

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

Company Number: 51433241

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

CONTENTS	Page
Chairman's statement	1-2
Strategic Report	3-5
Directors' report	6-8
Auditors' report	9
Consolidated income statement	10
Consolidated balance sheet	11
Parent company balance sheet	12
Consolidated cash flow statement	13
Parent company cash flow statement	14
Consolidated statement of changes in equity	15
Parent company statement of changes in equity	15
Notes to the report and financial statements	16 - 33

SERVISION PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

CHAIRMAN'S STATEMENT

I am pleased to announce SerVision's consolidated group financial statements for the year ended 31 December 2014 and to report that our revenue for this twelve month period was \$4.2m, an increase of 20% from the previous year. I am also happy to announce that the company generated a net profit of over \$180,000 during H2 of 2014 resulting in a reduced net loss of \$729,000 for the full year compared to a net loss of \$2.86 million in 2013.

Sales and Marketing

Servision's strong end-of-year sales performance in H2 2014 was bolstered by new business in China, Kazakhstan and Brazil. Upon receipt of the China Compulsory Product Certification ("CCPC") for SerVision products in late Q4, Beijing SIVI Technologies ("BST") released payment for the second half of an order valued at \$500k that, as per the terms of SerVision's exclusive distribution agreement with BST, was placed in June 2014. The BST contract remains in effect, but it is currently under review as we are now negotiating terms for a new agreement which would supersede the previous one and, going forward, will provide BST with local manufacturing rights for products sold in the Chinese market. Both SerVision and BST recognize that China is a very price-sensitive market and the board believe that a local manufacturing option will considerably bolster our prospects for success. Following positive meetings with Shenzhen-based TCL Communication Technology Holdings, we are also negotiating terms for the establishment of a BST-staffed R&D centre in China which would facilitate the development of a new TCL-manufactured body-worn mobile video streaming device utilising SerVision's unique compression technology. The product will be geared toward the police market in China as well as other countries.

During the year under review, the company entered into a number of new distribution or partnership agreements which helped generate the growth in revenue when compared to 2013. These include a new distribution agreement in the United States and Canada with Live Video USA for which an initial purchase order of \$500,000 was received in 2014. Further implementation of this agreement has however been delayed unfortunately due to the health condition of Sol Mayer, the company's founder and CEO. Also in late 2014, SerVision announced they had received an order valued at \$415,000 for a bus project in Kazakhstan for the supply of 360 MVG400 units and an order valued at \$100,000 for the distribution of video gateway products in Indonesia. Additionally, in H1 2015 SerVision secured other notable orders including a \$500,000 for a bus project in Brazil and, as announced on 28 May 2015, a new order from Egged, Israel's largest bus operator, for 75 MVG400 units on Egged buses. Egged has informed SerVision that they intend to deploy, by 31 December 2016, SerVision's mobile DVR units across their entire fleet of 3,920 buses in Israel and 1,700 buses in Netherlands and Poland.

In parallel with securing these new orders, SerVision has worked to enhance co-operation with a number of well-established fleet and driver management solution providers who have since integrated SerVision's protocol into their own web-based platform. The latest companies to have supported the SerVision video protocol in their software are GreenRoad and Matrix Telematics. Based on the demand from these companies' existing customers, SerVision is highly optimistic that offering a fully integrated fleet/driver management and video platform will play a major role in driving SerVision's future sales.

New Business Model and expansion plans in the UK

I am also optimistic about future growth prospects due to new business models currently under adoption that entail direct sales to end customers and lease-based contracts which will generate monthly recurring income for SerVision. Going directly to end customers will enable SerVision to offer far more attractive pricing to end customers and it will bring higher margins to SerVision. Furthermore, charging monthly fees for data and service will provide us with a stable revenue stream over extended periods of time. We have just begun rolling out these business strategies in the UK where SerVision is in the process of opening an office. The company has already selected a Technical Adviser, Managing Director and CEO to oversee all local sales and marketing activities and to provide technical support to UK customers. There are plans to expand the staff to an additional three employees.

Research and Development

Servision's R&D team has made significant advancements in the development of its new mobile DVR platform – the IVG400-N. Although we are a bit behind schedule, we have a limited number of sample printed circuit boards (PCBs) and moldings en route to our Israeli office, and we hope to begin sending demo units to a number of customers later this summer. The new product will support the same feature set as our current range of MVG200/400 mobile DVRs, along with support for IP cameras and full HD recording across four channels. The IVG400-N will use SerVision's proprietary codec for streaming live video over any type of cellular network so customers can view live video of their sites/vehicles during an incident, and have access to high definition recordings for follow-up investigations. The new

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
CHAIRMAN'S STATEMENT

platform will have an integrated 3G/4G module and the ability to host third party video content so it can eventually be used as a mobile advertising platform on buses and other public transport vehicles.

Also during 2014 and in the context of a company-wide audit, our CPA selected Noa TV Technologies, an independent market research firm with extensive industry knowledge about digital video solutions, to conduct an in-depth investigation of our technology and R&D assets. The report highlighted SerVision's proprietary video compression method and our superior ability to generate high quality, stable, low delay video streams from locations with spotty or low level cellular coverage. The report also emphasized SerVision's unique transcoding scheme and its role in further conserving bandwidth. Noa TV Technologies gave our R&D assets a fair value in excess of the current carrying value, and it concluded that SerVision's highly unique know how should provide us with a strategic advantage over the competition in the coming years.

Financials

- Revenues for this period were \$4,236,000 compared to \$3,512,000 for the same period in 2013.
- Operating loss for the period was \$665,000 compared to an operating loss of \$4,236,000 for the same period in 2013.
- Net loss for the period was \$729,000 compared to a loss of \$2,863,000 for the same period in 2013.

The company experienced improved trading performance in the second half of 2014. Revenues for the second half of 2014 were \$2,394,000 compared to \$1,842,000 in the first half and the company generated a net profit of \$180,000 in the second half, compared to a net loss of \$910,000 in the first year.

In May 2015 the Company announced a subscription to raise £911,927 through a subscription for new ordinary shares with existing investors and new shareholders. The net proceeds of the subscription are being utilised to satisfy the Company's existing order book and for general working capital purposes.

Conclusion

Our final results for 2014 show a solid rebound from the previous year and when I consider the opportunities in our current pipeline and the prospects for significant penetration of the Chinese and global police market with a body-worn video transmission solution, I am optimistic that we can continue on a growth trajectory. I have expectations that our sales growth will accelerate once our next generation mobile DVR is ready for market launch and our new sales strategy to generate monthly recurring revenue has been fully rolled out.

I remain very grateful to our shareholders for their ongoing support, and to our staff for their hard work and commitment to the Company's success.

Gideon Tahan
Chairman and CEO

30 June 2015

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
STRATEGIC REPORT

Business Model, Strategy and Future Developments

SerVision develops and manufactures IP-based video monitoring solutions for the global security market. The Group's product range is comprised of professional video gateway systems (Digital Video Recorders/Video Transmitters) that enable live, remote video surveillance of any type of site – fixed or moving. It also includes a proprietary proxy server and video distributor, and a software-based control centre platform for centralized video management. SerVision's core technology is based on a proprietary video compression algorithm that is uniquely optimized for streaming high quality live/recorded video over any type of cabled, wireless or cellular network, regardless of bandwidth constraints.

The Group's revenues are principally derived from the sale of video gateways systems, software server licenses and occasionally from non-recurring engineering fees for the development of new features and functionality. SerVision sells its solutions through a network of channel partners comprised of distributors and system integrators. The Group has, however, recently established an installation team for select projects in Israel and abroad, enabling SerVision to sell directly to end customers. Bidding on projects directly, as opposed to offering our solutions through integrators and other third parties, is a clear strategic objective of the Group going forward.

SerVision operates in a competitive environment that is increasingly moving from analog to IP camera solutions. In response to this shift, the Group has begun to develop a highly modular, hybrid mobile DVR solution that will support both camera types. The unique market advantage which SerVision currently maintains – outstanding video compression for low bit rate streaming over cellular and other bandwidth limited networks – will carry over into the new product line. The primary differentiators between our new platform and the existing solutions will be the ability to record in High Definition and to support a much more extensive range of cameras. This capability will provide customers with the highest available recording quality, therefore giving them a maximum level of choice when selecting cameras, together with the ability to stream high-quality live video over any type of cellular networks using our optimized H.264 codec, without creating a bandwidth bottleneck.

Another emerging trend in the field of video surveillance entails a shift to cloud-based solutions. In response to this, SerVision has undertaken to develop a web-based monitoring platform that will be highly scalable and very easy for customers to deploy, with minimum maintenance requirements on their part. A web-based software platform will facilitate SerVision's market penetration, and will enable the Group to potentially transition to a new subscription-based billing model.

Other strategic objectives of the Group include the expansion of our sales and marketing teams and increased cooperation with telematics solution providers to offer a fully integrated fleet management platform with live video capabilities.

Financial Risk Management

Foreign exchange risks

Most of the Group's sales and income are denominated in US Dollars which is the currency that the Group reports in. The Group's 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 Group 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.

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
STRATEGIC REPORT

Interest Rate Risks

The Group is exposed to interest risks as it uses credit lines and loans from its banks. Changes in the effective “Prime” interest rate published monthly by the bank of Israel can influence the financing costs of the Group. The Group has attempted to diversify 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 fails to pay for goods supplied by the Group. In order to minimise this risk the Group has a policy of:

- (a) Seeking to sell only to respectable integrators and distributors.
- (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 customers with high rated credit scores receive credit from the Group

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.

Environmental Matters

SerVision is conscious of its responsibility as a provider of electronics equipment that it has a specific duty to minimize its environmental impact. This requires the Group to be fully compliant with a range of national, regional and international guidelines on safety, EMC emissions and energy efficiency.

Employment Matters

Employment policies

SerVision places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through both formal and informal meetings.

The Group gives full and fair consideration to applications for employment from disabled persons where the candidate’s particular aptitudes and abilities meet the requirements of the job. In the event of any staff becoming disabled while with the Group, every effort will be made to ensure that their employment by the Group continues and that appropriate adjustments are made to their work environment.

SerVision is a responsible employer, that seeks to provide and pleasant and professional working environment in all locations. Management seek to ensure that the group is compliant with all relevant human resources and health and safety regulations, while the Group strives to offer competitive employment packages with opportunities for personal and professional development.

Regular updates on performance are provided in staff meetings and through internal communications. Clear and transparent company objectives are set each year which, in turn, are reflected in team and individual objectives.

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
STRATEGIC REPORT

Diversity

The Group does not discriminate on the grounds of age, race, sex, sexual orientation or disability.

The table below shows the number of persons of each sex who were directors, key management and employees of the Group.

Company Level	Number of Female Employees	Number of Male Employees	Total
Board	-	3	3
Key Management	-	4	4
Employees	4	26	30

Human Rights

Through careful selection and vetting of the supply chain – and strict code of conduct – SerVision is committed to ensuring manufacturing processes are fully compliant to international and local environmental and labour regulations.

Other matters

The Business Review of the Group, its results and other developments in the year, together with Key Performance Indicators are included within the Chairman's statement and are not repeated within this Strategic Report.

ON BEHALF OF THE BOARD

G TAHAN
30 June 2015

Chairman
Executive Director

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

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
DIRECTORS' REPORT

The directors present the annual report together with the financial statements and auditors' report for the year ended 31 December 2014. The Company is incorporated in the UK but its principal place of business is in Israel.

PRINCIPAL ACTIVITIES

The Group's principal activity is the development and sale of video surveillance equipment. Further information on the results of, and risks facing the Group can be found in the Chairman's Statement on pages 1-2 and the Group Strategic Report on pages 3-5.

ACCOUNTS PRODUCTION

The financial statements for the year ended 31 December 2014 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 (2013: £nil).

DIRECTORS

The directors who served during the year were:

G Tahan	<i>(Chairman)</i>
C Levy	<i>(Director)</i>
E T Yanuv	<i>(Chief Financial Officer)</i>

FUTURE DEVELOPMENTS

SerVision's new generation of video gateways with support for full HD (1080P) recording is scheduled for release in H2 of 2015. The IVG400-N, the first next-generation product to be introduced, will utilise SerVision's advanced transcoding technology for real-time streaming of incidents using minimal bandwidth, while simultaneously recording in high resolution to produce the best available footage for post-event investigations. The system will be powerful enough to run other applications beyond video encoding, and the Company has plans to integrate mobile advertising and analytics solutions into the IVG's platform in the future. With a built-in 3G/4G modem and a strong feature set that includes all the functionality supported in the company's current range of mobile DVRs, the Company sees strong potential for this product and we have many SerVision customers who are eager to get the new unit included in their product portfolio and out into their local markets. In parallel to the release of the IVG400, SerVision will also be introducing new client PC software that will support HD video playback and expanded monitoring functionality.

Looking forward, SerVision's R&D roadmap includes the development of a wearable video streaming device that will initially be geared towards the global police market. The Company is currently in discussions with its Beijing-based joint venture partner, Beijing SIVI Technologies, and Shenzhen based TCL Communication Technology Holdings to jointly develop a battery-powered portable video streaming device using SerVision's proprietary streaming codec. We, and our partners in China, are very keen to offer the police a low-cost, hand-held device with the best available live streaming capabilities so they can effectively deal with security incidents as they are unfolding in real-time – in a preventative manner – rather than simply use video evidence for forensics purposes after an event has occurred. Separate from this initiative, SerVision's R&D team is exploring development of a new web-based client that would allow customers to remotely monitor their sites/vehicles via a standard browser and Internet connection.

POST BALANCE SHEET EVENTS

Subsequent to the year end the group conditionally raised £911,927 (before expenses) through the subscription for 17,537,059 new ordinary shares of 1p each in the Company (the "Subscription Shares") with existing investors and new shareholders, at a price of 5.2 pence per Subscription Share (the "Subscription"). The net proceeds of the Subscription will be used to satisfy the Company's existing order book and for general working capital purposes.

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
DIRECTORS' REPORT

Options over a further 12,692,308 ordinary shares have been granted to two existing shareholders. Of these 6,346,154 may be exercised at a price of 5.2 pence per share before 1 November 2015. The remaining 6,346,154 options are exercisable at 10.4 pence per share before 1 May 2017.

Subsequent to the year end the group announced new partnership agreements in Brazil and Kazakhstan.

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.

CHARITABLE AND POLITICAL DONATIONS

The Group did not make any charitable or political contributions during the year (2013: \$nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' 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.

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
DIRECTORS' REPORT

GOING CONCERN

The directors have prepared and reviewed sales forecasts & budgets for the next twelve months and are optimistic that the Group will make significant progress towards these targets. Having considered these forecast cash flows together with the availability of other financing sources, including equity finance and potential sources of debt finance if required, the directors have concluded that the Group will have access to sufficient resources to meet its working capital and financing commitments for at least the next twelve months from the date of this report.

The directors believe that due to the aforementioned post year end developments, including the equity fund raising that is currently in progress, that the Group is a going concern. However, the future of the Group is dependent on it substantially achieving its trading projections and on the directors being successful in their bid to secure new equity funding.

Therefore, subject to the success of future developments as disclosed above, the directors' review of sales and cash flow forecasts 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 financial statements.

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 144 days (2013: 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

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
DIRECTORS' REPORT

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
30 June 2015

Chairman
Executive Director

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

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 2014 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of changes in equity 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 7, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 and of the Group's loss 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.

Emphasis of matter – Going concern

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made within note 1 of the accounting policies concerning the group's and the parent company's ability to continue as a going concern. The group incurred a net loss of \$729,000 during the year ended 31 December 2014 and had net current liabilities of \$373,000 as at that date. This, along with the other matters explained within note 1 of the accounting policies indicate the existence of a material uncertainty which may cast a significant doubt about the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic 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.

Ian Daniels (Senior statutory auditor)
for and on behalf of haysmacintyre, Statutory Auditors
30 June 2015

26 Red Lion Square
London
WC1R 4AG

SERVISION PLC
REPORT AND FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	<u>Notes</u>	<u>2 0 1 4</u> <u>\$'000</u>	<u>2 0 1 3</u> <u>\$'000</u>
Revenue	2	4,236	3,512
TOTAL REVENUES		4,236	3,512
Cost of sales	3	<u>(1,843)</u>	<u>(1,633)</u>
GROSS PROFIT		2,393	1,879
Administrative expenses		(2,592)	(3,638)
Depreciation and amortisation		(604)	(736)
Exchange rate differences		<u>138</u>	<u>(237)</u>
OPERATING LOSS	4	(665)	(2,732)
Net finance expenditure	5	<u>(129)</u>	<u>(75)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE INCOME TAX		(794)	(2,807)
Tax on ordinary activities	6	<u>(1)</u>	<u>(14)</u>
NET LOSS FOR THE YEAR		(795)	(2,821)
Translation difference arising from translating into presentation currency		<u>66</u>	<u>(42)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		<u>(729)</u>	<u>(2,863)</u>
LOSS PER SHARE			
BASIC	8	<u>(1.16)c</u>	<u>(5.06)c</u>
DILUTED	8	<u>(1.16)c</u>	<u>(5.06)c</u>

All activities arose from continuing activities.

The notes on pages 16 to 33 are an integral part of these consolidated financial statements

SERVISION PLC
CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2014

Company number: 05143241

	<u>Notes</u>	<u>2 0 1 4</u> <u>\$'000</u>	<u>2 0 1 3</u> <u>\$'000</u>
ASSETS			
Non-current assets			
Intangible assets	9	4,691	4,653
Deferred tax asset	6	82	83
Property, plant and equipment	10	<u>70</u>	<u>86</u>
		<u>4,843</u>	<u>4,822</u>
Current assets			
Inventories	12	597	564
Trade and other receivables	13	1,853	1,539
Cash and cash equivalents		<u>101</u>	<u>165</u>
		<u>2,551</u>	<u>2,268</u>
		<u>7,394</u>	<u>7,090</u>
EQUITY			
Capital and reserves attributable to the Group's Equity shareholders			
Called up share capital	14	1,224	984
Share premium account		13,588	12,639
Merger reserve		1,979	1,979
Other reserve		66	62
Retained earnings and translation reserves		<u>(13,128)</u>	<u>(12,399)</u>
TOTAL EQUITY		<u>3,729</u>	<u>3,265</u>
LIABILITIES			
Non-current liabilities			
Loans and borrowings	17	443	532
Loan from the office of the chief scientist	1	11	11
Post employment benefits	20	<u>287</u>	<u>412</u>
		<u>741</u>	<u>955</u>
Current liabilities			
Loans and borrowings	17	1,042	1,127
Loan from the office of the chief scientist	1	161	161
Trade and other payables	16	<u>1,721</u>	<u>1,582</u>
		<u>2,924</u>	<u>2,870</u>
TOTAL LIABILITIES		<u>3,665</u>	<u>3,825</u>
TOTAL EQUITY AND LIABILITIES		<u>7,394</u>	<u>7,090</u>

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

G Tahan
Chairman
30 June 2015

E T Yanuv
Chief Financial Officer
30 June 2015

The notes on pages 16 to 33 are an integral part of these consolidated financial statements

SERVISION PLC
PARENT COMPANY BALANCE SHEET
AT 31 DECEMBER 2014

Company number: 05143241

	<u>Notes</u>	<u>2 0 1 4</u> <u>\$'000</u>	<u>2 0 1 3</u> <u>\$'000</u>
ASSETS			
Non-current assets			
Investments	11	200	200
Trade and other receivables	13	<u>554</u>	<u>339</u>
		<u>754</u>	<u>539</u>
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	1,224	984
Share premium account		13,588	12,639
Other reserve		66	62
Retained earnings and translation reserves		<u>(14,975)</u>	<u>(13,547)</u>
		<u>(97)</u>	<u>138</u>
TOTAL EQUITY			
LIABILITIES			
Current liabilities			
Loan and borrowings	17	554	339
Trade and other payables	16	<u>297</u>	<u>62</u>
		<u>851</u>	<u>401</u>
TOTAL EQUITY AND LIABILITIES			
		<u>754</u>	<u>539</u>

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G Tahan
Chairman
30 June 2015

E T Yanuv
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30 June 2015

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SERVISION PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	<u>Notes</u>	<u>2 0 1 4</u> <u>\$'000</u>	<u>2 0 1 3</u> <u>\$'000</u>
Cash flows from operating activities			
Loss before taxation		(794)	(2,807)
Adjustments for:			
Net finance expenditure	5	129	75
Depreciation and amortisation		604	736
Provision for bad debts		1,088	1,820
Movement in trade and other receivables		(1,402)	249
Movement in inventories		(33)	71
Movement in post retirement benefits		(125)	45
Movement in trade and other payables		<u>139</u>	<u>151</u>
Net cash generated from operating activities		<u>(394)</u>	<u>340</u>
Cash flow from investing activities			
Purchase of property, plant and equipment and intangibles		<u>(626)</u>	<u>(800)</u>
Net cash used in investing activities		<u>(626)</u>	<u>(800)</u>
Cash flows from financing activities			
Receipts from issue of shares (net of issue costs)		1,189	-
Net finance costs		(129)	(75)
Net loans undertaken less repayments		<u>155</u>	<u>559</u>
Cash generated from financing activities		<u>1,215</u>	<u>484</u>
Cash and cash equivalents at beginning of period		(94)	(118)
Net cash generated from all activities		<u>195</u>	<u>24</u>
Cash and cash equivalents at end of period		<u>101</u>	<u>(94)</u>
Cash and cash equivalents comprise:			
Cash and cash equivalents		101	165
Overdrafts		<u>-</u>	<u>(259)</u>
		<u>101</u>	<u>(94)</u>

The notes on pages 16 to 33 are an integral part of these consolidated financial statements

SERVISION PLC
PARENT COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	2 0 1 4	2 0 1 3
	<u>\$'000</u>	<u>\$'000</u>
Cash flows from operating activities		
Loss before taxation	(1,427)	(284)
Adjustments for:		
Movement in trade and other receivables	--	265
Movement in trade and other payables	<u>(4)</u>	<u>13</u>
Net cash used in operating activities	<u>(1,431)</u>	<u>(6)</u>
Cash flows used in investing activities		
Loan to subsidiary	<u>(215)</u>	<u>(339)</u>
Cash flows from financing activities		
Loans undertaken	454	345
Issue of shares (net of issue costs)	<u>1,192</u>	<u>-</u>
Cash generated from financing activities	<u>1,646</u>	<u>345</u>
Cash and cash equivalents at beginning of period		
Net cash used in all activities	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of period	<u>-</u>	<u>-</u>

The notes on pages 16 to 33 are an integral part of these consolidated financial statements

SERVISION PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital \$'000	Share Premium \$'000	Merger Reserve \$'000	Other Reserve \$'000	Retained Earnings \$'000	Translation Reserve \$'000	Total \$'000
At 1 January 2013	984	12,639	1,979	55	(9,681)	138	6,114
Total comprehensive income for the year	-	-	-	-	(2,821)	(42)	(2,863)
Share option charge	-	-	-	7	7	-	14
At 31 December 2013	984	12,639	1,979	62	(12,495)	96	3,265
Issue of shares	240	949	-	-	-	-	1,189
Loss for the year	-	-	-	-	(795)	66	(729)
Share option charge	-	-	-	4	-	-	4
At 31 December 2014	<u>1,224</u>	<u>13,588</u>	<u>1,979</u>	<u>66</u>	<u>(13,290)</u>	<u>162</u>	<u>3,729</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 2013	984	12,639	55	(13,387)	124	415
Total comprehensive income for the year	-	-	-	(288)	4	(284)
Share option charge	-	-	7	-	-	7
At 31 December 2013	984	12,639	62	(13,675)	128	138
Issue of shares (net of issue costs) for the year	240	949	--	--	--	1,189
Share option charge	-	-	-	(1,350)	(78)	(1,428)
Share option charge	-	-	4	-	-	4
At 31 December 2014	<u>1,224</u>	<u>13,588</u>	<u>66</u>	<u>(15,025)</u>	<u>50</u>	<u>(97)</u>

The notes on pages 16 to 33 are an integral part of these consolidated financial statements

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 2015) 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.

Going concern

The directors have prepared and reviewed sales forecasts & budgets for the next twelve months and are optimistic that the group will make significant progress towards these targets. Having considered these forecast cash flows together with the availability of other financing sources, including equity finance and potential sources of debt finance if required, the directors have concluded that the group will have access to sufficient resources to meet its working capital and financing commitments for at least the next twelve months from the date of this report.

The directors believe that due to the post year end developments, including the equity fund raising that has taken place and the facilities that the directors consider are likely to be available, that the Group is a going concern. However, the future of the Group is dependent on it substantially achieving its trading projections and on the directors being successful in their bid to secure new funding.

Therefore, subject to the developments disclosed above, the directors review of sales and cash flow forecasts 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 financial statements.

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 2013 and 2014.

The financial statements 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.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (Continued)

Revenue recognition

Sale of systems

The subsidiaries generate revenues mainly from sales of systems. The subsidiaries sell their products directly through the group's 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 only when the customer confirms unconditionally that the sale has been completed.

Sale of products

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

Franchise income

When applicable revenues from franchises are recognised in line with the agreed terms of the franchise agreement.

Warranty costs

The Group generally offers a one year warranty for all its products. The Group 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
Vehicles	15% 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.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 2014 was £1 = US\$1.55916.

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.

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 bank loans and overdrafts in current liabilities on the balance sheet.

Inventories

Inventories represent raw materials, 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 intangible asset in the balance sheet 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 (currently six years) 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.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

Post retirement benefits

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

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

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

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

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

Grants from the Office of the Chief Scientist

Grants received from the Office of the Chief Scientist ("OCS") in the past to finance research and development costs of the subsidiary were presented as a long-term loan at the date of receipt. The loan will be 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.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (Continued)

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 income statement with a corresponding increase in other reserves in equity. The Group uses a Bi-nominal option valuation model.

Deferred tax

Deferred tax assets are recognised in respect of losses only where the group considers it probable that taxable profits will be available against which the losses can be utilised.

2. BUSINESS SEGMENT ANALYSIS

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

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

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

	2 0 1 4	2 0 1 3
	<u>\$'000</u>	<u>\$'000</u>
Europe	1,026	1,595
Far & Middle East	1,013	655
North America	986	771
Rest of the world	<u>1,211</u>	<u>491</u>
	<u>4,236</u>	<u>3,512</u>

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

The Group has three customers that accounted for more than 25 % of revenue in 2014 (2013: 25%) two of which are based in the rest of the world and the other in the Far & Middle East.

3. COST OF SALES

	2 0 1 4	2 0 1 3
	<u>\$'000</u>	<u>\$'000</u>
Materials and parts	1,395	1,084
Employee benefit expense	358	423
Other costs	<u>90</u>	<u>126</u>
	<u>1,843</u>	<u>1,633</u>

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

4. OPERATING LOSS	2 0 1 4	2 0 1 3
	<u>\$'000</u>	<u>\$'000</u>
The operating loss is stated after charging/(crediting):		
Employee benefit expense (see below)	963	1,228
Exchange rate differences	(138)	237
Depreciation and amortisation	588	736
Provision for credit losses	1,088	1,820
Travel abroad	265	206
Trade shows – local and abroad	7	36
Operating lease rentals	59	59
Auditors' remuneration		
- statutory audit services	15	15
- audit-related assurance services	<u>5</u>	<u>5</u>
Employee benefit expense (including directors)		
Salaries and wages	993	1,116
Social security	58	67
Post retirement benefits	<u>(88)</u>	<u>45</u>
	<u>963</u>	<u>1,228</u>
	No.	No.
The average number of persons (including directors) employed by the Group during the year was as follows:	<u>37</u>	<u>37</u>
	<u>\$'000</u>	<u>\$'000</u>
Directors remuneration		
G Tahan	216	320
C Levy	10	10
E T Yanuv	<u>30</u>	<u>52</u>

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. The charge to the income statement in the year is \$420.

5. NET FINANCE EXPENDITURE	2 0 1 4	2 0 1 3
	<u>\$'000</u>	<u>\$'000</u>
Interest receivable	-	(12)
Interest payable and similar charges on bank loans and overdrafts	<u>129</u>	<u>87</u>
	<u>129</u>	<u>75</u>

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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.

	2 0 1 4	2 0 1 3
	<u>\$'000</u>	<u>\$'000</u>
(a) The taxation credit change:		
Deferred tax	<u>(1)</u>	<u>(14)</u>
(b) Factors affecting tax charge for the period		
The tax assessed for the period is different than the standard rate of corporation tax. The differences are explained below:		
Loss on ordinary activities before taxation	<u>(794)</u>	<u>(2,807)</u>
Multiplied by the standard rate of corporation tax of 21.49% (2013: 22%)	171	618
Effects of:		
Tax losses generated	<u>(171)</u>	<u>(618)</u>
Current year tax charge	<u>=</u>	<u>=</u>

(c) Factors affecting future tax charges
The directors believe that the future tax charge will be reduced by the use of tax losses carried forward which can be used against the profits made from the trading activity in the Israeli subsidiary. Tax losses carried forward in the Group at 31 December 2014 are \$12,083,000 (2013: \$11,221,000). The deferred tax asset on these losses is not recognised on the grounds of uncertain recoverability.

(d) Deferred tax
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.

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
At 1 January 2014	83	96
Charged to the income statement	<u>(1)</u>	<u>(13)</u>
At 31 December 2014	<u>82</u>	<u>83</u>

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 2014 was US\$ 1,428,000 (2013: loss US \$284,000).

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

8. LOSS PER SHARE

Basic loss per share is calculated by reference to the loss on ordinary activities after taxation of \$728,802 (2013: loss \$2,863,005) and on the weighted average of 62,901,799 (2013: 56,616,482) shares in issue. The calculation of diluted loss per share is based on the loss on ordinary activities after taxation and the diluted weighted average of 62,923,706 (2013: 56,638,389) shares calculated as follows:

	Number of shares	
	31 December 2014	31 December 2013
Basic weighted average number of shares	62,901,799	56,616,482
Dilutive potential ordinary shares: Share options	<u>21,907</u>	<u>26,185</u>
Diluted weighted average number of shares	<u>62,923,706</u>	<u>56,638,389</u>

9. INTANGIBLE FIXED ASSETS

Group Cost or valuation	Development expenditure \$'000
At 1 January 2013	11,549
Additions	<u>800</u>
At 31 December 2013	12,349
Additions	<u>626</u>
At 31 December 2014	<u>12,975</u>
Amortisation	
At 1 January 2013	6,966
Charge in the year	<u>730</u>
At 31 December 2013	7,696
Charge in the year	<u>588</u>
At 31 December 2014	<u>8,284</u>
Net Book Value	
At 31 December 2014	<u>4,691</u>
At 31 December 2013	<u>4,653</u>

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

10. TANGIBLE FIXED ASSETS

Group	Leasehold improvements \$'000	Office furniture and equipment \$'000	Vehicles \$'000	Total \$'000
Cost				
At 1 January 2013	41	216	66	323
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2013	41	216	66	323
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2014	<u>41</u>	<u>216</u>	<u>66</u>	<u>323</u>
Depreciation				
At 1 January 2013	33	187	11	231
Charge in the year	<u>1</u>	<u>--</u>	<u>5</u>	<u>6</u>
At 31 December 2013	34	187	16	237
Charge in the year	<u>3</u>	<u>4</u>	<u>9</u>	<u>16</u>
At 31 December 2014	<u>37</u>	<u>191</u>	<u>25</u>	<u>253</u>
Net book value				
At 31 December 2014	<u>4</u>	<u>25</u>	<u>41</u>	<u>70</u>
At 31 December 2013	<u>7</u>	<u>29</u>	<u>50</u>	<u>86</u>

11. INVESTMENTS

\$'000

Company

At 31 December 2014 and 31 December 2013 200

At 31 December 2014 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 Ltd	Israel	Ordinary	100%	100%	Video Surveillance Equipment
Servision Inc.	USA	Ordinary	-	100%	Video Surveillance Equipment

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

12. INVENTORIES	2 0 1 4	2 0 1 3
	\$'000	\$'000
Group		
Raw materials	59	334
Work in progress	92	63
Finished goods	<u>446</u>	<u>167</u>
	<u>597</u>	<u>564</u>

13. TRADE AND OTHER RECEIVABLES	2 0 1 4		2 0 1 3	
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Trade receivables	1,543	-	1,392	-
Due from subsidiary	-	554	-	-
Other receivables	<u>310</u>	<u>-</u>	<u>147</u>	<u>339</u>
	<u>1,853</u>	<u>554</u>	<u>1,539</u>	<u>339</u>

14. CALLED UP SHARE CAPITAL	2 0 1 4	2 0 1 3
	\$'000	\$'000
Allotted, called up and fully paid:		
70,690,963 (2013: 56,616,482) ordinary shares of £0.01 each	1,224	984
384,615 deferred shares of £0.001 each	<u>-</u>	<u>-</u>
	<u>1,224</u>	<u>984</u>

During the year 14,074,482 Ordinary shares of £0.01 each were issued at 5.2pence per share. Total proceeds of \$1,243,000 were raised before issue costs of \$54,000.

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	Number of share options			At 31 December	Exercise Price	Exercise Date
2 0 1 4	Expired	Granted	Exercised	2 0 1 4	(pence)	
<u>817,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>817,500</u>	7	10 years from 11 Sept 2011
<u>817,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>817,500</u>		

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014-

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 4.75p
- (b) Variable standard deviation of 66% to 135%
- (c) Average risk free rate of interest of 0.3%
- (d) Annual dividend yield 0%

16. TRADE AND OTHER PAYABLES

	<u>2 0 1 4</u>		<u>2 0 1 3</u>	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Trade payables	699	-	645	-
Other taxes and social security	257	-	374	-
Other payables	540	238	257	-
Accruals and deferred income	<u>225</u>	<u>59</u>	<u>306</u>	<u>62</u>
	<u>1,721</u>	<u>297</u>	<u>1,582</u>	<u>62</u>

17. LOANS AND BORROWINGS

	<u>2 0 1 4</u>	<u>2 0 1 3</u>
	<u>\$'000</u>	<u>\$'000</u>
Group		
Bank overdraft	-	259
Other loan	554	339
Bank loans: amounts due within one year	<u>488</u>	<u>529</u>
Current liability	1,042	1,127
Non current liabilities: Other loan, due within 2 to 5 years	99	44
Non current liabilities: Bank loans, due within 2 to 5 years	<u>344</u>	<u>488</u>
Non current liabilities	<u>443</u>	<u>532</u>
Total bank loans and overdrafts	<u>1,485</u>	<u>1,659</u>
Company	<u>2 0 1 4</u>	<u>2 0 1 3</u>
	<u>\$'000</u>	<u>\$'000</u>
Other loan	<u>554</u>	<u>339</u>

The other loan included in current liabilities was received in 2013 and 2014, and stated net of transaction costs. The total available facility under the loan agreement is up to £1m.

The lender has the right to convert the loan into Ordinary shares, by giving appropriate notice, at a price equal to 70% of the trading price at the end of the day of conversion.

On 18 August 2014, the Company and the lender entered into in a deed of amendment date (the "Deed of Amendment"), whereby the parties agreed to restructure the repayments under the loan agreement via the issue 750,000 new ordinary shares in the Company.

The new repayment schedule agreed pursuant to the Deed of Amendment requires that, with effect from 15 November 2014, the outstanding principal of the loan bears interest of 12% per annum and is repayable in 9 instalments to July 2015.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

17. LOANS AND BORROWINGS (continued)

The state guaranteed bank loan that the Group's Israeli subsidiary received from a banking institution is repayable in 55 equal monthly instalments to December 2018, bears interest at prime plus 1.8% (prime rate as of 31 December 2014 – 1.75%) and is guaranteed by the Parent Company. The loan is due as follows:

<u>Year</u>	<u>\$'000</u>
2016	130
2017	130
2018	84
	<u>344</u>

Included within Non current liabilities is a loan of US \$96,000 (2013: \$44,000) from G. Tahan, a director. The loan is unsecured and is due in more than one year.

Included within current liabilities is a short term loan of US \$207,000 (2013: \$nil) from G. Tahan. The loan is unsecured and due within one year.

Total interest on both loans of \$8,160 (2013: \$nil—) was accrued during the year.

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.

	2014	2013
	<u>\$'000</u>	<u>\$'000</u>
The future aggregate minimum lease payments under operating leases are as follows:-		
No later than 1 year	<u>108</u>	<u>93</u>

19. POST EMPLOYMENT BENEFITS

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

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

20. POST EMPLOYMENT BENEFITS (continued)	2 0 1 4	2 0 1 3
	<u>\$'000</u>	<u>\$'000</u>
Net obligations	<u>287</u>	<u>412</u>
Expenses (income) for defined benefits plan:		
Cost of current service fees	62	36
Interest expense for obligations	16	18
Expected return on plan assets	(2)	(1)
Severance paid	(116)	-
Actuarial loss, net	<u>(85)</u>	<u>(10)</u>
	<u>(125)</u>	<u>43</u>
Activities at fair value of obligations for defined benefits plan:		
Balance at beginning of year	412	368
Interest expense	14	18
Cost of current service fees	62	35
Severance paid	(116)	1
Actuarial loss, net	<u>(85)</u>	<u>(10)</u>
	<u>287</u>	<u>412</u>
	<u>2 0 1 4</u>	<u>2 0 1 3</u>
	<u>\$'000</u>	<u>\$'000</u>
Primary assumptions in establishing obligations		
Capitalisation rate of obligations	<u>3.76%</u>	<u>4.1%</u>
Expected real rate of return for plan assets	<u>1.68%</u>	<u>1.7%</u>
Expected real rate of salary increase	<u>2.4%</u>	<u>2.4%</u>

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, liquidity risk, 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.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

21. FINANCIAL RISK MANAGEMENT (continued)

Financial Risk Management Objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) Liquidity risk

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.

The following table sets out the contractual maturities of financial liabilities:

	<u>Total</u>	<u>Less than 2 months</u>	<u>2 to 3 months</u>	<u>3 to 12 months</u>	<u>More than 1 year</u>
<u>\$'000 – 2014</u>					
Trade and other payables	1,721	1,721	-	-	-
Loans from the office of the chief scientist	172	-	-	161	11
Loans and overdrafts	1,485	358	130	554	443
Post employment benefits	287	-	-	-	287
Total	3,665	2,079	130	715	741
<u>\$'000 - 2013</u>					
Trade and other payables	1,582	1,582	-	-	-
Loans from the office of the chief scientist	172	-	-	161	11
Loans and overdrafts	1,659	759	37	331	532
Post employment benefits	412	-	-	-	412
Total	3,825	2,341	37	492	955

(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.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

21. FINANCIAL RISK MANAGEMENT (continued)

(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.
- Orders from customers in certain regions are shipped only after an approved letter of credit is received by the group's bank.
- Ongoing customers must pay 50% before shipping.
- Only high rated customers receive credit from the group

The group's maximum exposure to credit risk is \$1,853,000 represented by Trade and other receivables.

The table below analyses by age the group's trade receivables which are past due as at the end of the reporting date but are not impaired

<u>\$'000</u>	<u>Total</u>	<u>Current</u>	<u>30 days past due</u>	<u>60 days past due</u>	<u>90 days past due</u>
2013	1,392	366	59	78	889
2014	1,543	750	70	242	481

At the year end the group made provisions of \$1,088,000 (2013: \$1,820,000) for possible credit losses. These balances are not included in the analysis above.

Financial instruments

The Group does not use derivative financial instruments but has bank loans. The Group finances its operations simply using bank balances, plus debtors and creditors. The cash flow is regularly monitored.

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.

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.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

21. FINANCIAL RISK MANAGEMENT (Cont.)

Significant accounting policies (continued)

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

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

Receivables and deposits at banks

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

Loan liabilities

Fair value of short term liabilities is similar to its carrying value due to 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 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.

22. CAPITAL MANAGEMENT

As part of its capital management process group management monitor "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, share options, other reserves, and retained earnings) and debt finance.

Management objectives when maintaining capital are:

- To safeguard the entity's ability to continue as a going concern;
- To provide sufficient working capital to meet trading needs;
- To allow the group to structure itself in order to position itself for future growth and therefore to take advantage of strategic opportunities as they arise so the group can generate future returns for shareholders and benefits for other stakeholders.

SERVISION PLC
NOTES TO THE REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

22. CAPITAL MANAGEMENT (continued)

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to optimise, maintain or adjust the capital structure, the Group may obtain new or repay existing debt instruments, issue new shares, or sell assets to reduce debt. There have been no changes to the Group's capital management processes in the year under review

ULTIMATE CONTROLLING PARTY

23.

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

24. RELATED PARTY TRANSACTIONS

Included within Non current liabilities is a loan of US \$96,000 (2013: \$44,000) from G. Tahan, a director. The loan is unsecured and is due in more than one year. Total interest on the loan of \$8,160 (2013: \$nil) was accrued during the year.

Included within current liabilities is a short term loan of US \$207,000 (2013: \$nil) from G. Tahan. The loan is unsecured and 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.

- IFRS 9 Financial Instruments (effective from 1 January 2015).
- IFRS 14 Regulatory Deferral Accounts (effective from 1 January 2016).

The remaining standards in issue but not yet effective are not deemed to have a material impact on the group.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

26. RESERVES

Details of movements in reserves are set out in the consolidated statement of changes in equity (p16).

The following describes the nature and purpose of each reserve in equity:

- Share premium – Amounts subscribed for share capital in excess of nominal value
- Merger Reserve – Difference between the cost of investment and nominal value of Share Capital under Merger accounting
- Other reserve – Amount relating to equity based share options
- Retained Earnings – Cumulative net gains and losses recognised in the income statement
- Translation reserve – Gains and losses from the retranslation of net assets of overseas operations into US dollars.

27. POST YEAR END EVENTS

Subsequent to the year end the group conditionally raised £911,927 (before expenses) through the subscription for 17,537,059 new ordinary shares of 1p each in the Company (the "Subscription Shares") with existing investors and new shareholders, at a price of 5.2 pence per Subscription Share (the "Subscription"). The net proceeds of the Subscription will be used to satisfy the Company's existing order book and for general working capital purposes.