

MEDIVISION MEDICAL IMAGING LTD.

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 AND FOR THE THREE MONTHS THEN ENDED**

MEDIVISION MEDICAL IMAGING LTD.

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The Board of Directors
MEDIVISION MEDICAL IMAGING LTD.

REVIEW OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005

We have reviewed the accompanying interim consolidated balance sheet of Medivision Medical Imaging Ltd. (“the Company”) and its subsidiaries (“the Group”) as of March 31, 2005, and the related interim consolidated statements of operations, changes in equity and cash flows for the three months then ended. These interim consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to issue a report on these interim consolidated financial statements based on our review.

We have been furnished with the report of other accountants in respect of the review of the interim consolidated financial statements of a subsidiary, whose assets constitute approximately 7% of total consolidated assets as of March 31, 2005, and whose revenues constitute approximately 9% of total consolidated revenues for the three months then ended.

We conducted our review in accordance with the International Standard on Review Engagements 2400. 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 provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review and the review report of other accountants, nothing has come to our attention that causes us to believe that the accompanying interim 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 16, 2005

MEDIVISION MEDICAL IMAGING LTD.

CONSOLIDATED BALANCE SHEETS

U.S. Dollars (in thousands)

	March 31, 2005	December 31, 2004
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	2,426	2,311
Restricted cash	150	150
Trade receivables	1,940	2,395
Other accounts receivable and prepaid expenses	264	227
Inventories	945	945
Total current assets	5,725	6,028
 PROPERTY AND EQUIPMENT:		
Cost	810	830
Less - accumulated depreciation	544	546
Property and equipment, net	266	284
 DEFERRED TAX ASSET	1,029	1,029
 GOODWILL AND OTHER ASSETS	4,102	4,125
 Total assets	11,122	11,466

May 16, 2005

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)

	March 31, 2005	December 31, 2004
	Unaudited	Audited
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and current maturities	1,622	1,913
Trade payables	704	592
Other accounts payable	3,520	3,683
<u>Total current liabilities</u>	5,846	6,188
LONG-TERM LIABILITIES:		
Long-term loans, net of current maturities	1,278	1,506
Accrued severance pay	160	144
<u>Total long-term liabilities</u>	1,438	1,650
<u>Total liabilities</u>	7,284	7,838
<u>EQUITY:</u>		
Equity Attributable to equity holders of the parent:		
Ordinary shares of NIS 0.1 par value each:		
Authorized: 10,000,000 shares as of March 31, 2005 and December 31, 2004;		
Issued and outstanding: 6,807,299 and 6,804,675 shares as of March 31, 2005 and December 31, 2004, respectively.		
	165	165
Additional paid-in capital	8,398	8,391
Capital reserve	(311)	(311)
Accumulated deficit	(5,295)	(5,389)
	2,957	2,856
Minority interests	881	772
<u>Total equity</u>	3,838	3,628
<u>Total liabilities and equity</u>	11,122	11,466

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 per share data)

	For the three months ended March 31,	
	2005	2004
	Unaudited	
Sales	3,117	2,498
Cost of sales	<u>1,243</u>	<u>969</u>
Gross profit	----- 1,874	----- 1,529
Research and development costs, net	305	236
Selling and marketing expenses	833	781
General and administrative expenses	<u>466</u>	<u>408</u>
Total operating expenses	----- <u>1,604</u>	----- <u>1,425</u>
Operating income	270	104
Financial expenses, net	<u>75</u>	<u>59</u>
Profit for the period before other income	195	45
Other income, net	<u>10</u>	<u>60</u>
Profit for the period before taxes on income	205	105
Taxes on income	<u>14</u>	<u>-</u>
Net profit for the period	<u><u>191</u></u>	<u><u>105</u></u>
Attributable to:		
Equity holders of the parent	94	71
Minority interests	<u>97</u>	<u>34</u>
	<u><u>191</u></u>	<u><u>105</u></u>
Basic and diluted earnings per share (in Dollars)	<u><u>0.01</u></u>	<u><u>0.01</u></u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. Dollars (in thousands)

	FOR THE THREE MONTHS ENDED MARCH 31, 2005						
	Attributable to equity holders of the parent					Minority interests	Total equity
	Share capital	Additional paid-in capital	Capital reserve	Accumulated deficit	Total		
Balance at January 1, 2005 (audited)	165	8,391	(311)	(5,389)	2,856	772	3,628
Exercise of options	*-	-	-	-	-	-	-
Conversion of a note into common stock of a subsidiary	-	-	-	-	-	12	12
Net profit	-	-	-	94	94	97	191
Cost of share-based payment (See Note 2)	-	7	-	-	7	-	7
Balance at March 31, 2005 (unaudited)	<u>165</u>	<u>8,398</u>	<u>(311)</u>	<u>(5,295)</u>	<u>2,957</u>	<u>881</u>	<u>3,838</u>

	FOR THE THREE MONTHS ENDED MARCH 31, 2004						
	Attributable to equity holders of the parent					Minority interests	Total equity
	Share capital	Additional paid-in capital	Capital reserve	Accumulated deficit	Total		
Balance at January 1, 2004 (audited)	165	8,391	(311)	(7,374)	871	4	875
Conversion of a note into common stock of a subsidiary	-	-	-	-	-	23	23
Net profit	-	-	-	71	71	34	105
Balance at March 31, 2004 (unaudited)	<u>165</u>	<u>8,391</u>	<u>(311)</u>	<u>(7,303)</u>	<u>942</u>	<u>61</u>	<u>1,003</u>

* Represents an amount of less than \$1.

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,	
	2005	2004
	Unaudited	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	191	105
Adjustments for:		
Depreciation and amortization	43	93
Gain from issuance of shares of a subsidiary	(13)	(66)
Non cash payment of interest	2	18
Cost of share-based payment	7	-
Accrued severance pay, net	16	(4)
	246	146
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	455	(249)
Increase in other accounts receivable and prepaid expenses	(37)	(30)
Increase in inventories	-	(149)
Increase in trade payables	112	91
Increase (decrease) in other accounts payable and accrued expenses	(116)	27
	660	(164)
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(9)	(2)
Short-term credit for purchase of subsidiary	(47)	-
Proceeds from exercise of options by the minority shareholders of a subsidiary	-	13
	(56)	11
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term loans	(401)	(146)
Increase (decrease) in short-term bank credit, net	(68)	6
	(469)	(140)
Net cash used in financing activities		
Increase (decrease) in cash and cash equivalents	135	(293)
Cash and cash equivalents at the beginning of the period	2,247	1,309
Cash and cash equivalents at the end of the period	2,382	1,016

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,	
	2005	2004
	Unaudited	
Supplementary information:		
Cash paid during the period as interest	<u>37</u>	<u>24</u>
Supplemental schedule of non-cash financing activities:		
Repayment of notes payable and interest by way of conversion into common stock of a subsidiary	<u>32</u>	<u>123</u>

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 of March 31, 2005 and for the three months then ended have been prepared in a condensed format, in accordance with IAS 34, "Interim Financial Reporting". The significant accounting policies and methods of computation applied in the preparation of the interim financial statements are consistent with those applied in the preparation of the annual financial statements except as describes in Note 2. 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 of December 31, 2004.

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, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

- 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, 2005	4.361
March 31, 2004	4.528
December 31, 2004	4.308

Rate of increase (decrease) in the period:

	<u>%</u>
3 months ended March 31, 2005	1.2
3 months ended March 31, 2004	3.4
For the year ended December 31, 2004	(1.6)

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars (in thousands)

NOTE 2:- CHANGES IN ACCOUNTING POLICIES

IFRS 2 – SHARE BASED PAYMENT

IFRS 2 ‘Share-Based Payment’ requires an expense to be recognized when goods or services are acquired in exchange for shares or rights to shares (‘equity-settled transactions’), or in exchange for other assets equivalent in value to given number of shares or rights to shares (‘cash-settled transactions’). The main impact of IFRS 2 on the Group is the recognition of an expense for options granted to employees’ and directors’. The expense is measured by reference into the fair value of the options on the grant date by using an option-pricing model.

IFRS 2 is effective for annual periods beginning on or after January 1, 2005. The Group has taken advantage of the transitional provisions of IFRS 2 and has applied IFRS 2 only to equity-settled awards granted after November 7, 2002 that had not vested on or before December 31, 2004.

Accordingly, the effect of the initial application of IFRS 2 relates primarily to approximately 360,000 options granted in December 2004. The fair values of these options are estimated as at the date of grant using the Black-Scholes option pricing model. The following are the data and assumptions used:

Dividend yield (%)	0
Expected Volatility (%)	57
Historical Volatility (%)	57
Risk free interest rate (%)	2.5
Expected life of the options (years)	5
Share price (\$)	1.09
Exercise price (\$)	1.09

The expected life of the options was based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The effect of application of IFRS 2 was an increase in employee compensation expense of \$7 for the three months ended March 31, 2005.

IFRS 3 – BUSINESS COMBINATION

In accordance with the transitional provisions of IFRS 3 the Group was ceases amortizing goodwill from January 1, 2005. IFRS 3 requires the Group to test goodwill for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). In the three months ended March 31, 2004 amortization of goodwill amounted to \$70.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars (in thousands)

NOTE 2:- CHANGES IN ACCOUNTING POLICIES (continued):

IAS 1- PRESENTATION OF FINANCIAL STATEMENTS (amended 2004)

The Group has adopted the revised Standard as of January 1, 2005. The principal impact is in the presentation of minority interests in financial statements. Comparative data have been reclassified.

NOTE 3:- CASH AND CASH EQUIVALENTS (For the purpose of the cash flow statements)

Cash and cash equivalents comprise of the following as of March 31, 2005:

	March 31,	
	2005	2004
	Unaudited	
Cash and cash equivalents	2,426	1,019
Short-term bank credit	(44)	(3)
	<u>2,382</u>	<u>1,016</u>

NOTE 4: - MODIFICATION OF SHARE CAPITAL

On February 2, 2005, 2,624 ordinary shares 0.1 NIS each were issued upon the exercise of options under the Company, 1999 option plan. The consideration received for the options exercised was less than \$1.