

MEDIVISION - MEDICAL IMAGING LTD. AND ITS SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003**

MEDIVISION - MEDICAL IMAGING LTD. AND ITS SUBSIDIARIES

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AUDITORS' REPORT
TO THE SHAREHOLDERS OF
MEDIVISION - MEDICAL IMAGING LTD.

We have audited the accompanying consolidated balance sheets of Medivision - Medical Imaging Ltd. and its subsidiaries (the "Group") as of December 31, 2003 and 2002, and the related consolidated statements of operations, cash flows and changes in equity (deficiency) for each of the years ended on those dates. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing . Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the financial position of the Group as of December 31, 2003 and 2002, and the consolidated results of its operations, and its cash flows for the years ended on those dates, in accordance with International Financial Reporting Standards.

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

Haifa, Israel
March 18, 2004

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.

CONSOLIDATED BALANCE SHEETS

U.S. Dollars in thousands

	<u>Note</u>	<u>December 31,</u>	
		<u>2003</u>	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,315	1,569
Restricted cash		150	-
Trade receivables, net	3a	1,735	1,217
Other accounts receivable and prepaid expenses	3b	239	158
Inventories	4	521	595
Total current assets		3,960	3,539
PROPERTY AND EQUIPMENT			
Cost	5	1,881	1,796
Less – accumulated depreciation		1,616	1,539
Property and equipment, net		265	257
DEFERRED TAX ASSET	14e	500	-
GOODWILL AND OTHER ASSETS	6,9a(4)	4,125	4,257
Total assets		8,850	8,053

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

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.

CONSOLIDATED BALANCE SHEETS

U.S. Dollars in thousands (except share amounts)

	<u>Note</u>	<u>December 31,</u> <u>2003</u>	<u>2002</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term credit	7	2,067	1,580
Trade payables		591	685
Other accounts payable and accrued expenses	8	<u>2,993</u>	<u>2,942</u>
Total current liabilities		5,651	5,207
LONG-TERM LIABILITIES			
Long-term loans, net of current maturities	9	2,182	2,321
Accrued severance pay	10	<u>142</u>	<u>126</u>
Total long-term liabilities		2,324	2,447
COMMITMENTS AND CONTINGENT LIABILITIES			
Total liabilities	11	<u>7,975</u>	<u>7,654</u>
MINORITY INTEREST			
		4	-
SHAREHOLDERS' EQUITY			
Ordinary shares of NIS 0.1 par value each: Authorized: 10,000,000 shares as of December 31, 2003 and 2002; Issued and outstanding: 6,804,675 shares as of December 31, 2003 and 2002.	12	165	165
Additional paid-in capital		8,391	8,391
Capital reserve		(311)	(311)
Accumulated deficit		<u>(7,374)</u>	<u>(7,846)</u>
Total shareholders' equity		<u>871</u>	<u>399</u>
Total liabilities and shareholders' equity		<u><u>8,850</u></u>	<u><u>8,053</u></u>

March 18, 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 AND ITS SUBSIDIARIES.
CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. Dollars in thousands (except per share amounts)

	<u>Note</u>	<u>Year ended December 31,</u>	
		<u>2003</u>	<u>2002</u>
Sales	13a	10,468	9,465
Cost of sales	13b	4,186	3,699
Gross profit		6,282	5,766
Operating expenses:			
Research and development expenses, net	13c	874	775
Selling and marketing expenses	13d	3,317	2,841
General and administrative expenses	13e	1,733	1,920
Total operating expenses		5,924	5,536
Operating income		358	230
Financial expenses, net	13f	323	317
		35	(87)
Other income (expenses), net	13g	36	(153)
Profit (loss) for the year before taxes on income		71	(240)
Tax benefit (taxes on income)	14, 13h	405	(19)
Net profit (loss) for the year before minority interest in earning		476	(259)
Minority interest from ordinary activities		(4)	-
Net profit (loss) for the year		472	(259)
Basic earnings (loss) per share (in Dollars)	13i	0.07	(0.04)

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

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

U.S. Dollars in thousands

	<u>Share Capital</u>	<u>Additional Paid-in Capital</u>	<u>Capital Reserve</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Equity (Deficiency)</u>
Balances as of January 1, 2002	148	7,169	(311)	(7,587)	(581)
Issuance of shares, net*	17	1,222	-	-	1,239
Loss for the year	-	-	-	(259)	(259)
Balance as of December 31, 2002	165	8,391	(311)	(7,846)	399
Net profit for the year	-	-	-	472	472
Balance as of December 31, 2003	<u>165</u>	<u>8,391</u>	<u>(311)</u>	<u>(7,374)</u>	<u>871</u>

* Net of issuance costs of \$261.

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

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. Dollars in thousands

	Note	Year ended December 31,	
		2003	2002
Cash flows from operating activities:			
Net profit (loss) for the year		472	(259)
Adjustments for:			
Depreciation		77	106
Minority interest		4	-
Deferred taxes, net		(449)	19
Erosion in the value of long-term loans		(2)	(3)
Amortization of goodwill and other assets		251	241
Accrued severance pay		16	3
Increase in operating income before working capital Changes		<u>369</u>	<u>107</u>
Increase in trade receivables		(518)	(101)
Increase in other accounts receivable and prepaid expenses		(132)	(27)
Decrease (increase) in inventories		74	(40)
Decrease in trade payables		(94)	(11)
Increase in other accounts payable and accrued expenses		51	12
Net cash used in operating activities		<u>(250)</u>	<u>(60)</u>
Cash Flows from Investment Activities:			
Increase in restricted cash		(150)	-
Purchase of property and equipment		(85)	(78)
Proceeds from sale of property and equipment		-	2
Net cash used in investment activities		<u>(235)</u>	<u>(76)</u>
Cash Flows from Financing Activities:			
Receipt of long-term loans		1,200	800
Payment of long-term loans		(829)	(191)
Issuance of shares		-	1,500
Deferred debt issuance costs		(119)	-
Issuance costs		-	(261)
Decrease in short-term loans, net		(3)	(385)
Net cash provided by financing activities		<u>249</u>	<u>1,463</u>
Increase (decrease) in cash and cash equivalents		(236)	1,327
Cash and cash equivalents at beginning of the year	17	<u>1,545</u>	<u>218</u>
Cash and cash equivalents at the end of the year	17	<u><u>1,309</u></u>	<u><u>1,545</u></u>
Supplementary information:			
Cash paid during the period as interest		<u>135</u>	<u>130</u>

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

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE 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 develops, manufactures and markets medical imaging equipment.

On June 8, 2000, the Company completed its IPO on the EURO. NM market in Belgium.

The principal markets of the Company are located in the United States and Europe (see Note 13a).

b. **Definitions:**

"The Company" - Medivision - Medical Imaging Ltd.

"Subsidiaries" - Companies whose financial statements are fully consolidated with those of the Company.

"The Group" - The Company and its subsidiaries.

"Camvision" - Camvision Ltd., a company under common control which became a wholly-owned subsidiary of the Company since April 1, 1999.

On January 1, 2000 Camvision ceased its operations.

"OIS" - Ophthalmic Imaging Systems Inc.

On August 18, 2000, the Company acquired 73% of the voting shares of OIS a public Company incorporated in California, U. S. A. and traded over the counter in NASDAQ (OISI.OB). On June 2003, the Company exercised its option and converted a capital note into shares capital. As a result of this transaction, the Company currently holds 85% of OIS's outstanding common stock. OIS designs, develops, manufactures and markets ophthalmic digital imaging and image enhancement systems and analyses software, and related products and services for use by practitioners in the Ocular Healthcare field.

"Delta Trading" - Delta Trading & Services (1986) Ltd. holds 34.79% of the issued share capital. As of December 31, 1999 Delta Film Israel (1994) Ltd. ("Parent Company") transferred and assigned all its holdings in the Company, including all its rights, obligations and liabilities to Delta Trading.

"Related parties" - As defined in the IAS 24 of IASB.

"C.P. I." - The Consumer Price Index as published by the Central Bureau of statistics in Israel.

"NIS" - New Israeli Shekels.

"Dollar" or "\$" - U.S. Dollar.

"EURO" or "€" - European currency.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC, that remain in effect.

The consolidated financial statements have been prepared on an historical cost basis.

a. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. Dollars - the reporting currency:

1. The majority of the Company's sales are denominated in Dollars and the majority of the Group's costs are incurred in Dollars or linked thereto. Accordingly, the Company has determined the Dollar as the currency of its primary economic environment, and thus as its functional and reporting currency.

In accordance with the International Accounting Standards (IAS) 21 of IASB, the Company presents its financial statements in NIS translated into Dollars according to exchange rate prevailing at the date of the transaction.

2. Transactions and balances originally denominated in Dollars are presented at their original amounts. Balances in non-Dollar currencies are translated into Dollars using historical and current exchange rate of non-monetary and monetary balances respectively. For non-Dollar transactions reflected in the statements of operations, the exchange rates prevailing at the date of the transaction are used. Depreciation and changes in inventories deriving from non-monetary items are based on historical exchange rates.
3. All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-Dollar currencies are reflected in the statements of operations as financial income or expenses, as appropriate.
4. Data regarding the representative exchange rates of the Dollar and the C.P.I. and the changes therein during the reported periods are as follows:

	Exchange rate	*C.P.I.
	NIS	Points *
December 31, 2003	4.379	106.16
December 31, 2002	4.737	108.20
Changes during the year ended:	%	%
December 31, 2003	(7.56)	(1.89)
December 31, 2002	7.27	6.50

* On basis of average 2000 = 100 points.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company transactions and balances, including profits from inter-company sales not yet realized outside the group, have been eliminated upon consolidation.

Acquisition of subsidiaries are included in the financial statements using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to conform with any dissimilar accounting policies that may exist.

d. Cash and cash equivalents

The Company considers all highly liquid investments readily convertible into cash, originally purchased with maturities of three months or less, to be cash equivalents.

For the purposes of the consolidated cash flows statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

e. Restricted cash

Restricted cash is primarily invested in certificates of deposits, which mature within one year and is used as security for the Company's line of credit.

f. Trade receivables

Trade receivables include amounts billed to clients and various amounts due from transactions arising in the ordinary course of business. Management periodically evaluates the collectibility of these receivables.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

g. Inventories

Inventories are valued at the lower of cost or net realizable value.

Cost is determined as follows:

Raw materials - on a first-in, first-out basis.

Work-in-progress and finished products -

Raw materials - on a first-in, first-out basis.

Labor and manufacturing expenses - cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating activities.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method, on the basis of the estimated useful lives of the assets.

Annual depreciation rates are:	%
Machinery and equipment	15 – 20
Office furniture and equipment	6 – 15
Computers and peripheral equipment	20 – 33
Leasehold improvements	Over the term of the lease

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

i. Deferred taxes

The Company accounts for income taxes under the liability method of accounting for income taxes as prescribed by IAS 12.

Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax assets, and unused tax losses can be utilized.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Deferred taxes (continued)

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

j. Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

Revenues from sales of products are recognized upon shipment to customers, provided that no significant vendor obligations remain, acceptance has occurred and the collection of the related receivable is probable. The Group generally provides a one year warranty covering materials and workmanship. Cost of sales includes the estimated costs associated with the installation and warranty.

Customers may purchase extended warranty coverage for additional one or two year periods. Revenues from the sale of these extended warranties are deferred and recognized as revenue on a straight-line basis over the term of the extended warranty contract.

k. Research and development costs

Research and development costs are charged to expenses net of participation of the Chief Scientist of the Ministry of Industry and Trade ("the Chief Scientist"), and the participation of the Israel-United States Bi-national Industrial Research and Development Foundation ("the BIRD-F").

l. Royalty bearing grants

Royalty bearing grants from the Chief Scientist and BIRD-F for funding certain approved research projects are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred and are presented as a reduction of research and development expenses.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Income (loss) per share

The Group calculates both basic and diluted earnings (loss) per share in accordance with IAS 33, earnings per share, (IAS 33). Under IAS 33, basic earnings (loss) per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period.

n. Fair value of financial instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

The carrying values of cash and cash equivalents, restricted cash, trade receivables and other accounts receivable, short-term bank credit, trade payables, other accounts payable and long-term loans reported in the balance sheet approximate their fair values.

The carrying amount of the convertible note approximated fair value because the note was recently issued at an interest rate consistent with prevailing interest rates with other lending institutions.

o. Concentrations of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash, cash equivalents and trade receivables. Cash and cash equivalents are deposited with major banks in Israel and U.S.A. Management believes that the financial institutions that hold the Group's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments. The Group has adopted credit policies and standards intended to accommodate industry growth and inherent risk. The Group performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary and includes provisions in the financial statements, which in the opinion of management are adequate to cover doubtful accounts.

p. Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful economic life of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

q. Leases

Financing leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Employee share incentive plans

The Company and OIS have employee share incentive plans for the granting of non-transferable options. The Group uses the intrinsic value accounting method for share awards under which there are no charges to earnings for employee stock option awards (because the exercise price equals the market value of the shares at the date of the grant).

s. Warranty costs

OIS and the Company generally offer a one-year warranty to their customers. The warranty requires to repair or replace defected products during the warranty period. At the time product revenue is recognized, OIS and the Company record a liability for estimated costs that may be incurred under these warranties. The costs are estimated based on historical experience and any specific warranty issues that have been identified. (Although historical warranty costs have been within expectations, there can be no assurance that future warranty costs will not exceed historical amounts). OIS and the Company periodically assesses the adequacy of the recorded warranty liability and adjust the balance as necessary.

t. Impact of recently issued accounting standards

In December 2003, the IASB released revised IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement. These standards replace IAS 32 (revised 2000), and supersede IAS 29 (revised 2000), and should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

In December 2003, as a part of the IASB's project to improve International Accounting Standards, the IASB released revisions to the following standards that supersede the previously released versions of those standards: IAS 1, Presentation of Financial Statements; IAS 2 Inventories; IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; IAS 10, Events after Balance Sheet Date; IAS 16, Property, Plant and Equipment; IAS 17, Leases; IAS 21, The Effects of Changes in Foreign Exchange Rates; IAS 24, Related Party Disclosures; IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; IAS 31, Interest in Joint Ventures; IAS 33, Earnings per Share and IAS 40, Investment Property. The revised standards should be applied for annual period beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Impact of recently issued accounting standards (continued)

On February 19, 2004, the International Accounting Standards Board (IASB) issued International Financial Reporting Standard 2, Share-Based Payment (IFRS 2), on the accounting for share-based payment transactions, including grants of share options to employees. IFRS 2 requires an entity that follows IAS to recognize the effect of share-based payment transactions in the financial statements based on the awards' fair value. The IFRS will be effective for annual periods beginning on or after January 1, 2005 and will apply to grants of shares, share options or other equity instruments that were granted after November 7, 2002 and had not yet vested at the effective date. The adoption of this standard may have a material effect on the Company's financial position and results of operations. The Company is currently evaluating the extent of the effect.

NOTE 3:- ACCOUNTS RECEIVABLE

	December 31,	
	2003	2002
a. Trade receivables		
Abroad	1,997	1,355
Local	99	54
	2,096	1,409
Less - allowance for doubtful accounts	361	192
	1,735	1,217
b. Other accounts receivable and prepaid expenses		
V.A.T. receivable	-	1
Grant receivable and prepaid expenses	225	84
Deferred tax asset (See Note 14e)	-	51
Other	14	22
	239	158

NOTE 4:- INVENTORIES

	December 31,	
	2003	2002
Composition:		
Raw materials	231	231
Work in progress	59	55
Finished products	231	309
	521	595

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 5:- PROPERTY AND EQUIPMENT

	<u>Machinery and Equipment</u>	<u>Office Furniture and Equipment</u>	<u>Computers and Peripheral Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost:					
Balance as of January 1, 2003	1,056	593	120	27	1,796
Changes during the year:					
Additions	51	25	8	1	85
Balance as of December 31, 2003	<u>1,107</u>	<u>618</u>	<u>128</u>	<u>28</u>	<u>1,881</u>
Accumulated depreciation:					
Balance as of January 1, 2003	912	505	116	6	1,539
Depreciation	50	22	4	1	77
Balance as of December 31, 2003	<u>962</u>	<u>527</u>	<u>120</u>	<u>7</u>	<u>1,616</u>
Depreciated cost:					
Balance as of December 31, 2002	<u>144</u>	<u>88</u>	<u>4</u>	<u>21</u>	<u>257</u>
Balance as of December 31, 2003	<u>145</u>	<u>91</u>	<u>8</u>	<u>21</u>	<u>265</u>

Depreciation expenses amounted to \$77 and \$106 for the years ended December 31, 2003 and 2002, respectively.

As for Liens - see Note 11d.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 6:- GOODWILL AND OTHER ASSETS

- a. On August 18, 2000, the Company acquired 73% of the voting shares of OIS. The consideration for the acquisition, paid in cash, was \$2,575. Goodwill arising on the acquisition amounted to \$4,819.

b. Intangible assets:

	December 31,	
	2003	2002
Original amounts:		
Goodwill (See Note 6a)	4,819	4,819
Deferred debt issuance costs (See Note 9a(4))	119	-
	4,938	4,819
Accumulated amortization:		
Goodwill	803	562
Deferred debt issuance costs	10	-
	813	562
	4,125	4,257

Amortization expenses, which are included in General and Administrative expenses, amounted to \$241 for the years ended December 31, 2003 and 2002. Deferred debt issuance costs which are included in Financial expenses amounted to \$10. As for Liens, see Note 11d.

NOTE 7:- SHORT-TERM AND CURRENT MATURITIES OF LONG-TERM LOANS

	Interest rate in 2003	December 31,	
	%	2003	2002
Short-term bank credit in NIS	12.96	6	24
Short-term loans in Dollars	3.75-4.46	281	434
Line of credit (1)		150	-
Current maturities of long-term loans (See Note 9)		1,630	1,122
		2,067	1,580

As for guarantees, see Note 11d.

- (1) In May 2003, OIS entered into a \$150 line of credit agreement with a bank. The line is secured by a pledged investment with the bank equal to the amount of the line of credit. Advances on the line bear interest at prime (4% at December 31, 2003) and are due monthly. The line matures on September 10, 2008.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2003	2002
Employees	798	615
Accrued royalties	-	29
Accrued expenses (mainly salaries to shareholders)	385	336
Deferred revenue	557	268
Advances from customers	202	344
Accrued warranty expenses	438	371
Accrued expenses and other credit balances	613	979
	<u>2,993</u>	<u>2,942</u>

NOTE 9:- LONG-TERM LOANS

	Interest rate for 2003	December 31,	
	%	2003	2002
a. Composition:			
Bank loans:			
Linked to the C.P.I. (1)	-	-	25
In Dollars (2,5)	LIBOR + 2.75	2,352	3,128
		<u>2,352</u>	<u>3,153</u>
Shareholders' loans - linked to the Dollar	LIBOR (3)	287	285
Capitalized lease		-	5
Convertible note - in Dollars (4)		1,173	-
		<u>3,812</u>	<u>3,443</u>
Less-current maturities of long-term loans		1,630	1,122
		<u>2,182</u>	<u>2,321</u>

- (1) The loans were guaranteed by the Government of Israel (See Note 14a).
- (2) For loan agreements (see Notes 12b5)
- (3) The LIBOR rate was 1.46% at December 31, 2003.
- (4) On September 25, 2003, OIS entered into a securities purchase agreement with Laurus Master Fund Ltd. ("Laurus"). Pursuant to this agreement, OIS sold to Laurus a secured convertible term note in the principal amount of \$1,200 bearing interest at the rate of six and one-half percent (6.5%) per annum, due September 25, 2006, convertible into shares of its common stock at a conversion price of \$1.07 per share. Debt issuance costs of \$119 have been capitalized and are being amortized over the three-year life of the note. The effective annual interest rate on the note is 8.32%. Interest is payable, at OIS's option, in cash or in shares of common stock, under certain limitations. OIS granted to Laurus subordinated second priority security interest in its assets to secure the obligations under the note pursuant to a security agreement dated September 25, 2003 between it and Laurus. Additionally, OIS issued a warrant to Laurus to purchase 375,000 shares of its common stock (See note 18b).
- (5) According to the loan agreement with Delta Lloyd Bank N.V., dated August 8, 2000, and the first Appendix thereto dated May 28, 2002, the principal amount of \$1,415 (see Note 9) will be repaid in equal monthly installments of approximately \$51, beginning on March 10, 2003, subject to interest payment in advance and other conditions determined in the aforementioned agreement. Management is in the opinion that up to balance sheet date the Company is in compliance with these conditions.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 9:- LONG-TERM LOANS (Continued)

b. Aggregate maturities of long-term loans are as follows:

	December 31, 2003
First year - current maturities	1,630
Second year	1,360
Third year	535
Shareholders' loans - payment date not yet determined	287
	2,182
	3,812

c. As for guarantees, see Note 11d.

NOTE 10:- ACCRUED SEVERANCE PAY

The Company's liability for the payment of severance pay to its Israeli employees is calculated pursuant to Israeli Severance pay law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month salary for each year of employment or a portion thereof. The Company's liability for all of its Israeli employees is mainly funded through insurance policies. The net amount of the severance liability presented in the balance sheet represents the Company's liability for severance to its employees as of balance sheet date. The amounts accumulated in the Manager's insurance policies in the employees names, and their respective liabilities, are not presented in the balance sheet since they are not under the Company's control and management.

OIS had a tax deferred investment plan (the "Plan"). All full-time employees are eligible to participate in the Plan. The Plan provided for discretionary employer contributions. For the year ended December 31, 2002, OIS made matching contributions of \$79. The Plan was terminated in 2002.

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Collection of Taxes from Customers

In a prior year, a state taxing authority of one of the States in the U.S.A. made inquiries of OIS regarding the collection of sales or use taxes from customers in that state. The inquiry was favorably resolved without any adverse consequences to OIS. OIS evaluates such inquiries on a case-by-case basis and will vigorously contest any such claims for payment of sales or use taxes, which it believes, are without merit.

However, the management of OIS has prepared an analysis of sales to customers in those jurisdictions for which OIS does not collect sales or use taxes. Certain assumptions were made in the preparation of this analysis, including but not limited to:

- OIS's customers have not remitted any sales or use tax to state or local taxing authorities.
- Potential interest and penalties have been included on sales activity from OIS's inception.
- Sales or use taxes have been provided at the effective tax rates for each taxing authority for which OIS may have had a sale.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The analysis indicates maximum potential liability of \$570. The management of OIS believes that the probability of such an assessment is not probable, and accordingly, the Group has not recorded a liability in the accompanying financial statements.

However, there can be no assurance that the amount of any sales or use taxes that might ultimately be assessed for prior periods would not materially affect the Group's results of operation or cash flows in any given reporting period.

b. Chief Scientist

The Company is committed, under agreements with the Chief Scientist in respect of certain research and development projects, to pay royalties to the Chief Scientist at the rate of 3.5% of the sales of products resulting from the research and development which resulted with the AngioVision product line, at an amount not to exceed the amount of the grants received by the Company, as participation in the research and development program, in Dollar terms. As of December 31, 2003 the sales of the AngioVision product line have decreased significantly, and the Company had an outstanding contingent obligation to pay royalties in the amount of \$1,804.

c. BIRD-F

The Group received grants from BIRD-F. Royalty payments to BIRD-F are due at the rate of 2.5% for the first year and 5% beginning with the second year and thereafter, on revenues derived from research and development projects in which the BIRD-F participated in their financing, up to 150% of the amount received by the Group.

As of December 31, 2003, grants received from BIRD-F amounted to \$769.

As of December 31, 2003, the Group has an outstanding contingent obligation to pay royalties to BIRD-F aggregating up to \$1,154.

d. Liens

1. The Company's liabilities to banks are secured by a fixed lien on the Company's capital share, goodwill, patents and insurance rights and a floating lien on all of its assets.
2. To secure its liabilities to Delta Lloyd Bank the Company committed to pledge 2,131,908 Ordinary shares of its holdings in OIS in favor of Delta Lloyd Bank.
3. OIS granted a security interest in substantially all assets of OIS to the United Mizrahi Bank Ltd., as security for amounts borrowed by the Company from the Bank (see Note 12b5).

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (Except share amount)

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The secured liabilities and guarantees are as follows:

	December 31,	
	2003	2002
Short-term bank loan including current		
Maturities of long-term loans	1,355	188
Long-term bank loan	1,249	1,402

For guarantees given to the Company by shareholders, see note 15c.

e. Lease Agreements

1. OIS leases its facilities under a non-cancelable operating lease that expires in May 2005. For minimum lease payments of approximately \$103 and \$43 for the years ended December 31, 2004 and 2005, respectively.
2. OIS leases a sales office under month-to-month lease requiring a minimum lease payment of approximately \$1 per month.
3. The Company rents its facilities under a non-cancelable operating lease that expires in September 2007. The lease agreements require minimum lease payments of approximately \$28, \$28, \$28 and \$22 for the years ended December 31, 2004, 2005, 2006 and 2007, respectively.

NOTE 12:- SHARE CAPITAL

a. Modification of share capital

On September 25, 2001, the Company and AGFA-GEVAERT N.V. (the “investor”) signed an agreement (the “Agreement”). According to the Agreement and the first and second addendum to it, the Company agreed to issue to the investor, upon completion of the first, second and third investments (as defined in the Agreement) an aggregate of 1,587,302 Ordinary shares of the Company at a nominal value of NIS 0.1 each in consideration of \$3,000. The first, second and third investments are \$1,000. Half of the third investment, of \$500 is subject to achievement of certain operational milestones and fulfillment of terms and conditions determined in the aforementioned agreement.

On October 18, 2001, the Company issued 529,101 Ordinary shares to the investor after the completion of the first investment.

During 2002, the Company issued 793,652 Ordinary shares to the investor after the completion of the second investment and half of the third investment. If further to the third investment, an additional sum of \$500 will be made by the investor, the investor will be entitled to an allotment of an additional 265,550 Ordinary shares of the Company, in compliance with the provisions of the investment agreement. Up to balance sheet date the investor has informed the Company that it does not intend to invest this amount.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 12:- SHARE CAPITAL (Continued)

b. Warrants and options

1. The Company granted Smeets Security N.V. an option to purchase 54,214 Ordinary shares of the Company at a price of EURO 3.65 per share, exercisable within the period of five years commencing on January 18, 2000.
2. The Company issued Gazelle Invest Inc. ("Gazelle") and Be'ery Capital Group Ltd., immediately prior to the Offering, 98,630 and 10,959 transferable warrants, respectively, to purchase Ordinary Shares of the Company ("Warrants"). The Warrants are convertible, in whole or in part, into Ordinary shares at a price of EURO 3.65 per share, exercisable within the period of four years commencing on June 9, 2000.
3. The Company granted Delta Lloyd Bank an option to purchase Ordinary shares of the company for a total consideration of U.S.\$262 at a price of \$3.866 per share, exercisable within the period of five years, commencing on August 8, 2000.
4. The Company granted financial consultants an option to purchase 38,145 Ordinary shares of the Company at a price of EURO 2.93 per share, exercisable within the period of four years commencing on December 13, 2000.
5. On December 9, 2002, the Company granted to United Mizrahi Bank Ltd. a warrant to purchase Ordinary shares of the Company for a total consideration of EURO 480 thousand. In consideration of the warrant the bank allocated to the Company a loan in the amount of \$800 (See Note 9), which will be paid in twelve monthly installments, commencing on June 30, 2004, under certain conditions set forth in the Agreement (management is in the opinion that up to balance sheet date the Company is in compliance with these conditions). The warrant may be exercised on the earliest to occur (1) within the period of six years commencing December 9, 2002; (2) twelve months after the consummation of an exit transaction under certain conditions set in the agreement. The exercise price will be the lower of (1) EURO 1.79 or (2) the price per share set by the exit transaction less 40%.

c. Stock Option Plan

On October 17, 1999, the Board of Directors of the Company, adopted a Stock Option Plan (the "1999 Plan") pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or any subsidiary. An

aggregate of 500,000 Ordinary shares of the Company are reserved for issuance under the 1999 Plan. Any options which are canceled or forfeited within the option period will become available for future grants. The 1999 Plan will terminate in 2009, unless previously terminated by the Board of Directors. The plan is under section 102 of the Israeli Tax Ordinance in connection with exemption from tax on the date of issuance of shares (subject to its limitations).

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 12:- SHARE CAPITAL (Continued)

* At the Annual General Meeting of the Company's shareholders, which was held on December 31 2002, it was resolved that, the exercise price of the options granted under 1999 plan will be fixed at prices ranging between EURO 0.5 - EURO 1.5, including options granted to directors and officers as follows: (1) one-third of the options will be exercisable at the price of EURO 0.5, (2) one-third of the options will be exercisable for an exercise price of EURO 1.0 (3) one-third of the options will be exercisable for an exercise price of EURO 1.5.

** At the Annual General Meeting of the Company's shareholders, which was held on December 23, 2003, it was resolved to extend the exercise period of the options issued or to be issued under the Company's 1999 share option plan, from the currently available exercise period of up to 60 months to 120 months from the date of grant of each option.

Up to balance sheet date the Company granted 324,696 options, of which 265,539 are exercisable into Ordinary shares of NIS 0.1 par value each at the following prices:

Exercise Price per Share	December 31, 2003		
	Outstanding		Exercisable
	Number of options	life**	Number of options
EURO			
0.5-1.5	315,112	4.5	255,955
0.025	9,584	4.5	9,584
	<u>*324,696</u>		<u>265,539</u>

* Including 268,352 options not issued under section 102 of the Israeli Tax Ordinance.

** Weighted average contractual life remaining in years.

	December 31, 2002		December 31, 2003	
	Amount	Weighted average exercise price EURO	Amount	Weighted average exercise price EURO
Outstanding at the beginning of the year	370,304	3.35	339,928	0.96
Granted	-	-	40,000	0.74
Forfeited	(30,376)	1.85	(55,232)	0.92
Outstanding at the end of the year	<u>339,928</u>	<u>*0.96</u>	<u>324,696</u>	<u>0.94</u>
Exercisable options	<u>296,420</u>	<u>*0.95</u>	<u>265,539</u>	<u>0.93</u>

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 13:- SELECTED STATEMENTS OF OPERATIONS DATA

a. Sales

	Year ended December 31,	
	2003	2002
Foreign:		
America *	9,466	8,229
Europe	768	742
Other	234	494
	<u>10,468</u>	<u>9,465</u>

* Mainly in the U.S.A.

b. Cost of sales

	Year ended December 31,	
	2003	2002
Materials consumed	2,950	2,631
Salaries	718	729
Other	444	560
	<u>4,112</u>	<u>3,920</u>
Changes in work in progress and finished products	74	(221)
	<u>4,186</u>	<u>3,699</u>

c. Research and development expenses, net

	Year ended December 31,	
	2003	2002
Salaries and related expenses	554	635
Subcontractors and consultants	127	170
Materials and suppliers	29	38
Depreciation	29	22
Miscellaneous	224	251
	<u>963</u>	<u>1,116</u>
Less - participation by BIRD-F	(89)	(341)
	<u>874</u>	<u>775</u>

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 13:- SELECTED STATEMENTS OF OPERATIONS DATA (continued)

d. Selling and marketing expenses

	Year ended December 31,	
	2003	2002
Salaries and related expenses	2,237	1,369
Advertising and exhibitions	313	333
Travel abroad	565	509
Post and telephone	59	79
Miscellaneous	143	551
	<u>3,317</u>	<u>2,841</u>

e. General and administrative expenses

	Year ended December 31,	
	2003	2002
Salaries and related expenses	959	1,018
Professional services	191	121
Rent	92	122
Post and telephone	46	79
Vehicles maintenance	10	30
Doubtful debts	169	42
Depreciation	21	81
Amortization of goodwill	241	241
Miscellaneous	4	186
	<u>1,733</u>	<u>1,920</u>

f. Financial expenses, net

	Year ended December 31,	
	2003	2002
Expenses:		
Bank expenses and interest	303	298
Erosion in value of long-term liabilities	(2)	(3)
Interest to related party	8	17
Other	14	5
	<u>323</u>	<u>317</u>

g. Other expenses, net

	Year ended December 31,	
	2003	2002
Damage from floods, net of reimbursement from insurance company	-	113
Gain from decrease in holding of OIS due to issuance of shares in OIS to third parties	42	-
Other	(6)	40
	<u>36</u>	<u>153</u>

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars (in thousands except for number of shares and loss per share)

NOTE 13:- SELECTED STATEMENTS OF OPERATIONS DATA (continued)

h. The provision for income taxes is comprised as follows:

	Year ended December 31,	
	2003	2002
Current taxes	(44)	-
Deferred taxes	449	(19)
	405	(19)

i. **Earning (loss) per share**

	Year ended December 31,	
	2003	2002
Income (loss) for the year	472	(259)
Weighted average number of shares used in calculation of basic loss per Share	6,804,675	6,451,941
Basic and diluted earning (loss) per share (in Dollars)	0.07	(0.04)

All warrants and options are anti-dilutive.

NOTE 14:- TAXES ON INCOME

a. Tax benefits under the Encouragement Law:

The Company was granted "approved enterprise" status. The main benefits to which the Company will be entitled, if it implements all the terms of the approved program, are exemption from tax on income from the approved enterprise, and reduced tax rates on dividends originating from this income. The income from the approved enterprise will be exempt from tax for a ten year period, commencing on the date that taxable income is first generated by the approved enterprise (limited to the earlier of a maximum period of 12 years from commencing operations or 14 years from the date the approval letter is received).

On August 1999 the Company was granted an additional period of extension, thus extending the period of tax exemption until 2009.

Dividend distributions originating in the income of the approved enterprise will be subject to tax at the rate of 15%, provided that the dividend is distributed during the period stipulated in the law. In the event of a dividend distribution (including withdrawals and charges that are deemed to be dividends) out of the income originating from the approved enterprise, and on which the Company received a tax exemption, income from which the dividend is distributed will be subject to corporate taxes at the rate of 25%.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 14:- TAXES ON INCOME (continued)

The Company received government guaranteed loans of \$405.

Return of the loans are scheduled originally and tax benefits are conditional upon compliance with the provision of the Law, the regulations that were enacted, and the terms stipulated in the approval letter. Up to balance sheet date, the Company has repaid all government loans.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the instruments of approval for the specific investments in "approved enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2003, management believes that the Company is meeting all of the aforementioned conditions.

- b. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985: Results for tax purposes are measured and reflected in real terms in accordance with the change in the CPI. As explained in Note 2b the consolidated financial statements are presented in U.S. Dollars. The differences between the change in the CPI and in the NIS/U.S. Dollar exchange rate causes a difference between taxable income or loss and the income or loss before taxes reflected in the consolidated financial statements.

- c. Carryforward tax losses:
The Company has accumulated losses for tax purposes as of December 31, 2003, in the amount of approximately \$ 6,696, which may be carried forward and offset against taxable income in the future for an indefinite period.

Deferred tax assets have not been recognized in respect of these losses as they may not be used to offset taxable profits elsewhere in the group.

OIS has at December 31, 2003, a net operating loss carry over of approximately \$5,411 for federal income tax purposes which expires between 2007 and 2020, and a net operating loss carry forward of approximately \$2,089 for the California State income tax purposes which expires through 2010. The State of California has suspended the application of net operating losses for the 2002 and 2003 fiscal years and extended the carry forward period for two years. Federal and state tax credit carry forwards of approximately \$175 will begin to expire in 2007. Due to changes in ownership, which occurred in prior years, section No. 382 of the Internal Revenue Code provides for significant limitations on the utilization of net operating loss carry forward and tax credits. As a result of the annual limitations a substantial portion of these loss and credit carryovers may expire without being utilized.

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 14:- TAXES ON INCOME (continued)

- d. A reconciliation of theoretical tax benefit, assuming all losses are taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax benefit, is as follows:

	Year ended December 31,	
	2003	2002
Profit (loss) as reported in the consolidated statements of operations	71	(240)
Statutory tax rate in Israel	36%	36%
Theoretical tax benefit (taxes on income)	(26)	86
Increase (decrease) in taxes resulting from:		
Items for which deferred taxes were not provided	(10)	(44)
Tax adjustments in respect of inflation in Israel	(10)	(15)
Non-deductible expenses	(4)	(6)
Deferred tax benefit arising from reverse of a previous write-down	449	-
Decrease in taxes resulting from realization of Carryforward tax losses of OIS in respect of which deferred taxes were previously written-down	296	-
Increase in taxes resulting from of carry forward tax losses in respect of which deferred taxes were not provided	(288)	(52)
Other	(2)	12
Tax benefit (taxes on income)	405	(19)

- e. Deferred taxes:
Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities. OIS recorded a tax asset due to carry forward losses in the amount of \$500. The Company has not recorded a tax assets due to carryforward losses at the amount of \$2,411 as they may not be used to offset taxable profits elsewhere in the group.

NOTE 15:- RELATED PARTIES TRANSACTIONS AND BALANCES

a. Related parties balances:

	December 31,	
	2003	2002
Long-term loans from shareholders	287	285
Accrued expenses to shareholders (mainly salaries)	385	336

b. Related parties transactions:

	Year ended December 31,	
	2003	2002
Interest to related parties	8	17
Shareholders' salary expenses	542	478
Salary to directors	84	69

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 15:- RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

c. Guarantees

The shareholders have provided guarantees to secure the Company's liabilities to commercial banks for a total amount of \$389.

NOTE 16:- LINKAGE TERMS OF MONETARY BALANCES

Linkage terms of monetary balances in the consolidated balance sheet of the Company are as follows:

	NIS linked to CPI	Foreign currency (mainly US.\$)	NIS Unlinked	Total
December 31, 2002:				
Assets:				
Cash and cash equivalents	-	1,569	-	1,569
Trade receivables	-	1,163	54	1,217
Other accounts receivable	-	64	10	74
	-	2,796	64	2,860
Liabilities:				
Short-term credit	-	434	24	458
Trade payables	-	611	74	685
Other accounts payable	-	1,876	454	2,330
Long-term loans from banks and others (including current maturities)	25	3,418	-	3,443
	25	6,339	552	6,916
December 31, 2003:				
Assets:				
Cash and cash equivalents	-	1,315	-	1,315
Restricted cash	-	150	-	150
Trade receivables	-	1,636	99	1,735
Other accounts receivable	-	-	14	14
	-	3,101	113	3,214
Liabilities:				
Short-term credit	-	431	6	437
Trade payables	-	529	62	591
Other accounts payable	-	1,377	357	2,234
Long-term loans from banks and others (including current maturities)	-	3,812	-	3,812
	-	6,649	425	7,074

MEDIVISION - MEDICAL IMAGING LTD AND ITS SUBSIDIARIES.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 17:- CASH AND CASH EQUIVALENTS (For the purpose of the Cash Flow Statements)

Cash and cash equivalents comprise the following as of December 31:

	December 31,	
	2003	2002
Cash and cash equivalents	1,315	1,569
Short-term bank credit (see Note 7)	(6)	(24)
	1,309	1,545

NOTE 18:- MODIFICATION OF SHARE CAPITAL OF OIS

- a. In May 2003, the Company and OIS entered into Amendment No. 2 to the Working Capital Funding Agreement and the Short Term Note whereby the repayment terms on the debt were extended on all principal and interest due until January 1, 2005.

In June 2003, the Company exercised its option, according to the working capital Agreement and Amendments No. 1, 2 thereto, and the secured convertible promissory note between the Company and OIS of \$1,150 principal and interest unpaid was converted, at a conversion price of \$0.185 per share, into 6,216,216 common shares of OIS. As a result of the foregoing transactions, the Company currently owns approximately 85% of OIS's outstanding common stock.

During December 2003, principal and interest of the Laurus loan were converted to 31,074 shares of OIS. In addition, 18,334 options were exercised into OIS shares.

- b. OIS issued a warrant in September 2003 pursuant to the issuance of a note payable (Note 9a(4)). The warrant permits the holder to purchase up to 375,000 shares of common stock at a price of \$1.23 per share for the first 100,000 shares; \$1.39 per share for the next 125,000 shares and \$1.61 per share for the remaining 150,000 shares. The warrant is exercisable through September 25, 2010.
- c. On October 14, 2001, the Company's Board of Directors approved to grant three of the Company's shareholders an option to each, purchase 150,000 Ordinary shares of OIS and one shareholder an option to purchase 250,000 of such shares at an exercise price of \$0.406 per share. All options are exercisable within the period of ten years commencing on October 14, 2001.