

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

Company Number: 51433241

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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SERVISION PLC

CHAIRMAN'S STATEMENT

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

I am pleased to announce SerVision's consolidated group financial statements for the twelve months ending 31 December 2010, and in light of the modest increase in profits compared to 2009, the Company is proud to have sustained its overall positive record of growth.

SerVision had a number of notable successes over the course of 2010. We expanded ongoing projects with all of the major UK-based cash service operators including G4S, Loomis and Brinks, as well as projects with all our major bus operators in Israel. The company's most recently released product, the CVG-M, was used for a high-profile airport project during the 2010 Asian Games as well as several important pilots conducted over the year. The pilot projects included a large school bus project in the US, a taxi project in Colombia, a police project in Mexico, an ATM project in India, and a train project in Moscow. The Board have received favourable feedback and are confident that these pilot projects will culminate in orders and contracts for SerVision during the 2011 financial year. Discussions with major mobile operators that began in 2010 are still underway and we hope to see some results in the future.

Operating Review

In February 2011 the Company announced that it had raised approximately £725,000 through an oversubscribed placing, which provided SerVision with additional working capital and to promote the commercialisation of the Company's product base. This additional funding has enabled the Company to execute its commercial strategy and has assisted in business growth in the Company's market segments.

Sales and Marketing

SerVision successfully entered into a number of markets in Eastern Europe during the period as the Company supplied several hundred HVG units for a school project in Kazakhstan and signed a distribution agreement with NSS Sp. Z.o.o., a large security company in Poland, for the delivery of 1,000 units across the range of SerVision's products. The Company has also been short-listed for a number of high-profile pilots projects in 2010 that are now beginning to move forward. These include a school bus pilot in San Antonio, Texas which has recently resulted in a new order for 200 MVG units. The Directors anticipate that SerVision's MVG product will eventually be deployed on the school district's fleet of over 1,000 vehicles. A major selling point for SerVision's CVG-M product is its combined ability to offer a live video solution for security applications, as well as to serve as a platform for advertising content paid for by local vendors. After successfully passing the pilot, SerVision received a letter of intent from the Taxi Company and the Municipality of Bogota in Colombia to deploy the solution city-wide. Another significant pilot from 2010 was converted into an agreement to equip 2,000 ATM machines throughout India with SerVision's UVG gateway. The first 100 units have already been supplied and further orders are expected over the coming months. Ongoing projects with Cash-in-Transit companies in the UK and ATM monitoring projects in Singapore also contributed to the company's sales growth in 2010.

The Company also announced in May 2010 a manufacturing rights agreement with Rich Wonder Technology Limited to manufacture all of SerVision's narrow band-width video gateway products to be sold in China and other authorised territories. Under this agreement the consideration payable to SerVision was US\$2.0 million of which US\$600,000 was settled through payment of cash to SerVision with the balance being settled through the supply of 3,730 of SerVision's MVG 400 units (which at the manufacturing cost of US\$375/unit have a value of US\$1.4 million). A production line has been established in China and quality control has been undertaken on the production line of the stock manufacturer. The Board at SerVision are happy with the progress being made on the establishment of the production line in China and expect to start receiving delivery of the MVG 400 units shortly.

Research and Development

SerVision's R&D team had a number of achievements throughout 2010. In addition to developing a client software application for the iPhone, the Company created a new enterprise-level control centre/wireless backup solution to support large scale commercial projects, or projects that have outgrown the existing software monitoring solution. In parallel, new functionality was added to SerVision's line of mobile gateways to help the products gain traction in the fleet management market. These new features include speed alerts, geo-fencing, and an optional integrated G-Force sensor. In addition to the newly added features and optimisations made to the existing range of products, exploratory work was conducted to begin selecting hardware for the next generation of mobile gateways, which we hope to release in 2012.

SERVISION PLC

CHAIRMAN'S STATEMENT (continued)

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Financials

Revenues remained steady at \$5,301,000 million (12 months to 31 December 2009: \$5,367,000)

- Operating profit for the period increased to \$709,000 (12 months to 31 December 2009 : \$285,000)
- Net profit for the period increased to \$641,000 compared to \$193,000 for 2009.

Conclusion

I am pleased to report on SerVision's upward trend of profitability throughout 2010 and I remain optimistic about SerVision's growth prospects into 2011. Following the launch of our CVG-M series of products in 2010 designed for use in smaller vehicles such as taxis we have entered into a market that we view with significant growth potential. In addition the pipeline of new distribution agreements remains healthy. Finally, I am especially grateful to our staff for their outstanding work and dedication, as well as to our shareholders for their continued support.

Gideon Tahan
Chairman and Chief Executive Officer

30 June 2011

SERVISION PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present the annual report together with the financial statements and auditors report for the year ended 31 December 2010.

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 2010 have been prepared in accordance with International Financial Reporting Standards.

DIVIDENDS

The directors do not propose a final dividend (2009: £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 DEVELOPMENT

SerVision will soon be releasing a new enterprise-level control center/wireless backup solution to support large scale commercial projects, or projects that have outgrown the existing software monitoring solution. The new control center monitoring solution is equipped to handle connectivity with thousands of vehicles or sites from one centralized location. Ongoing software development is also underway to support the Android OS and to enhance functionality of the existing iPhone client. In addition to a range of newly added features and optimizations made to SerVision's mobile product portfolio (including, but not limited to, G-Force integration, speed alerts, Geo-Fencing, and more), exploratory work was conducted to begin selecting hardware for the next generation of gateways. This line of products will support the H.264 codec and is scheduled for release in 2012.

SERVISION PLC

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

POST BALANCE SHEET EVENTS

Since the year end the Group has issued 9,062,500 new ordinary shares of 1p each at a price of 8p per share, raising £725,000 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.

SERVISION PLC

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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 New 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 129 days (2009: 93 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 2010

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 08 70 162 1313.

ON BEHALF OF THE BOARD

G TAHAN

Dukes Court, 32 Duke Street, St. James's,
London SW1Y 6DF.

Chairman
Executive Director

30 June 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

SERVISION PLC

We have audited the financial statements of Servision Plc for the year ended 31 December 2010 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 4, 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 2010 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

Fairfax House
15 Fulwood Place
WC1V 6AY
London

30 June 2011

SERVISION PLC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Notes</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Sales of goods and services	1,2	3,901	4,767
Franchise income		<u>1,400</u>	<u>600</u>
TOTAL REVENUES		5,301	5,367
Cost of sales	3	<u>(1,991)</u>	<u>(2,725)</u>
GROSS PROFIT		3,310	2,642
Administrative expenses		(1,824)	(1,538)
Depreciation and amortisation		(632)	(881)
Exchange rate differences		<u>(145)</u>	<u>62</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX AND FINANCE COSTS	4	709	285
Net finance expenditure	5	<u>(68)</u>	<u>(92)</u>
PROFIT ON ORDINARY BEFORE INCOME TAX		641	193
Tax on ordinary activities	6	<u>--</u>	<u>--</u>
NET PROFIT FOR THE YEAR		641	193
Translation difference arising from translating into presentation currency		<u>--</u>	<u>(32)</u>
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		<u><u>641</u></u>	<u><u>161</u></u>
PROFIT PER SHARE			
BASIC	8	<u><u>1.53c</u></u>	<u><u>0.61c</u></u>
DILUTED	8	<u><u>1.53c</u></u>	<u><u>0.61c</u></u>

All activities arose from continuing activities.

The notes on pages 14 to 28 are an integral part of these consolidated financial statements

SERVISION PLC
CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2010

Company number: 051433241

	Notes	2010 <u>\$'000</u>	2009 <u>\$'000</u>
ASSETS			
Non-current assets			
Intangible assets	9	4,397	4,016
Property, plant and equipment	10	<u>55</u>	<u>54</u>
		<u>4,452</u>	<u>4,070</u>
Current assets			
Inventories	12	283	196
Trade and other receivables	13	3,296	2,223
Cash and cash equivalents		<u>197</u>	<u>436</u>
		<u>3,776</u>	<u>2,855</u>
		<u>8,228</u>	<u>6,925</u>
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	755	711
Share premium account		11,383	10,920
Merger reserve		1,979	1,979
Other reserve		40	24
Retained earnings and translation reserves		<u>(9,258)</u>	<u>(9,899)</u>
TOTAL EQUITY		<u>4,899</u>	<u>3,735</u>
LIABILITIES			
Non-current liabilities			
Bank loans	17	217	291
Loan from the office of the chief scientist	1	782	789
Post employment benefits	20	<u>347</u>	<u>267</u>
		<u>1,346</u>	<u>1,347</u>
Current liabilities			
Bank loans and overdrafts	17	364	264
Loan from the office of the chief scientist	1	154	116
Trade and other payables	16	<u>1,465</u>	<u>1,463</u>
		<u>1,983</u>	<u>1,843</u>
TOTAL LIABILITIES		<u>3,329</u>	<u>3,190</u>
TOTAL EQUITY AND LIABILITIES		<u>8,228</u>	<u>6,925</u>

The financial statements were approved and authorised for issue by the Board of Directors 30 June, 2011 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 28 are an integral part of these consolidated financial statements

SERVISION PLC

PARENT COMPANY BALANCE SHEET

AT 31 DECEMBER 2010

Company number: 051433241

	<u>Notes</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
ASSETS			
Non-current assets			
Investments	11	200	200
Trade and other receivable	13	<u>68</u>	<u>121</u>
		<u>268</u>	<u>321</u>
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	755	711
Share premium account		11,383	10,920
Other reserve		40	24
Retained earnings and translation reserves		<u>(11,993)</u>	<u>(11,385)</u>
TOTAL EQUITY		<u>185</u>	<u>270</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	<u>83</u>	<u>51</u>
TOTAL EQUITY AND LIABILITIES		<u>268</u>	<u>321</u>

The financial statements were approved and authorised for issue by the Board of Directors 30 June, 2011 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 28 are an integral part of these consolidated financial statements

SERVISION PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	<u>\$'000</u>	<u>\$'000</u>
Cash flows from operating activities		
Profit before taxation	641	193
Adjustments for:		
Net finance expenditure	68	92
Depreciation and amortisation	632	881
Movement in trade and other receivables	(1,073)	(846)
Movement in inventories	(87)	367
Movement in post retirement benefits	80	73
Movement in trade and other payables	<u>2</u>	<u>(194)</u>
Net cash generated from operating activities	263	566
Cash flow from investing activities		
Purchase of property, plant and equipment and intangibles	(1,013)	(1,026)
Net interest paid	(10)	(92)
Deposit for leasing vehicles	<u>(6)</u>	<u>--</u>
Net cash used in investing activities	<u>(1,029)</u>	<u>(1,118)</u>
Cash flows from financing activities		
Receipts from issue of shares (net of issue costs)	523	1,401
Net loans undertaken less repayments	<u>26</u>	<u>(551)</u>
Cash generated from financing activities	<u>549</u>	<u>850</u>
Cash and cash equivalents at beginning of period	304	38
Net cash generated from all activities	(217)	298
Non-cash movement arising on foreign currency translation	<u>--</u>	<u>(32)</u>
Cash and cash equivalents at end of period	<u><u>87</u></u>	<u><u>304</u></u>
Cash and cash equivalents comprise:		
Cash (excluding overdrafts) and cash equivalents	197	436
Overdrafts	<u>(110)</u>	<u>(132)</u>
	<u><u>87</u></u>	<u><u>304</u></u>

SERVISION PLC

PARENT COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	<u>\$'000</u>	<u>\$'000</u>
Cash flows from operating activities		
Loss before taxation	(608)	(1,262)
Adjustments for:		
Movement in investments	--	31
Movement in trade and other receivables	53	(62)
Movement in trade and other payables	<u>32</u>	<u>(58)</u>
Net cash used in operating activities	<u>(523)</u>	<u>(1,351)</u>
Cash flows from financing activities		
Issue of shares (net of issue costs)	<u>523</u>	<u>1,401</u>
Cash generated from financing activities	<u>523</u>	<u>1,401</u>
Cash and cash equivalents at beginning of period	--	--
Exchange rate differences	--	(50)
Net cash used in all activities	<u>--</u>	<u>50</u>
Cash and cash equivalents at end of period	<u><u>--</u></u>	<u><u>--</u></u>

SERVISION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital \$'000	Share Premium \$'000	Merger Reserve \$'000	Other Reserve \$'000	Retained Earnings \$'000	Translation Reserve \$'000	Total \$'000
At 1 January 2009	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)	<u>155</u>	<u>1,144</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>-</u>	<u>1,323</u>
At 31 December 2009	711	10,920	1,979	24	(10,024)	125	3,735
Total comprehensive income for the year	-	-	-	-	641	--	641
Issue of shares (net of costs)	<u>44</u>	<u>463</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>523</u>
At 31 December 2010	<u>755</u>	<u>11,383</u>	<u>1,979</u>	<u>40</u>	<u>(9,383)</u>	<u>125</u>	<u>4,899</u>

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 2009	556	9,776	-	(10,230)	157	259
Total comprehensive income for the year	-	-	-	(1,262)	(50)	(1,312)
Issue of shares (net of costs)	<u>155</u>	<u>1,144</u>	<u>24</u>	<u>-</u>	<u>-</u>	<u>1,323</u>
At 31 December 2009	711	10,920	24	(11,492)	107	270
Total comprehensive income for the year	-	-	-	(608)	-	(608)
Issue of shares (net of costs)	<u>44</u>	<u>463</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>523</u>
At 31 December 2010	<u>755</u>	<u>11,383</u>	<u>40</u>	<u>(12,100)</u>	<u>107</u>	<u>185</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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 2011) 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.

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 2009 and 2010.

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.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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 1.5% 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
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 United States Dollar. The functional currency of the parent company is sterling because the parent company is based in the United Kingdom 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 2010 was £1 = US\$1.547.

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 credit losses. 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.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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").

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

2. BUSINESS 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.

	2010	2009
	<u>\$'000</u>	<u>\$'000</u>
Europe	1,566	924
Middle East	249	918
North America	296	570
Rest of the world	3,190	2,955
	<u>5,301</u>	<u>5,367</u>
	<u><u>5,301</u></u>	<u><u>5,367</u></u>

All of the Group's non-current assets are held in Israel.

The Group has 2 customers that accounted for more than 10% of revenue in 2010 (2009: 10%) one of which is the segment Rest of the world and the other in Europe.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

3.	<u>COST OF SALES</u>	2010	2009
		<u>\$'000</u>	<u>\$'000</u>
	Materials and parts	1,568	2,296
	Employee benefit expense	316	257
	Other costs	<u>107</u>	<u>172</u>
		<u>1,991</u>	<u>2,725</u>
4.	<u>EXPENSES BY NATURE</u>	2010	2009
		<u>\$'000</u>	<u>\$'000</u>
	Employee benefit expense (see below)	1,177	1,226
	Exchange rate differences	145	7
	Depreciation and amortisation	632	881
	Doubtful accounts	205	55
	Travel abroad	286	187
	Trade shows – local and abroad	84	29
	Operating lease rentals	76	76
	Auditors' remuneration		
	- statutory audit services	15	15
	- audit-related regulatory reporting	<u>5</u>	<u>5</u>
	Employee benefit expense (including directors)	2010	2009
		<u>\$'000</u>	<u>\$'000</u>
	Salaries and wages	1,047	1,045
	Social security	54	47
	Post retirement benefits	<u>76</u>	<u>134</u>
		<u>1,177</u>	<u>1,226</u>
		<u>No.</u>	<u>No.</u>
	The average number of persons (including directors) employed by the Group during the year was as follows:	<u>30</u>	<u>30</u>
	Directors remuneration	2010	2009
		<u>\$'000</u>	<u>\$'000</u>
	G Tahan	192	192
	C Levy	42	36
	E T Yanuv	18	18
	E T Yanuv has been granted 30,000 shares in the company under long term share option incentive schemes. These remain outstanding at the year end.		
5.	<u>NET FINANCE EXPENDITURE</u>	2010	2009
		<u>\$'000</u>	<u>\$'000</u>
	Interest receivable	(12)	(1)
	Interest payable and similar charges on bank loans and overdrafts	<u>80</u>	<u>93</u>
		<u>68</u>	<u>92</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

	2010 \$'000	2009 \$'000
(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 on ordinary activities before taxation	<u>641</u>	<u>193</u>
Multiplied by the standard rate of corporation tax of 28% (2009: 28%)	179	54
Effects of:		
Utilisation of tax losses brought forward	<u>(179)</u>	<u>(54)</u>
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 2010 are \$8,200,000(2009: \$9,480,000)

7. PROFIT 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 loss for the year ended 31 December 2010 was US\$608,000 (2009: loss US\$1,262,000).

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

8. PROFIT PER SHARE

Basic earnings per share is calculated by reference to the profit on ordinary activities after taxation of \$641,000 (2009: profit \$161,000) and on the weighted average of 41,897,768 (2009: 31,717,721) 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 41,911,067 (2009: 31,731,020) shares calculated as follows:

	Number of shares	
	31 December 2010	31 December 2009
Basic weighted average number of shares	41,897,768	31,717,721
Dilutive potential ordinary shares: Share options	<u>13,299</u>	<u>13,299</u>
Diluted weighted average number of shares	<u>41,911,067</u>	<u>31,731,020</u>

30,000 (2009: 30,000) 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

	Software	Developmen t expenditure	Total
Group Cost or valuation	\$'000	\$'000	\$'000
At 1 January 2009	16	7,546	7,562
Additions	<u>-</u>	<u>1,026</u>	<u>1,026</u>
At 31 December 2009	16	8,572	8,588
Additions	<u>-</u>	<u>1,001</u>	<u>1,001</u>
At 31 December 2010	<u>16</u>	<u>9,573</u>	<u>9,589</u>
Amortisation			
At 1 January 2009	14	3,688	3,702
Charge in the year	<u>1</u>	<u>869</u>	<u>870</u>
At 31 December 2009	15	4,557	4,572
Charge in the year	<u>1</u>	<u>619</u>	<u>620</u>
At 31 December 2010	<u>16</u>	<u>5,176</u>	<u>5,192</u>
Net Book Value			
At 31 December 2010	<u>-</u>	<u>4,397</u>	<u>4,397</u>
At 31 December 2009	<u>1</u>	<u>4,015</u>	<u>4,016</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

10. <u>TANGIBLE FIXED ASSETS</u>	Leasehold improvements \$'000	Office furniture and equipment \$'000	Total \$'000
Group Cost			
At 1 January 2009 and 31 December 2009	41	197	238
Additions	-	12	12
At 31 December 2010	<u>41</u>	<u>209</u>	<u>250</u>
Depreciation			
At 1 January 2009	18	154	172
Charge in the year	4	8	12
At 31 December 2009	<u>22</u>	<u>162</u>	<u>184</u>
Charge in the year	4	7	11
At 31 December 2010	<u>26</u>	<u>169</u>	<u>195</u>
Net book value			
At 31 December 2010	<u>15</u>	<u>40</u>	<u>55</u>
At 31 December 2009	<u>19</u>	<u>35</u>	<u>54</u>

11. <u>INVESTMENTS</u>	<u>\$'000</u>
Company	
At 31 December 2010 and 31 December 2009	<u>200</u>

At 31 December 2010 the group held 20% or more of a class of the allotted share capital of the following:

	<u>Country of Incorporation</u>	<u>Class of Share Capital</u>	<u>Proportion Held by Servision Plc</u>	<u>Proportion Held by Group</u>	<u>Nature of Business</u>
Servision Limited	Israel	Ordinary	100%	100%	Video Surveillance Equipment
Servision Inc.	USA	Ordinary	100%	100%	Video Surveillance Equipment

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

12.	<u>INVENTORIES</u>		2010		2009
			<u>\$'000</u>		<u>\$'000</u>
	Group				
	Raw materials		185		128
	Work in progress		33		34
	Finished goods		<u>65</u>		<u>34</u>
			<u>283</u>		<u>196</u>
13.	<u>TRADE AND OTHER RECEIVABLES</u>		2010	2010	2009
			<u>Group</u>	<u>Company</u>	<u>Group</u>
			<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
	Trade receivables		2,956	-	2,047
	Other receivables		<u>340</u>	<u>68</u>	<u>176</u>
			<u>3,296</u>	<u>68</u>	<u>2,223</u>

Included within trade receivables is an amount of \$1,400,000 receivable under the franchise agreement and will be settled in the form of stock as further explained within the Chairman's Statement.

14.	<u>CALLED UP SHARE CAPITAL</u>		2010		2009
			<u>\$'000</u>		<u>\$'000</u>
	Allotted, called up and fully paid:				
	42,126,102 (2009:39,385,990) ordinary shares of £0.01 each		755		711
	384,615 deferred shares of £0.001 each		<u>-</u>		<u>-</u>
			<u>755</u>		<u>711</u>

During the year the Company issued 2,740,000 ordinary £0.01 shares for a total consideration of £342,500.

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.

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

At 1 January 2010	Number of share options		At 31 December 2010	Exercis e Price (pence)	Exercise Date
	Granted	Exercised			
30,000	-	-	30,000	15	Unlimited
333,333	-	-	333,333	9	29/10/2009-29/10/2012
<u>363,333</u>	<u>-</u>	<u>-</u>	<u>363,333</u>		

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

16. TRADE AND OTHER PAYABLES

	2010		Group \$'000
	Group \$'000	Company \$'000	
Trade payables	757	-	839
Other taxes and social security	235	-	298
Other payables	244	-	137
Accruals and deferred income	229	83	189
	<u>1,465</u>	<u>83</u>	<u>1,463</u>

17. BANK LOANS AND OVERDRAFTS

Group	2010	2009
	\$'000	\$'000
Bank overdraft	110	132
Bank loans: amounts due within one year	254	132
Current liability	<u>364</u>	<u>264</u>
Bank loans: amounts due within two to five years	217	291
Total bank loans and overdrafts	<u>581</u>	<u>555</u>

The Group has five bank loans. The first loan is with Bank Mizrahi for \$38,690 and is repayable in monthly instalments until February 2012. The second loan is with Bank Otzar for US\$133,025 and is repayable in monthly instalments until January 2014. The third loan is with Bank Mizrahi for US\$112,838 and is renewable every two months. The fourth loan is with Bank Hapoalim for US\$49,366 and is repayable in monthly instalments until March 2011. The fifth loan is with Bank Otzar for US\$18,197 and is repayable in monthly instalments until April 2011. The Group also has other short term loans totalling \$119,000.

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.

	2010 \$'000	2009 \$'000
The future aggregate minimum lease payments under operating leases are as follows:-		
No later than 1 year	<u>106</u>	<u>-</u>
Between 1 and 2 years	<u>-</u>	<u>114</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

19. CONTINGENT LIABILITY

The subsidiary is required to pay royalties to the OCS under the subsidiary's research and development agreements with the OCS and pursuant to applicable laws, 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.

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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.

	2010	2009
	<u>\$'000</u>	<u>\$'000</u>
Obligations for defined benefits plan	348	276
Assets	<u>(1)</u>	<u>(9)</u>
Net obligations	<u>347</u>	<u>267</u>
Expenses for defined benefits plan:		
Cost of current service fees	71	54
Interest expense for obligations	7	11
Expected return on plan assets	(1)	(2)
Actuarial loss, net	<u>17</u>	<u>1</u>
	<u>94</u>	<u>64</u>
Activities at fair value of obligations for defined benefits plan:		
Balance at beginning of year	276	212
Interest expense	7	10
Cost of current service fees	71	54
Severance paid	(23)	(9)
Actuarial gain, net	<u>17</u>	<u>9</u>
Balance at end of year	<u>348</u>	<u>276</u>
Activities at fair value of assets:		
Balance at beginning of year	9	18
Expected return	1	-
Deposits by employer	14	-
Severance paid	(23)	(8)
Actuarial loss, net	<u>-</u>	<u>(1)</u>
Balance at end of year	<u>1</u>	<u>9</u>
Primary assumptions in establishing obligations		
Capitalisation rate of obligations	5.22%	5.9%
Expected real rate of return for plan assets	2.56%	2.95%
Expected real rate of salary increase	<u>2%</u>	<u>2%</u>

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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 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 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 assets or liabilities which are classified as 'Assets or 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:

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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 valued 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.

(a) Liquidity risk

At 31 December 2010 the consolidated cash position of the Group is \$87,000 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)

The group's maximum exposure to credit risk is \$3,296,000 represented by Trade and other receivables.

SERVISION PLC

NOTES TO THE REPORT AND FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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. **ULTIMATE CONTROLLING PARTY**

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

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. **POST BALANCE SHEET EVENTS**

Since the year end the Group has issued 9,062,500 new ordinary shares of 1p each at a price of 8p per share, raising £725,000 before expenses.

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. **RELATED PARTY TRANSACTIONS**

Included within Other Receivables is a loan of US \$168,000 (2009: \$42,000) to G Tahan, a director. The loan is unsecured and is due within one year.

25. **STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing is of standards and interpretations issued, which the company reasonably expects to be applicable at a future date. The company intends to adopt those standards when they become effective. The company does not expect the impact of such changes on the financial statements to be material.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The company does not expect any impact on its financial position or performance.

Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the company's financial assets. The company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the company:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements

The company, however, expects no impact from the adoption of the amendments on its financial position or performance.