

**MEDIVISION MEDICAL IMAGING LTD.**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS OF MARCH 31, 2004 AND FOR THE THREE MONTHS THEN ENDED**

**MEDIVISION MEDICAL IMAGING LTD.**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS OF MARCH 31, 2004 AND FOR THE THREE MONTHS THEN ENDED**

**INDEX**

	<u>Page</u>
Review Report of Unaudited Interim Consolidated Financial Statements	2
Consolidated Balance Sheets	3-4
Consolidated Statements of Operations	5
Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Unaudited Interim Consolidated Financial Statements	8-9

**To: The Board of Directors**  
**MEDIVISION MEDICAL IMAGING LTD.**

**REVIEW REPORT OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2004**

We have reviewed the accompanying interim consolidated balance sheet of Medivision Medical Imaging Ltd. and its subsidiaries ("The Group") as of March 31, 2004, and the related interim consolidated statements of operations and statements of changes in shareholders' equity (deficiency) and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

We conducted our review in accordance with International Standards on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true and fair view, in accordance with International Accounting Standards.

**KOST, FORER GABBAY & KASIERER**  
A member of Ernst & Young Global

Haifa, Israel  
May 11, 2004

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED BALANCE SHEETS**

U.S. Dollars (in thousands)

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	1,019	1,315
Restricted cash	150	150
Trade receivables, net	1,984	1,735
Other accounts receivable and prepaid expenses	269	239
Inventories	670	521
<b>Total current assets</b>	4,092	3,960
<b>PROPERTY AND EQUIPMENT:</b>		
Cost	1,883	1,881
Less - accumulated depreciation	1,639	1,616
<b>Property and equipment, net</b>	244	265
<b>DEFERRED TAX ASSET</b>	500	500
<b>GOODWILL AND OTHER ASSETS:</b>		
Goodwill, net of accumulated amortization	4,008	4,125
<b>Total assets</b>	8,844	8,850

May 11, 2004

*Date of approval*

Ariel Shenhar  
*Director and  
Vice-President Finance*

Noam Allon  
*Director and  
Chief Executive Officer*

The accompanying notes are an integral part of the consolidated financial statements.

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED BALANCE SHEETS**

U.S. Dollars (in thousands – except share data)

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit and current maturities	1,918	2,067
Trade payables	682	591
Other accounts payable	3,020	2,993
<b><u>Total current liabilities</u></b>	5,620	5,651
<b>LONG-TERM LIABILITIES:</b>		
Long-term loans, net of current maturities	2,083	2,182
Accrued severance pay	138	142
<b><u>Total long-term liabilities</u></b>	2,221	2,324
<b><u>Total liabilities</u></b>	7,841	7,975
<b>MINORITY INTERESTS</b>	61	4
<b>SHAREHOLDERS' EQUITY:</b>		
Ordinary shares of NIS 0.1 par value each: Authorized: 10,000,000 shares as of March 31, 2004 and December 31, 2003; Issued and outstanding: 6,804,675 shares as of March 31, 2004 and December 31, 2003.	165	165
Additional paid-in capital	8,391	8,391
Capital reserve	(311)	(311)
Accumulated deficit	(7,303)	(7,374)
<b><u>Total shareholders' equity</u></b>	942	871
<b><u>Total liabilities and shareholders' equity</u></b>	8,844	8,850

The accompanying notes are an integral part of the consolidated financial statements.

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. Dollars (in thousands – except for share and per share data)

	For the three months ended March 31,	
	2004	2003
	Unaudited	
Sales	2,498	2,546
Cost of sales	969	1,047
Gross Profit	1,529	1,499
Research and development costs, net	236	150
Selling and marketing expenses	781	716
General and administrative expenses	408	535
	1,425	1,401
Operating income	104	98
Financial expenses, net	(59)	(67)
	45	31
Other income, net	60	-
Net profit for the period before minority interests	105	31
Minority interests	34	-
<b>Net profit</b>	<b>71</b>	<b>31</b>
Weighted average number of shares used in calculating the Income per share	6,804,675	6,804,675
Basic income per share (in Dollars)	0.010	0.005

The accompanying notes are an integral part of the consolidated financial statements.

**MEDIVISION MEDICAL IMAGING LTD.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**U.S. Dollars (in thousands)**

	<b>FOR THE THREE MONTHS ENDED MARCH 31, 2004</b>				
	<b>Share Capital</b>	<b>Additional Paid-in Capital</b>	<b>Capital Reserve</b>	<b>Accumulated Deficit</b>	<b>Total Shareholders' equity</b>
Balance at January 1, 2004 (audited)	165	8,391	(311)	(7,374)	871
Net profit	-	-	-	71	71
	165	8,391	(311)	(7,303)	942
Balance at March 31, 2004 (unaudited)	165	8,391	(311)	(7,303)	942

	<b>FOR THE THREE MONTHS ENDED MARCH 31, 2003</b>				
	<b>Share Capital</b>	<b>Additional Paid-in Capital</b>	<b>Capital Reserve</b>	<b>Accumulated Deficit</b>	<b>Total Shareholders' equity</b>
Balance at January 1, 2003 (audited)	165	8,391	(311)	(7,846)	399
Net profit	-	-	-	31	31
	165	8,391	(311)	(7,815)	430
Balance at March 31, 2003 (unaudited)	165	8,391	(311)	(7,815)	430

The accompanying notes are an integral part of the consolidated financial statements.

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. Dollars (in thousands)**

	For the three months ended	
	March 31,	
	2004	2003
<u>Note</u>	<u>Unaudited</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net profit	71	31
<b>Adjustments for:</b>		
Depreciation	23	16
Minority interests	34	-
Capital gain from issuance of shares of a subsidiary	(66)	-
Erosion in the value of long-term loans	18	2
Amortization of goodwill and other assets	70	60
Accrued severance pay, net	(4)	1
Operating income before working capital changes	146	110
Increase in trade receivables	(249)	(20)
Increase in other accounts receivable	(30)	(81)
Increase in inventories	(149)	(24)
Increase (decrease) in trade payables	91	(22)
Increase in other accounts payable	27	119
<b>Net cash provided by (used in) operating activities</b>	<b>(164)</b>	<b>82</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>		
Proceeds from options exercised by the minority to shares of a subsidiary	13	-
Purchase of property and equipment	(2)	(6)
<b>Net cash provided by (used in) investment activities</b>	<b>11</b>	<b>(6)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of long-term loans	(146)	(220)
Increase (decrease) in short-term bank credit, net	6	(245)
<b>Net cash used in financing activities</b>	<b>(140)</b>	<b>(465)</b>
Decrease in cash and cash equivalents	(293)	(389)
Cash and cash equivalents at the beginning of the period	1,309	1,545
Cash and cash equivalents at the end of the period	2    1,016	1,156
<b>Supplementary information:</b>		
Cash paid during the period as interest	24	39
<b>Supplemental schedule of non-cash financing activities:</b>		
Repayment of notes payable by way of conversion into common stock of a subsidiary	106	-
Payment of interest by way of conversion into common stock of a subsidiary	17	-

The accompanying notes are an integral part of the consolidated financial statements.

**MEDIVISION MEDICAL IMAGING LTD.**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. Dollars (in thousands)**

**NOTE 1:- GENERAL**

- a. Medivision Medical Imaging Ltd. (the "Company"), an Israeli Corporation, was incorporated and commenced business operations in June 1993. The Company and its subsidiaries (the "Group") develop, manufacture and market medical imaging equipment.

The interim consolidated financial statements as at March 31, 2004 and for the period of three months then ended have been prepared in a condensed format, in accordance with the Standards issued by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee as of IASC and applicable requirements of the Israeli law. Accordingly, the accounting principles that were applied in the preparation of the interim financial statements are consistent with those principles applied in the preparation of the annual financial statements. Never-the-less, the interim financial statements do not include all the information and disclosures required in the annual financial statements, and therefore, they should be read in conjunction with the Company's annual financial statements as at December 31, 2003.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Profit and loss results for the three-month period ended March 31, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

- b. Below are data on the representative exchange rates of the U. S. Dollar, and the changes therein during the reported periods:

**Exchange rate of \$1:**

	<u>NIS</u>
March 31, 2004	4.528
March 31, 2003	4.687
December 31, 2003	4.379

**Rate of increase (decrease) in the period:**

	<u>%</u>
3 months ended March 31, 2004	3.40
3 months ended March 31, 2003	(1.06)
For the year ended December 31, 2003	(7.56)

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. Dollars (in thousands)**

**NOTE 2:- CASH AND CASH EQUIVALENTS (For the purpose of the cash flow statements)**

Cash and cash equivalents comprise of the following as of March 31, 2004:

	<u>March 31,</u>	
	<u>2004</u>	<u>2003</u>
	<u>Unaudited</u>	
Cash and cash equivalents	1,019	1,190
Short-term bank credit	(3)	(34)
	<u>1,016</u>	<u>1,156</u>

**NOTE 3: - MODIFICATION OF SHARE CAPITAL OF OIS**

On September 25, 2003, OIS entered into a secured purchase agreement with Laurus Master Fund Ltd. ("Laurus"). During the period pursuant to this agreement OIS opted to pay \$106 thousand of principal and \$17 thousand of interest in 114,894 shares of common stock at conversion price of \$1.07 per share. Additionally, 13,334 options were exercised into OIS shares of common stock in consideration of \$13 thousand.

**NOTE 4: - SUBSEQUENT EVENT**

In April 2004, OIS (a subsidiary) issued a \$1 million secured three-year convertible note to Laurus Master Fund Ltd. ("Laurus") with a fixed coupon price of 6.5% per annum. Laurus may convert the convertible note into OIS's common stock at a fixed conversion price of \$1.22. Repayment of the principle, and interest accrued there on, is payable, at OIS's option, in cash or in shares of common stock, under certain limitations. Additionally, OIS issued a warrant to Laurus to purchase 313,000 shares of OIS's common stock at exercise prices ranging between \$1.40 and \$1.83 per share. The warrant is exercisable through April 17, 2011.

-----