SERVISION PLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

Company Number: 51433241

SERVISION PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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SERVISION PLC

CHAIRMAN'S STATEMENT

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

The Board today announces SerVision's consolidated group financial statements for the year ended 31 December, 2012. I would like to reaffirm my optimism regarding future growth prospects for the Company despite the decline in overall turnover and losses witnessed in 2012. SerVision's sales revenue during 2012 fell largely because we experienced a significant decline in sales of fixed DVRs. The increasing presence of many low-cost alternative solutions for the fixed site CCTV market has forced us to re-examine our sales and marketing approach, and to focus on customers who require remote monitoring solutions for vehicles and unmanned sites – projects that require video transmission over cellular networks. We sold more mobile units in 2012 than ever before, and I am confident that we'll achieve improved results going forward.

Sales and Marketing

SerVision's sales in 2012 were bolstered by new police projects in Mexico, Honduras and Argentina and by new projects in South Africa, where SerVision's mobile units are widely deployed on trucks carrying high value assets. A number of these projects will continue to provide revenue for the group in 2013. Other large-scale projects in the tobacco transport industry, including direct cooperation with Philip Morris in Central America, and with third party integrators who service this industry in Europe, were secured towards the end of last year and have generated revenue for the group in 2013. Pilots in the Nigerian oil sector and the transportation logistics sector in Europe are also now starting to bear fruit. During 2012, SerVision began supplying mobile DVRs for a rapidly growing train project with Russian Railways in St. Petersburg, and we won a tender for a very large project in Holland for the monitoring of remotely-located construction sites.

The board believe that prospects for the group winning new large-scale projects remain positive. On-going bus projects in Brazil, where SerVision already has a strong foothold in the mobile security sector through existing distribution agreements, are expected to expand considerably now that local legislative efforts are underway which oblige bus companies to have a live video streaming solution deployed across their fleet. I am also encouraged by the fact that no fewer than four Indian companies put forward our mobile solution for a recently announced bus project in Delhi which requires the deployment of live camera systems on up to 12,000 buses in Delhi. I am further pleased to report that SerVision's cooperation with Deutsche Telekom, solidified in a Frame Agreement signed in December 2012, is moving forward and the companies are now exploring joint commercial opportunities in the German tobacco transport and railway sectors. Lastly, SerVision's UK partners, including Vision Techniques and Cobra, anticipate further inroads in industries such as cash-in-transit, waste management, and transportation logistics.

On top of this, we have recently recruited Mr. Eyal Meir to serve as the new VP of Sales at SerVision, a non-board position. Eyal is the former Business Manager of Mobile Data Solutions at Motorola and brings with him over 17 years of sales experience in the mobile security sector.

Research and Development

During 2012, SerVision's R&D team spent significant time and resources customizing and improving the SVControlCenter's feature set. The SVControlCenter is a professional video monitoring platform for command and control centers. It now offers a full suite of advanced functionality that includes live network recording over cellular, enhanced wireless backup of recorded video and improved alarm video verification features.

SerVision was recently awarded a grant from SIIRD, the Singapore Israel Industrial Research and Development Foundation, to jointly collaborate on the development of a new product with WiSOL, a Singaporean system integrator and long-time partner of SerVision. Together we are in the process of developing a handheld personal video transmitter for foot patrol police officers. In addition to utilizing SerVision's advanced compression algorithm, the product will include an on-screen display, and utilize the latest encryption technologies for secure transmission. WiSOL is a trusted supplier of professional security solutions, including SerVision's mobile DVRs, to police forces throughout the Far East and the spec for this product is uniquely based on their police customers' immediate needs and requirements. Parallel R&D efforts are underway to move forward with the next generation of mobile DVRs and transmitters. Our hardware team has already selected the DSP platform on which the new products will run and we're now in the process of defining the feature set. In addition to providing more efficient processing power to enable higher quality recordings, the new line of DVRs will have support for IP as well as analogue cameras.

Financials

- Revenues for the year were $4.02 million (12 months ended 31 December 2011 - $6.21 million).
- Operating loss for the period was $1.48 million (12 months ended 31 December 2011 - $1.20 million).
- Net loss for the period was $1.56 million (12 months ended 31 December 2011 - $1.28 million).

As at 31 December 2012 the Company had cash and cash equivalents of £0.05 million (31 December 2011: £0.09 million). On 27 December 2012, the Company announced that it had conditionally raised £320,000 from a small group of new investors at a premium to the then prevailing share price. The funds from this subscription were received in early January. The Company also secured a loan of US$384,000 from Mercantile Discount Bank in December 2012 which is guaranteed by the Israeli Ministry of Industry and has a term of 5 years.

The reduction in revenues and generation of losses has negatively impacted the working capital position of the group. The loan received from Mercantile Discount Bank in December 2012 and the subscription proceeds received in January 2013 provided additional working capital for the group. The board remains confident that it has sufficient working capital to operate the business should the expected pipeline of business crystallise in line with internal projections. The board is also exploring ways of strengthening its balance sheet over the coming months.

Conclusion

The results for 2012 were disappointing and the Company has continued to experience difficult market conditions in 2013 so far. Nevertheless we are beginning to see an upturn in activity levels over the past couple of months and I remain confident that the projects which only began during this period, particularly in the mobile sector, will facilitate growth over the coming years. I believe this, coupled with a new product offering in development and the addition of new personnel to our sales team, will ultimately yield more promising results going forward.

As always I would like to express my sincere gratitude to our shareholders for their continued support and to thank SerVision staff for their hard work and dedication.

Gideon Tahan
Chairman and CEO

SERVISION PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present the annual report together with the financial statements and auditors report for the year ended 31 December 2012.

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 pages 1.

ACCOUNTS PRODUCTION

The financial statements for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

DIVIDENDS

The directors do not propose a final dividend (2011: £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.

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 International Financial Reporting Standards as adopted by the EU ("IFRS").

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

The directors have prepared and reviewed sales forecasts and budgets for the next twelve months and having considered these cash flows and the availability of other financing sources if required, have concluded that the group will remain a going concern. After this process and having made further relevant 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

Liquidity risk

Management of liquidity risk concentrates on the maintenance of appropriate credit lines and funding sources to ensure adequate cash resources for the Group's operations. The group prepares cash flow forecasts and actively manages cash carefully.

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 are paid in Israeli Shekels. The company has therefore a partial currency risk in the event the Israeli Shekel strengthens against the US Dollar which could influence the bottom line of the group's financial results.

The Group subscribes to a weekly circular from the two main Israeli 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. There are no financial instruments in use at the date of this report.

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 sources of finance into three categories:

(a) Variable interest rate facilities (which are exposed to interest rate fluctuations).
(b) Fixed rate facilities (which are not exposed to interest rate fluctuations).
(c) Shekel-dollar facilities (which are not exposed to interest rate fluctuations).

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:

(a) Selling only to respectable integrators and distributors and not to the end customer.
(b) Orders from customers in certain regions are shipped only after an approved letter of credit is received by the Group's bank.
(c) Ongoing customers must pay 50% before shipping.
(d) 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 measures to reduce its fixed costs (labour) if performance is below the Group's expectations. The Group may conduct a 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 136 days (2011: 129 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 0871 664 0300.

ON BEHALF OF THE BOARD

G TAHAN

Chairman
Executive Director
28 June 2013

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

SERVISION PLC

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 $'000	2011 $'000
Sales of goods and services	1,2	4,023	6,214
TOTAL REVENUES		4,023	6,214
Cost of sales	3	(2,146)	(3,367)
GROSS PROFIT		1,877	2,847
Other income	19	-	766
Administrative expenses		(2,236)	(1,775)
Depreciation and amortisation		(1,045)	(757)
Exchange rate differences		(80)	114
OPERATING (LOSS)/ PROFIT	4	(1,484)	1,195
Net finance expenditure	5	(64)	(39)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE INCOME TAX		(1,548)	1,156
Tax on ordinary activities	6	(28)	122
NET (LOSS) / PROFIT FOR THE YEAR		(1,576)	1,278
Translation difference arising from translating into presentation currency		13	-
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR		(1,563)	1,278
(LOSS)/PROFIT PER SHARE			
BASIC	8	(3.05)c	2.57c
DILUTED	8	(3.05)c	2.57c

All activities arose from continuing activities.

The notes on pages 14 to 29 are an integral part of these consolidated financial statements

SERVISION PLC

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2012

Company number: 05143241

	Notes	2012 $'000	2011 $'000
ASSETS			
Non-current assets			
Intangible assets	9	4,583	4,666
Deferred tax asset	6	96	122
Property, plant and equipment	10	92	109
		4,771	4,897
Current assets			
Inventories	12	635	211
Trade and other receivables	13	3,596	5,020
Cash and cash equivalents		45	94
		4,276	5,325
		9,047	10,222
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	984	898
Share premium account		12,639	12,206
Merger reserve		1,979	1,979
Other reserve		55	48
Retained earnings and translation reserves		(9,543)	(7,980)
TOTAL EQUITY		6,114	7,151
LIABILITIES			
Non-current liabilities			
Bank loans	17	375	-
Loan from the office of the chief scientist	1	11	17
Post employment benefits	20	367	340
		753	357
Current liabilities			
Bank loans and overdrafts	17	587	692
Loan from the office of the chief scientist	1	161	158
Trade and other payables	16	1,432	1,864
		2,180	2,714
TOTAL LIABILITIES		2,933	3,071
TOTAL EQUITY AND LIABILITIES		9,047	10,222

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2013 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 29 are an integral part of these consolidated financial statements

SERVISION PLC

PARENT COMPANY BALANCE SHEET

AT 31 DECEMBER 2012

Company number: 05143241

	Notes	2012 $'000	2011 $'000
ASSETS			
Non-current assets			
Investments	11	200	200
Trade and other receivable	13	265	66
		465	266
Capital and reserves attributable to the Company's			
equity shareholders	14	984	898
Called up share capital		12,639	12,206
Share premium account		55	48
Other reserve		(13,263)	(12,918)
Retained earnings and translation reserves			
		415	234
TOTAL EQUITY			
LIABILITIES			
Current liabilities			
Trade and other payables	16	50	32
TOTAL EQUITY AND LIABILITIES		465	266

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2013 and were signed below on its behalf by:

G Tahan
Chairman

E T Yanuv
Chief Financial Officer

The notes on pages 14 to 29 are an integral part of these consolidated financial statements

SERVISION PLC

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
(Loss)/Profit before taxation		(1,548)	1,156
Adjustments for:			
Net finance expenditure	5	64	39
Doubtful debts		663	224
Depreciation and amortisation		1,062	757
Movement in trade and other receivables		839	(1,949)
Movement in inventories		(424)	72
Movement in post retirement benefits		27	(7)
Movement in trade and other payables		(464)	399
Revaluation of loan from CSO	19	-	(761)
Net cash generated from/(used in) operating activities		219	(70)
Cash flow from investing activities			
Purchase of property, plant and equipment and intangibles		(962)	(1,080)
Deposit for leasing vehicles		(2)	4
Net cash used in investing activities		(964)	(1,076)
Cash flows from financing activities			
Receipts from issue of shares (net of issue costs)		526	974
Net loans undertaken less repayments		375	(189)
Cash generated from financing activities		901	785
Cash and cash equivalents at beginning of period		(274)	87
Net cash generated from all activities		156	(361)
Cash and cash equivalents at end of period		(118)	(274)
Cash and cash equivalents comprise:			
Cash and cash equivalents		45	94
Overdrafts		(163)	(368)
		(118)	(274)

The notes on pages 14 to 29 are an integral part of these consolidated financial statements

SERVISION PLC

PARENT COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 $'000	2011 $'000
Cash flows from operating activities		
Loss before taxation	(345)	(925)
Adjustments for:		
Movement in trade and other receivables	(199)	2
Movement in trade and other payables	18	(51)
Net cash used in operating activities	(526)	(974)
Cash flows from financing activities		
Issue of shares (net of issue costs)	526	974
Cash generated from financing activities	526	974
Cash and cash equivalents at beginning of period	-	-
Net cash used in all activities	-	-
Cash and cash equivalents at end of period	-	-

The notes on pages 14 to 29 are an integral part of these consolidated financial statements

SERVISION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share Capital $'000	Share Premium $'000	Merger Reserve $'000	Other Reserve $'000	Retained Earnings $'000	Translation Reserve $'000	Total $'000
At 1 January 2011	755	11,383	1,979	40	(9,383)	125	4,899
Total comprehensive income for the year	-	-	-	-	1,278	-	1,278
Share option charge	-	-	-	8	-	-	8
Issue of shares (net of costs)	143	823	-	-	-	-	966
At 31 December 2011	898	12,206	1,979	48	(8,105)	125	7,151
Total comprehensive expense for the year	-	-	-	-	(1,576)	13	(1,563)
Share option charge	-	-	-	7	-	-	7
Issue of shares (net of costs)	86	433	-	-	-	-	519
At 31 December 2012	984	12,639	1,979	55	(9,681)	138	6,114

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 2011	755	11,383	40	(12,100)	107	185
Total comprehensive expense for the year	-	-	-	(925)	-	(925)
Share option charge	-	-	8	-	-	8
Issue of shares (net of costs)	143	823	-	-	-	966
At 31 December 2011	898	12,206	48	(13,025)	107	234
Total comprehensive expense for the year	-	-	-	(362)	17	(345)
Share option charge	-	-	7	-	-	7
Issue of shares (net of costs)	86	433	-	-	-	519
At 31 December 2012	984	12,639	55	(13,387)	124	415

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 2013) 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 key 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.

Going concern

Despite disappointing results for 2012 the directors have prepared and reviewed sales forecasts and budgets for the next twelve months which reflect an upturn in activity levels since the year end.

Following a review of these forecasts and budgets and having considered the availability of other sources of finance if necessary the board remains confident that it has sufficient working capital to operate the business. The board is also exploring ways of strengthening its balance sheet over the coming months and is currently in the process of securing additional loan finance.

Therefore subject to the group realising the forecast sales targets and raising additional working capital where necessary the directors consider it appropriate to prepare the financial statements on the going concern basis.

If the forecast sales are not achieved and additional financing, if required, are not secured in the next twelve months, then it is unlikely that the group will remain a going concern. The financial statements do not include any adjustments that would be necessary should this basis not be appropriate.

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 2011 and 2012.

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.

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

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.

1. ACCOUNTING POLICIES (continued)

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

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

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 2012 was £1 = US$1.615

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.

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 economic 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.

1. ACCOUNTING POLICIES (continued)

Post retirement benefits (continued)

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

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

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

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

Grants from the Office of the Chief Scientist

Prior year 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.

Group management reassess the balance repayable at each reporting date according to their estimates of future sales of products funded by the OCS funding. These estimates of future sales are based on demand for and past sales of, the funded products. As a result of the reassessment at 31 December 2011 the liability to the OCS at 31 December 2011 was reduced by $766,000.

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 Bi-nominal option valuation model.

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.

	2012 $'000	2011 $'000
Europe	1,096	1,523
Far & Middle East	417	1,969
North America	1,852	977
Rest of the world	658	1,745
	4,023	6,214

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

The Group has two customers that accounted for more than 30% of revenue in 2012 (2011: 10%) one of which is based in the Rest of the world and the other in the Far & Middle East.

3. COST OF SALES

	2012 $'000	2011 $'000
Materials and parts	1,644	2,810
Employee benefit expense	320	379
Other costs	182	178
	2,146	3,367

4. EXPENSES BY NATURE

	2012 $'000	2011 $'000
Employee benefit expense (see below)	1,150	1,252
Exchange rate differences	80	(114)
Depreciation and amortisation	1,062	757
Doubtful accounts	663	224
Travel abroad	279	205
Trade shows – local and abroad	46	90
Operating lease rentals	45	43
Auditors' remuneration		
- statutory audit services	15	15
- audit-related assurance services	5	5

Employee benefit expense (including directors)

	2012 $'000	2011 $'000
Salaries and wages	1,044	1,137
Social security	57	62
Post retirement benefits	49	53
	1,150	1,252

	No.	No.
The average number of persons (including directors) employed by the Group during the year was as follows:	34	34

Directors remuneration

	$'000	$'000
G Tahan	171	184
C Levy	10	13
E T Yanuv	31	34

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. NET FINANCE EXPENDITURE

	2012 $'000	2011 $'000
Interest receivable	(17)	(15)
Interest payable and similar charges on bank loans and overdrafts	81	54
	64	39

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.

		2012 $'000	2011 $'000
(a)	**The taxation (charge)/credit comprises:**		
	Current year tax charge	-	-
	Deferred tax (charge)/credit	(28)	122
(b)	**Factors affecting tax charge for the period** The tax assessed for the period is different than the standard rate of corporation tax. The differences are explained below:		
	(Loss)/Profit on ordinary activities before taxation	(1,548)	1,156
	Multiplied by the standard rate of corporation tax of - 23% (2011: 24%)	(356)	277
	Effects of:		
	Tax losses carried forward	356	-
	Utilisation of tax losses brought forward	-	(277)
	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 2012 are $ 8,629,000 (2011: $7,000,000). The deferred tax asset on these losses is not recognised on the grounds of uncertain recoverability.

A deferred tax asset is recognised in respect of United States tax losses carried forward on the basis that the subsidiary in the United States is forecast to generate profits in future periods.

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 loss for the year ended 31 December 2012 was US$ 345,000 (2011: loss US$925,000).

8. PROFIT PER SHARE

Basic earnings per share is calculated by reference to the loss on ordinary activities after taxation of $1,563,000 (2011: profit $1,278,000) and on the weighted average of 51,573,217 (2011: 49,678,185) 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 51,591,170 (2011: 49,691,484) shares calculated as follows:

	Number of shares	
	31 December 2012	31 December 2011
Basic weighted average number of shares	51,573,217	49,678,185
Dilutive potential ordinary shares: Share options	13,299	13,299
Diluted weighted average number of shares	51,586,516	49,691,484

1,185,487 (2011: 1,180,833 00) 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 2011	16	9,573	9,589
Additions	-	1,014	1,014
At 31 December 2011	16	10,587	10,603
Additions	-	962	962
At 31 December 2012	16	11,549	11,565
Amortisation			
At 1 January 2011	16	5,176	5,192
Charge in the year	-	745	745
At 31 December 2011	16	5,921	5,937
Charge in the year	-	1,045	1,045
At 31 December 2012	16	6,966	6,982
Net Book Value			
At 31 December 2012	-	4,583	4,583
At 31 December 2011	-	4,666	4,666

10. TANGIBLE FIXED ASSETS

Group	Leasehold improvements $’000	Office furniture and equipment $’000	Vehicles $'000	Total $’000
Cost				
At 1 January 2011	41	209	-	250
Additions	-	-	66	66
At 31 December 2011	41	209	66	316
Additions	-	-	-	-
At 31 December 2012	41	209	66	316
Depreciation				
At 1 January 2011	26	169	-	195
Charge in the year	4	7	1	12
At 31 December 2011	30	176	1	207
Charge in the year	3	4	10	17
At 31 December 2012	33	180	11	224
Net book value				
At 31 December 2012	8	29	55	92
At 31 December 2011	11	33	65	109

11. INVESTMENTS

	$’000
Company	
At 31 December 2012 and 31 December 2011	200

At 31 December 2012 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 Ltd	Israel	Ordinary	100%	100%	Video Survelliance Eqipment
Servision Inc.	USA	Ordinary	-	100%	Video Survelliance Eqipment

12. INVENTORIES

	2012 $'000	2011 $'000
Group		
Raw materials	231	85
Work in progress	188	19
Finished goods	216	107
	635	211

13. TRADE AND OTHER RECEIVABLES

	2012		2011	
	Group $'000	Company $'000	Group $'000	Company $'000
Trade receivables	2,850	-	4,603	-
Other receivables	746	265	417	66
	3,596	265	5,020	66

Included within trade receivables is an amount of $1,159,000 (2011: $1,212,000) receivable under the franchise agreement and will be settled in the form of stock over the course of the next year and subsequent years.

14. CALLED UP SHARE CAPITAL

	2012 $'000	2011 $'000
Allotted, called up and fully paid:		
56,518,921 (2011:51,188,602) ordinary shares of £0.01 each	984	898
384,615 deferred shares of £0.001 each	-	-
	984	898

During the year the Company issued 5,330,319 ordinary £0.01 shares for a total consideration of £320,000 net.

Subsequent to the year end a further 97,561 £0.01 shares were issued.

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 Binominal Model 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 2012	Number of share options Granted	Number of share options Exercised	At 31 December 2011	Exercise Price (pence)	Exercise Date
30,000	-	-	30,000	15	Unlimited
333,333	-	-	333,333	9	29/10/2009-9/10/2012
817,500	-	-	817,500	7	Unlimited
1,180,833	-	-	1,180,833		

15. SHARE OPTIONS (continued)

The primary assumptions which have been used in the calculations of the fair value of the Options are:
(a) Value of the Parent Company's ordinary share of 47.5p
(b) Variable standard deviation of 66% to 70%
(c) Average risk free rate of interest of 0.3%

16. TRADE AND OTHER PAYABLES

	2012		2011	
	Group $'000	Company $'000	Group $'000	Company $'000
Trade payables	834	-	1,189	-
Other taxes and social security	242	-	261	-
Other payables	224	-	276	-
Accruals and deferred income	132	50	138	32
	1,432	50	1,864	32

17. BANK LOANS AND OVERDRAFTS

	2012 $'000	2011 $'000
Group		
Bank overdraft	163	368
Bank loans: amounts due within one year	424	324
Current liability	587	692
Bank loans: amounts due within two to five years	375	-
Total bank loans and overdrafts	962	692

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.

	2012 $'000	2011 $'000
The future aggregate minimum lease payments under operating leases are as follows:-		
No later than 1 year	79	81

19. ACCOUNTING ESTIMATE

Servision Ltd is required to pay royalties to the Israeli Office of the Chief Scientist ("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.

During the prior year the Directors have reassessed the projected sales for the products funded by the OCS and in light of falling demand following the development of new, more advanced technology the group's management have decided to market the products only until the end of 2011. This reduction in projected sales lead the Directors to conclude that the future royalty liability will be significantly lower and consequently the estimated liability was reduced by $766,000 in the year ended 31 December 2011.

20. 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.

	2012 $'000	2011 $'000
Obligations for defined benefits plan	368	341
Assets	(1)	(1)
Net obligations	367	340
Expenses for defined benefits plan:		
Cost of current service fees	42	53
Interest expense for obligations	18	18
Expected return on plan assets	(1)	(1)
Actuarial loss, net	(20)	(39)
	39	31
Activities at fair value of obligations for defined benefits plan:		
Balance at beginning of year	341	348
Interest expense	18	18
Cost of current service fees	42	53
Severance paid	(13)	(39)
Actuarial loss, net	(20)	(39)
	368	341
Activities at fair value of assets:		
Balance at beginning of year	1	1
Expected return	1	1
Deposits by employer	13	39
Severance paid	(13)	(39)
Actuarial loss , net	(1)	(1)
Balance at end of year	1	1

20. POST EMPLOYMENT BENEFITS (continued)

	2012 $'000	2011 $'000
Primary assumptions in establishing obligations		
Discount rate of obligations	4.4%	4.9%
Expected real rate of return for plan assets	1.7%	2.3%
Expected real rate of salary increase	2.6%	2%

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 assets or liabilities which are classified as 'Assets or Liabilities at Fair value through profit and loss'.

21. FINANCIAL RISK MANAGEMENT (continued)

Significant accounting policies (continued)

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

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

Loan liabilities
Fair value of short term liabilities is similar to its carrying value due to the short term nature 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 2012 the consolidated cash position of the Group is $45,000 (2011: $94,000) 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. 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.

21. FINANCIAL RISK MANAGEMENT (continued)

Financial risk management objectives

(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 $3,596,000 represented by Trade and other receivables.

22. ULTIMATE CONTROLLING PARTY

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

23. RELATED PARTY TRANSACTIONS

Included within Other Receivables is a loan of US $ 287,000 (2011: $235,000) to G Tahan, a director. The loan is unsecured and is due within one year. Total interest on the loan of $16,893 (2011: 14,535) was received during the period.

24. 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.

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 2012. 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.

IFRS 10 Consolidated Financial Statements

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard is effective for annual periods beginning on or after 1 January 2013. The standard may be applied to an earlier accounting period, but, where doing so, entities must disclose that the standard is early adopted and must also apply IFRS 11 'Joint Arrangements', IFRS 12 'Disclosures of Interests in Other Entities', IAS 27 'Separate Financial Statements', and IAS 28 'Investments in Associates and Joint Ventures'.

24. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 12 Disclosure of Interests in Other Entities

The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities
- the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 is applicable to annual reporting periods beginning on or after 1 January 2013. Early application is permitted.

Entities are encouraged to voluntarily provide the information required by IFRS 12 prior to its adoption. Providing some of the disclosures required by IFRS 12 does not compel an entity to comply with all of the requirements of the IFRS or to also apply

IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income.

Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Group’s financial position or performance. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and will therefore be applied in the Group’s first annual report after becoming effective.