			2005 US\$'000	2004 US\$'000
Group				
Goods held for resale			601	613
			<u>601</u>	<u>613</u>
12. DEBTORS	Group 2005 US\$'000	Company 2005 US\$'000	Group 2004 US\$'000	Company 2004 US\$'000
Amounts owed by group undertakings	-	4,254	-	4,738
Trade debtors	220	-	304	-
Other debtors	36	1	183	1
Grants receivable	-	-	159	-
Prepayments and accrued income	13	-	16	-
	<u>269</u>	<u>4,255</u>	<u>662</u>	<u>4,739</u>
	<u>269</u>	<u>4,255</u>	<u>662</u>	<u>4,739</u>
13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank loans and overdraft	638	-	67	-
Trade creditors	266	-	364	-
Other creditors	164	-	97	35
Other taxes and social security	221	-	192	-
Accruals and deferred income	157	108	272	216
	<u>1,446</u>	<u>108</u>	<u>992</u>	<u>251</u>
	<u>1,446</u>	<u>108</u>	<u>992</u>	<u>251</u>
14. 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:			2005 US\$'000	2004 US\$'000
17,972,564 (2004:17,846,990) ordinary shares of £0.01 each			338	336
384,615 deferred ordinary shares of £0.001 each			1	1
			<u>339</u>	<u>337</u>
			<u>339</u>	<u>337</u>

During the year, the company issued 125,574 ordinary shares of £0.01 each for a premium of £0.32 each.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2005

15. SHARE PREMIUM AND RESERVES	Share premium US\$'000	Merger reserve US\$'000	Profit and loss account US\$'000
Group			
At 1 January 2005	5,172	1,979	(4,630)
Issue of shares in the year	69	-	-
Exchange rate differences	-	-	(488)
Retained loss for the period	-	-	(2,605)
	<u>5,241</u>	<u>1,979</u>	<u>(7,723)</u>
At 31 December 2005	<u>5,241</u>	<u>1,979</u>	<u>(7,723)</u>

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

Company	Share premium US\$'000	Profit and loss account US\$'000
At 1 January 2005	5,172	(348)
Issue of shares in the year	69	-
Exchange rate differences	-	(488)
Retained loss for the period	-	(351)
	<u>5,241</u>	<u>(1,187)</u>
At 31 December 2005	<u>5,241</u>	<u>(1,187)</u>

16. OPERATING LEASE COMMITMENTS

At 31 December 2005, the group had annual commitments under non-cancellable operating leases expiring as follows:-

	2005		2004	
	Land and buildings US\$'000	Other US\$'000	Land and buildings US\$'000	Other US\$'000
Within one year	<u>84</u>	<u>10</u>	<u>67</u>	<u>120</u>

17. LOSS PER SHARE

The loss per share of 14.55c (2004: 20.05c) has been calculated on the weighted average number of share in issue during the year namely 17,909,727 (2004: 13,945,545) and losses of US\$2,605,231 (2004: US\$2,796,046).

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

18. 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 2005, the Company had a contingent obligation to pay royalties of US\$916,000 (2004: US\$757,000). This amount has not been provided for, due to the likelihood of repayment being remote.

19. POST BALANCE SHEET EVENTS

Since the year end, the company has issued 3,895,647 ordinary shares of £0.01 each at a price of £0.2137 each. Of these shares 635,795 shares were subscribed by G Tahan and 127,159 were subscribed by C Levy, both directors of the company.