SERVISION PLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2009

Company Number: 51433241

SERVISION PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

CONTENTS **Page**

SERVISION PLC

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

I am pleased to announce SerVision's consolidated financial statements for the twelve months ended 31 December 2009, and I am very happy to report that despite setbacks resulting from the global financial crisis, SerVision surpassed break-even point, closing the year with a profit, and appeared on "Deloittes Technology Fast 50" list for Israel 2009.

In addition to reaching the important milestones noted above, during the period SerVision was awarded contracts to deliver nearly seven hundred video systems to the police in Bogata, and to supply the first 150 systems for G4S-operated Cash-in-Transit vehicles throughout the UK (total fleet size of 2,000). Our mobile systems are also currently being piloted by Loomis in the UK. These high-profile projects which are expected to grow considerably during 2010, coupled with new distribution contracts in Asia and Latin America, played a significant role in strengthening our market position in the mobile video surveillance sector. Our newest "Compact Video Gateway- Mobile" (CVG-M), formally released in Q1 of 2010, has opened new vertical market opportunities for SerVision, particularly among taxi companies searching for low-cost remote monitoring solutions for vehicles, and major cellular operators looking to offer private customers remote monitoring solutions for home safety applications.

Operating Review

In Q4 of 2009, Hong Kong-based Rich Wonder Technology purchased the manufacturing rights to locally manufacture SerVision products for the Chinese market. The $2m agreement, of which $600,000 has been recognised in these accounts, came into effect in May and we have now selected a qualified manufacturing company to assume responsibility of local production in China. Once the manufacturing process is fully underway, I anticipate a considerable reduction in production costs and greater flexibility to compete in markets where end-customer pricing is often the deciding factor for moving forward.

During the financial year the Company announced equity capital raisings totalling approximately £1.1 million which has provided the Company with additional working capital to allow the Company to execute on its strategy and assist in the growth of the business across its market segments.

Sales and Marketing

Towards the end of last year and in recent months, SerVision has made some significant inroads with a number of cellular operators who have expressed interest in marketing the new CVG-M to private customers for home safety applications. The CVG-M, bundled with cameras and a data plan that supports live video transmission over cellular, offers a low-cost solution to private users looking for video access to their homes and vehicles while on-the-go. Orange has already begun promoting the CVG-M throughout its branches in Israel, and we are currently in discussions with T-Mobile in Germany and Verizon in the US to replicate the Orange-SerVision business model. Partnering with either of these major companies to penetrate the private market will certainly bring SerVision to a new level.

In addition to the ongoing UK Cash-in-Transit projects mentioned above, SerVision has begun pilots with a number of other cash service and bus companies around the world. Over 200 MVGs are already deployed on buses in Israel and two more local companies with a total fleet size of 1,000 vehicles have recently begun pilots.

SerVision has recently increased the market value of our award-winning MVG and the newly launched CVG-M by adding functionality which enables local playback of commercial video/audio content on a local TV monitor connected to the units. When installed in a public vehicle, the MVG and CVG-M can be used both for remote monitoring security applications and as an advertising medium. We have received very favourable feedback on this feature from a number of taxi and bus companies that are currently using our systems, and anticipate further market penetration in the public transportation sector as a result.

Financials

- Revenues, including other income from the Manufacturing Rights Agreement in China, increased by 13% ($5,367,000 for this period compared to $4,732,000 for the same period in 2008).
- Operating profit for the period was $285,000 compared to an operating loss of $857,000 for the same period in 2008.
- Net profits for the period was $193,000 compared to a loss of $1,064,000 for the same period in 2008.This represents a very strong second half for the year where SerVision reached a net profit of $477,000 compared with a net loss of $316,000 for the same period last year

Conclusion

I am happy to report that SerVision was profitable in 2009, and am especially pleased that we were able to achieve this success during a year of considerable economic strife. I am grateful to our entire staff for their commitment and hard work, as well as to our shareholders for their continued support.

So far in 2010 we have secured important new distribution agreements and also entered into the manufacturing rights agreement with Rich Wonder Technology. We remain hopeful of maintaining our progress through the remainder of 2010.

Gideon Tahan
Chairman and Chief Executive Officer

The directors present the annual report together with the financial statements and auditors report for the year ended 31 December 2009.

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. Further information on the results of the Group can be found in the Chairman's Statement on page 1.

ACCOUNTS PRODUCTION

The financial statements for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards.

DIVIDENDS

The directors do not propose a final dividend (2008: £nil).

DIRECTORS

The directors who served during the year were:-

G Tahan
C Levy
E T Yanuv

CHARITABLE AND POLITICAL DONATIONS

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

CORPORATE GOVERNANCE

Under the AIM rules the Group is not obliged to implement the provisions of the Combined Code. However, the Group is committed to applying the principles of good governance contained in the Combined Code as appropriate to a Group of this size. The Board will continue to review compliance with the Code at regular intervals.

In common with other organisations of a similar size, the Executive Directors are heavily involved in the day to day running of the business and meet regularly on an informal basis as well as at Board Meetings. The Board of Directors meets regularly and is responsible for formulating strategy, monitoring financial performance and approving major items of capital expenditure.

FUTURE DEVELOPMENTS

SerVision's R&D team has recently embarked on development of the next generation line of DSP-based products (HVG, UVG, MVG, CVG). These future video gateways will operate on a new platform that will enable working with the H.264 video codec. They will be able to more than double the current systems' frame rate capacity with the H.264, and be able to run advanced video analytics applications. This line of products will have built-in WiFi and support for USB 2.0, allowing for faster cellular connections, external data storage and a range of other functionality.

POST BALANCE SHEET EVENTS

Since the year end the Group has issued 2,740,000 new ordinary shares of 1p each at a price of 12.5p per share, raising £342,500 before expenses.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws 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 and parent Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent Company and of the profit and loss of the Group for that period.

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 accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU 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 Group and parent Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They have general responsibility for taking such steps as are reasonably open to safeguard the assets of the Group and parent Company 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 income statement 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 Group and the Company have 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.

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 company 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 company 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 company. The company diversified its credit lines in order to minimise its exposures to interest rates fluctuations by dividing its financing instruments into three categories:

a. Variable interest rate facilities (has interest rate fluctuations exposure)
b. Fixed rate facilities (does not have interest rate fluctuations exposure)
c. 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 minimise this risk the Group 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 are shipped only after an approved letter of credit is received by the group's bank.
3. On going customers must pay 50% before shipping.
4. Only high rated customers receive credit from the Group(GE, ADI, G4S Israel)

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 93 days (2008: 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.

AUDITORS

A resolution reappointing haysmacintyre will be proposed at the AGM in accordance with S485 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

28 June 2010

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SERVISION PLC

We have audited the financial statements of Servision Plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Anastasia Frangos (Senior statutory auditor)
for and on behalf of haysmacintyre, Statutory Auditor

28 June 2010

Fairfax House
15 Fulwood Place
London
WC1V 6AY

SERVISION PLC

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 $'000	2008 $'000
Sales of goods and services	1,2	4,767	4,732
Franchise income		600	-
TOTAL REVENUES		5,367	4,732
Cost of sales	3	(2,725)	(2,505)
GROSS PROFIT		2,642	2,227
Administrative expenses		(1,538)	(2,040)
Depreciation and amortisation		(881)	(1,142)
Exchange rate differences		62	98
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX AND FINANCE COSTS	4	285	(857)
Net finance expenditure	5	(92)	(207)
PROFIT/(LOSS) ON ORDINARY BEFORE INCOME TAX		193	(1,064)
Tax on ordinary activities	6	-	-
NET PROFIT/(LOSS) FOR THE YEAR		193	(1,064)
Translation difference arising from translating into presentation currency		(32)	(430)
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		161	(1,494)
PROFIT/(LOSS) PER SHARE			
BASIC	18	0.61c	(4.12)c
DILUTED	18	0.61c	(4.12)c

All activities arose from continuing activities.

The notes on pages 14 to 26 are an integral part of these consolidated financial statements

SERVISION PLC

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2009 **Company number: 051433241**

	Notes	2009 $'000	2008 $'000
ASSETS			
Non-current assets			
Intangible assets	9	4,016	3,860
Property, plant and equipment	10	54	66
		4,070	3,926
Current assets			
Inventories	12	196	563
Trade and other receivables	13	2,223	1,455
Cash and cash equivalents		436	136
		2,855	2,154
		6,925	6,080
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	711	556
Share premium account		10,920	9,776
Merger reserve		1,979	1,979
Other reserve		24	-
Retained earnings and translation reserves		(9,899)	(10,060)
TOTAL EQUITY		3,735	2,251
LIABILITIES			
Non-current liabilities			
Bank loans	17	291	428
Loan from the office of the chief scientist	1	789	882
Post employment benefits	19	267	194
		1,347	1,504
Current liabilities			
Bank loans and overdrafts	17	264	558
Loan from the office of the chief scientist	1	116	109
Trade and other payables	16	1,463	1,658
		1,843	2,325
TOTAL LIABILITIES		3,190	3,829
TOTAL EQUITY AND LIABILITIES		6,925	6,080

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2010 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 26 are an integral part of these consolidated financial statements

SERVISION PLC

PARENT COMPANY BALANCE SHEET

AT 31 DECEMBER 2009 **Company number: 051433241**

	Notes	2009 $'000	2008 $'000
ASSETS			
Non-current assets			
Investments	11	200	231
Trade and other receivable	13	121	140
Total assets		321	371
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	711	556
Share premium account		10,920	9,776
Other reserve		24	-
Retained earnings and translation reserves		(11,385)	(10,073)
TOTAL EQUITY		270	259
LIABILITIES			
Current liabilities			
Trade and other payables	16	51	112
TOTAL EQUITY AND LIABILITIES		321	371

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2010 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 26 are an integral part of these consolidated financial statements

SERVISION PLC

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 $'000	2008 $'000
Cash flows from operating activities		
Profit/(loss) before taxation	193	(1,064)
Adjustments for:		
Net finance expenditure	92	207
Depreciation and amortisation	881	1,140
Capital loss	-	9
Movement in trade and other receivables	(846)	(305)
Movement in inventories	367	(6)
Movement in post retirement benefits	73	(62)
Movement in trade and other payables	(194)	567
Net cash generated from operating activities	566	486
Cash flow from investing activities		
Purchase of property, plant and equipment and intangibles	(1,026)	(1,523)
Net interest paid	(92)	(207)
Net cash used in investing activities	(1,118)	(1,730)
Cash flows from financing activities		
Receipts from issue of shares (net of issue costs)	1,401	1,650
Net loans undertaken less repayments	(551)	149
Cash generated from financing activities	850	1,799
Cash and cash equivalents at beginning of period	38	(87)
Net cash generated from all activities	298	555
Non-cash movement arising on foreign currency translation	(32)	(430)
Cash and cash equivalents at end of period	304	38
Cash and cash equivalents comprise		
Cash (excluding overdrafts) and cash equivalents	436	136
Overdrafts	(132)	(98)
	304	38

SERVISION PLC

PARENT COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 $'000	2008 $'000
Cash flows from operating activities		
Loss before taxation	(1,262)	(1,283)
Adjustments for:		
Movement in investments	31	-
Movement in trade and other receivables	(62)	-
Movement in trade and other payables	(58)	63
Net cash used in operating activities	(1,351)	(1,220)
Cash flows from financing activities		
Issue of shares	1,401	1,650
Cash generated from financing activities	1,401	1,650
Cash and cash equivalents at beginning of period	-	-
Exchange rate differences	(50)	(430)
Net cash used in all activities	50	430
Cash and cash equivalents at end of period	-	-

SERVISION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share Capital $'000	Share Premium $'000	Merger Reserve $'000	Other Reserve $'000	Retained Earnings $'000	Translation Reserve $'000	Total $'000
At 1 January 2008	467	8,075	1,979	-	(9,153)	587	1,955
Total comprehensive income for the year	-	-	-	-	(1,064)	(430)	(1,494)
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
Total comprehensive income for the year	-	-	-	-	193	(32)	161
Issue of shares (net of costs)	155	1,144	-	24	-	-	1,323
At 31 December 2009	711	10,920	1,979	24	(10,064)	165	3,735

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Share Capital $'000	Share Premium $'000	Other Reserve $'000	Retained Earnings $'000	Translation Reserve $'000	Total $'000
At 1 January 2008	467	8,075	-	(8,947)	587	182
Total comprehensive income for the year	-	-	-	(1,283)	(430)	(1,713)
Issue of shares (net of costs)	89	1,701	-	-	-	1,790
At 31 December 2008	556	9,776	-	(10,230)	157	259
Total comprehensive income for the year	-	-	-	(1,262)	(50)	(1,312)
Issue of shares (net of costs)	155	1,144	24	-	-	1,323
At 31 December 2009	711	10,920	24	(11,492)	107	270

1. ACCOUNTING POLICIES

Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (June 2010) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and a summary of the more important accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

This year the Group adopted IFRS 8 “Operating Segments”, which replaces IAS 14 Segment Reporting. The standard is applied retrospectively. The accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief executive officer. In contrast, IAS 14 required the Group to identify two sets of segments (business and geographical) based on risks and rewards of the operating segments. 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. This change has resulted in the UK and Israel being identified as separate operating segments for the Group. Note 2 contains further information about the Group’s segment reporting accounting policies and new format under IFRS 8. The Group adopted IAS 1 Revised ‘Presentation of Financial Statements’ during the year.

No separate income statement is presented for the company as provided by section 408, Companies Act 2006.

Basis of Consolidation

The Group financial statements consolidate the financial statements of Servision plc and its subsidiaries (the “Group”) for the years ended 31 December 2008 and 2009.

The accounts of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Revenue recognition

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, provided that 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.

1. ACCOUNTING POLICIES (continued)

Sale of products

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

Franchise income

Revenues from franchises are recognised in line with the agreed terms of the franchise agreement.

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 presentational currency of the Group is the US Dollar. The functional currency of the parent company is sterling because the parent company is based in the UK and has all its transactions in that currency.

The functional currency of the subsidiaries is the US Dollar as the majority of revenues are generated in this currency and the majority of costs are incurred in dollars.

The exchange rate used at 31 December 2009 was £1 = US$1.619.

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.

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.

1. ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits 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.

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”).

1. ACCOUNTING POLICIES (continued)

Post retirement benefits (continued)

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.

Share-based payments

The Group grants options to employees and third party suppliers on a discretionary basis. The cost of granting share options and other share-based remuneration is recognised through the share premium as a cost of raising equity with a corresponding increase in other reserves in equity or in the income statement if the award relates to the remuneration of employees. The Group uses a Black-Scholes option valuation model.

2. GEOGRAPHICAL SEGMENT ANALYSIS

In identifying its operating segments, management generally follows the Group's geographical regions, which represent the main way segments are analyzed in the Group.

The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements. Segment assets and liabilities are not reported internally by management to the Board.

The Group's revenue from external customers are divided into the following geographical areas, by location of operation.

2. GEOGRAPHICAL SEGMENT ANALYSIS (continued)

	2009 $'000	2008 $'000
Europe	924	2,044
Middle East	918	561
North America	570	833
Rest of the world	2,955	1,294
	5,367	4,732

All of the Groups non-current assets are held in Israel.

The Group has 2 customers that accounted for more than 10% of revenue in 2009 both of which are in the segment Rest of the world.

3. COST OF SALES

	2009 $'000	2008 $'000
Materials and parts	2,296	1,966
Employee benefit expense	257	325
Other costs	172	214
	2,725	2,505

4. EXPENSES BY NATURE

	2009 $'000	2008 $'000
Employee benefit expense (see below)	1,513	2,077
Exchange rate differences	62	98
Depreciation and amortisation	881	1,142
Operating lease rentals	76	76
Auditors' remuneration		
- statutory audit services	15	15
- audit-related regulatory reporting	5	5

Employee benefit expense (including directors)

	2009 $'000	2008 $'000
Salaries and wages	1,332	1,891
Social security	47	77
Post retirement benefits	134	109
	1,513	2,077

Of the total employee benefit expense $973,000 (2008: $1,127,000) has been capitalised within intangible assets

4. EXPENSES BY NATURE (continued)

	2009	2008
Directors' remuneration	**$'000**	**$'000**
Fees for services	252	290
	No.	**No.**
The average number of persons (including directors) employed by the Group during the year was as follows:	30	34

5. NET FINANCE EXPENDITURE

	$'000	$'000
Interest receivable	(1)	(16)
Interest payable and similar charges on bank loans and overdrafts	93	223
	92	207

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	-	-

(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:

Profit/(loss) on ordinary activities before taxation	193	(1,064)
Multiplied by the standard rate of corporation tax of 28% (2008: 30%)	54	(319)
Effects of:		
Utilisation of tax losses brought forward	(54)	319
Current year tax charge	-	-

(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 2009 are $9,480,000 (2008: $10,200,000)

7. LOSS FOR THE FINANCIAL YEAR

The parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent Company has made a loss for the year of US$1,262,000 (2008: loss US$1,283,000).

8. PROFIT/(LOSS) PER SHARE

Basic earnings per share is calculated by reference to the profit on ordinary activities after taxation of $193,000 (2008: loss $1,064,000) and on the weighted average of 31,717,721 (2008: 25,865,120) shares in issue. The calculation of diluted earnings per share is based on the profit on ordinary activities after taxation and the diluted weighted average of 31,731,020 (2008: 25,865,120) shares calculated as follows:

	Number of shares	
	31 December 2009	**31 December 2008**
Basic weighted average number of shares	31,717,721	25,865,120
Dilutive potential ordinary shares: Share options	13,299	-
Diluted weighted average number of shares	31,731,020	25,865,120

30,000 (2008: Nil) share options could potentially dilute the basic earnings per share in the future, but have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

9. INTANGIBLE FIXED ASSETS

Group	**Software** $'000	**Development expenditure** $'000	**Tota1** $'000
Cost or valuation			
At 1 January 2008	16	6,029	6,045
Additions	-	1,517	1,517
At 31 December 2008	16	7,546	7,562
Additions	-	1,026	1,026
At 31 December 2009	16	8,572	8,588
Amortisation			
At 1 January 2008	9	2,580	2,589
Charge in the year	5	1,108	1,113
At 31 December 2008	14	3,688	3,702
Charge in the year	1	869	870
At 31 December 2009	15	4,557	4,572
Net Book Value			
At 31 December 2009	1	4,015	4,016
At 31 December 2008	2	3,858	3,860

10. TANGIBLE FIXED ASSETS

Group	Leasehold improvements $'000	Office furniture and equipment $'000	Motor Vehicles $'000	Total $'000
Cost				
At 1 January 2008	41	191	45	277
Additions	-	6	-	6
Disposals	-	-	(45)	(45)
At 31 December 2008	41	197	-	238
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2009	41	197	-	238
Depreciation				
At 1 January 2008	14	136	31	181
Charge in the year	4	18	5	27
Eliminated on disposal	-	-	(36)	(36)
At 31 December 2008	18	154	-	172
Charge in the year	4	8	-	12
At 31 December 2009	22	162	-	184
Net book value				
At 31 December 2009	19	35	-	54
At 31 December 2008	23	43	-	66

11. INVESTMENTS

Company	$'000
At 1 January 2008	231
Exchange rate difference	(31)
At 31 December 2009	200

At 31 December 2009 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	100%	100%	Video surveillance equipment

12. INVENTORIES

Group	2009 $'000	2008 $'000
Raw materials	128	367
Work in progress	34	70
Finished goods	34	126
	196	563

13. TRADE AND OTHER RECEIVABLES

	2009 Group $'000	2009 Company $'000	2008 Group $'000	2008 Company $'000
Trade receivables	2,047	-	1,110	-
Other receivables	176	121	307	140
Prepayments and accrued income	-	-	38	-
	2,223	121	1,455	140

14. CALLED UP SHARE CAPITAL

	2009 $'000	2008 $'000
Allotted, called up and fully paid:		
39,386,102 (2008: 29,881,490) ordinary shares of £0.01 each	711	556
384,615 deferred shares of £0.001 each	-	-
	711	556

During the year the Company issued 9,504,612 ordinary £0.01 shares for a total consideration of £855,416.

15. SHARE OPTIONS

Share options are granted to employees and certain third party service providers. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The options are valued using the Black-Scholes option pricing model and no performance conditions were included in the fair value calculations. The risk free rate was 1.5%. The expected volatility is estimated to be 40%. The average share price during the year was 11.6 pence.

During the year the Group had the following share options in issue:

At 1 January 2009	Number of share options Granted	Number of share options Exercised	At 31 December 2009	Exercise Price (pence)	Exercise Date
-	30,000	-	30,000	15	Unlimited
-	333,333	-	333,333	9	29/10/2009-29/10/2012
-	363,333	-	363,333		

16. TRADE AND OTHER PAYABLES

	2009		2008	
	Group $'000	Company $'000	Group $'000	Company $'000
Trade payables	839	-	423	-
Other taxes and social security	298	-	911	-
Other payables	137	-	167	-
Accruals and deferred income	189	51	157	112
	1,463	51	1,658	112

17. BANK LOANS AND OVERDRAFTS

	2009 $'000	2008 $'000
Group		
Bank overdraft	132	98
Bank loans: amounts due within one year	132	460
Current liability	264	558
Bank loans: amounts due within two to five years	291	224
Bank loans: amounts due after five years	-	204
Total bank loans and overdrafts	555	986

The Group has four loans. The first loan is with Bank Leumi for $4,000 and is repayable in monthly instalments until February 2010. The second loan is with Bank Otzar for US$261,000 and is repayable in monthly instalments until November 2011. The third loan is with Bank Mizrahi for US$73,000 and is renewable every two months. The fourth loan is with Bank Hapoalim for US$86,000 and is repayable in monthly instalments until January 2012.

18. 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.

	2009 $'000	2008 $'000
The future aggregate minimum lease payments under operating leases are as follows:-		
Between 1 and 2 years	114	190

19. CONTINGENT LIABILITY

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.

19. POST EMPLOYMENT BENEFITS

Labour laws and severance laws in Israel obligate the Company to 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.

	2009 $'000	2008 $'000
Obligations for defined benefits plan	276	212
Assets	(9)	(18)
Net obligations	267	194
Expenses for defined benefits plan:		
Cost of current service fees	54	48
Interest expense for obligations	11	13
Expected return on plan assets	(2)	(3)
Actuarial gain, net	1	(3)
	64	55
Activities at fair value of obligations for defined benefits plan:		
Balance at beginning of year	212	286
Interest expense	10	13
Cost of current service fees	54	48
Severance paid	(9)	(127)
Actuarial gain, net	9	(8)
Balance at end of year	276	212
Activities at fair value of assets:		
Balance at beginning of year	18	30
Expected return	-	3
Deposits by employer	-	2
Severance paid	(8)	(12)
Actuarial loss , net	(1)	(5)
Balance at end of year	9	18
Primary assumptions in establishing obligations		
Capitalisation rate of obligations	5.9%	5.8%
Expected real rate of return for plan assets	2.95%	3.3%
Expected real rate of salary increase	2%	2%

20. POST BALANCE SHEET EVENTS

Since the year end the Group has issued 2,740,000 new ordinary shares of 1p each at a price of 12.5p per share, raising £342,500 before expenses.

21. 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 is subscribed 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 weather 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 Group 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.

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'.

<u>Fair value of financial instruments</u>

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:

21. FINANCIAL RISK MANAGEMENT (continued)

Significant accounting policies (continued)
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 differ from current market interest rates, and due to that their fair value is similar to their 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 their fair value.

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.

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(a) Liquidity risk
At 31 December 2009 the consolidated cash position of the Group is $304,000 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.

(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 minimise this risk the Company has a policy of:

- Selling only to respectable integrators and distributors and not to the end customer.
- Orders from customers in certain regions are shipped only after an approved letter of credit is received by the group's bank.
- On going customers must pay 50% before shipping.
- Only high rated customers receive credit from the group(GE, ADI, G4S Israel)