

**MEDIVISION MEDICAL IMAGING LTD.**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007**

# **MEDIVISION MEDICAL IMAGING LTD.**

## **UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007**

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**REPORT ON REVIEW OF  
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007**

**Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of Medivision Medical Imaging Ltd and its subsidiaries (“the Group”) as of June 30, 2007, comprising of the interim consolidated balance sheet as of June 30, 2007 and the related interim consolidated statements of income, changes in equity and cash flows for the six and three months then ended and explanatory notes. Management is responsible for the preparation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed 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 85% of total consolidated assets as of June 30, 2007, and whose revenues constitute approximately 93% and 93% of total consolidated revenues for the six and three months then ended, respectively.

**Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review and the report of other accountants, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

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

Haifa, Israel  
August 26, 2007

**MEDIVISION MEDICAL IMAGING LTD.****CONSOLIDATED BALANCE SHEETS**

U.S. Dollars (in thousands)

	<u>June 30,</u> <u>2007</u> <u>Unaudited</u>	<u>December 31,</u> <u>2006</u> <u>Audited</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	6,309	6,719
Restricted cash	164	160
Trade receivables, net	3,617	3,486
Other accounts receivable and prepaid expenses	209	279
Inventories	<u>1,137</u>	<u>1,085</u>
<b><u>Total current assets</u></b>	<u>11,436</u>	<u>11,729</u>
<b>PROPERTY AND EQUIPMENT</b>		
Cost	1,391	1,276
Less - accumulated depreciation	<u>836</u>	<u>770</u>
<b>Property and equipment, net</b>	<u>555</u>	<u>506</u>
<b>DEFERRED TAX ASSETS</b>	<u>1,340</u>	<u>1,172</u>
<b>GOODWILL AND OTHER ASSETS</b>	<u>5,472</u>	<u>4,721</u>
<b><u>Total assets</u></b>	<u>18,803</u>	<u>18,128</u>

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>June 30, 2007</b>	<b>December 31, 2006</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit and current maturities	1,067	1,316
Trade payables	1,557	1,611
Other accounts payable and accrued expenses	4,352	4,395
<b><u>Total current liabilities</u></b>	6,976	7,322
<b>LONG-TERM LIABILITIES:</b>		
Long-term loans, net of current maturities	1,444	1,206
Other liabilities	212	201
<b><u>Total long-term liabilities</u></b>	1,656	1,407
<b><u>Total liabilities</u></b>	8,632	8,729
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent:</b>		
Ordinary shares of NIS 0.1 par value each:		
Authorized: 10,000,000 shares as of June 30, 2007 and as December 31, 2006		
Issued and outstanding: 6,807,299 shares as of June 30, 2007 and December 31, 2006.	165	165
Additional paid-in capital	8,607	8,563
Foreign currency translation differences	35	-
Capital reserve	(311)	(311)
Accumulated deficit	(2,644)	(2,723)
	5,852	5,694
<b>Minority interest</b>	4,319	3,705
<b><u>Total equity</u></b>	10,171	9,399
<b><u>Total liabilities and equity</u></b>	18,803	18,128

August 26, 2007  
*Date of approval  
of financial statements*

Noam Allon  
*Director and  
Chief Executive Officer*

Jonathan Adereth  
*Chairman of the board*

Gabriel Bouganim  
*Director of Finance*

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 six months ended		For the three months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	Unaudited		Unaudited	
Sales	8,444	8,149	3,855	4,116
Cost of sales	3,610	3,537	1,711	1,795
Gross profit	4,834	4,612	2,144	2,321
<u>Operating expenses:</u>				
Research and development costs, net	816	1,190	382	435
Selling and marketing expenses	2,033	1,939	975	954
General and administrative expenses	1,316	1,125	629	600
Total operating expenses	4,165	4,254	1,986	1,989
Operating income	669	358	158	332
Financial expenses (income), net	23	133	(11)	55
Profit before other income	646	225	169	277
Other income (expenses), net	(75)	1,347	(61)	12
Profit before taxes on income	571	1,572	108	289
Income tax expense	69	9	55	9
<b>Net profit for the period</b>	<b>502</b>	<b>1,563</b>	<b>53</b>	<b>280</b>
Attributable to:				
Equity holders of the parent	79	1,158	(92)	52
Minority interest	423	405	145	228
	502	1,563	53	280
Basic earnings (loss) per share (in Dollars)	0.02	0.16	(0.14)	0.00
Diluted earnings (loss) per share (in Dollars)	0.01	0.16	(0.14)	0.00

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

MEDIVISION MEDICAL IMAGING LTD.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

U.S. Dollars (in thousands)

	FOR THE SIX MONTHS ENDED JUNE 30, 2007									
	Attributable to equity holders of the parent									
	Share capital	Additional paid-in capital	Capital reserve	Foreign currency translation differences	Accumulated deficit	Total	Minority interest	Total equity	Total recognized income parent	Total recognized income minority
Balance at January 1, 2007 (audited)	165	8,563	(311)	-	(2,723)	5,694	3,705	9,399	-	
Exercise of options of a subsidiary	-	-	-	-	-	-	175	175	-	
Foreign currency translation differences	-	-	-	35	-	35	-	35	35	
Cost of share-based payment	-	44	-	-	-	44	16	60	-	
Net profit	-	-	-	-	79	79	423	502	79	423
Balance at June 30, 2007 (unaudited)	165	8,607	(311)	35	(2,644)	5,852	4,319	10,171	114	423
	FOR THE SIX MONTHS ENDED JUNE 30, 2006									
	Attributable to equity holders of the parent									
	Share capital	Additional paid-in capital	Capital reserve	Foreign currency translation differences	Accumulated deficit	Total	Minority interest	Total equity	Total recognized income parent	Total recognized income minority
Balance at January 1, 2006 (audited)	165	8,506	(311)	-	(4,346)	4,014	1,681	5,695	-	
Change in minority interest due to conversion of note payable and sale of common stock of a subsidiary	-	-	-	-	-	-	709	709	-	
Cost of share-based payment	-	18	-	-	-	18	13	31	-	
Net profit	-	-	-	-	1,158	1,158	405	1,563	1,158	405
Balance at June 30, 2006 (unaudited)	165	8,405	(311)	-	(3,188)	5,190	2,808	7,998	1,158	405

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)

	<b>For the six months ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net profit	502	1,563
<b>Adjustments for:</b>		
Depreciation and amortization	123	76
Gain on sale of shares of a subsidiary	-	(1,149)
Loss (gain) on issuance of shares of a subsidiary	65	(226)
Deferred taxes, net	(168)	-
Cost of share-based payment	60	31
Non-cash payment of interest	-	2
Other	2	24
	584	321
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in trade receivables	(128)	1,196
Decrease (increase) in other accounts receivable and prepaid expenses	70	(45)
Increase in inventories	(63)	(420)
Increase (decrease) in trade payables	(56)	141
Decrease in other accounts payable and accrued expenses	(44)	(232)
	363	961
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(137)	(84)
Proceeds from sale of shares of a subsidiary	-	1,772
Additions to intangible assets	(781)	(328)
Proceeds from the sale of property and equipment	-	5
	(918)	1,365
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Receipt of long-term loans	500	-
Repayment of long-term loans	(511)	(560)
Proceeds from exercise of options of a subsidiary	156	2
	145	(558)
Increase (decrease) in cash and cash equivalents	(410)	1,768
Net foreign exchange differences	17	-
Cash and cash equivalents at the beginning of the period	6,466	4,964
Cash and cash equivalents at the end of the period (see Note 3)	6,073	6,732

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)

	<b>For the six months ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
		<b>Unaudited</b>
<b>Supplementary information:</b>		
Cash paid during the period for:		
Interest	<u>97</u>	<u>51</u>
Income taxes	<u>207</u>	<u>-</u>
<b>Supplemental schedule of non-cash financing activities:</b>		
Repayment of notes payable and interest through conversion into common stock of a subsidiary	<u>-</u>	<u>690</u>
Long-term loans for purchase of property and equipment	<u>-</u>	<u>20</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**

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

**NOTE 1:- GENERAL**

- a. Medivision Medical Imaging Ltd. ("the Company"), is located in Yokneam, Israel. The Company and its subsidiaries ("the Group") are primarily engaged in the business of designing, developing, manufacturing and marketing digital imaging systems, image enhancements and analysis of software and related products and services for use by practitioners in the ocular healthcare field. The principal markets of the Group are located in the United States and Europe.

In March 2007, the Company opened a branch office in Belgium to sell and service its products in the Belgian market, and support the sales activity in the French market.

The interim condensed consolidated financial statements for the six months ended June 30, 2007, have been prepared 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 described 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 at December 31, 2006.

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 six-month period ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

- 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>
June 30, 2007	4.249
June 30, 2006	4.440
December 31, 2006	4.225

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

	<u>%</u>
6 months ended June 30, 2007	0.5
3 months ended June 30, 2007	2.2
For the year ended December 31, 2006	(8.2)
6 months ended June 30, 2006	(3.5)
3 months ended June 30, 2006	(4.8)

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

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

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

**Foreign currency translation**

As of January 1, 2007, the functional currency of CCS, a subsidiary in Germany, was changed from the U.S. Dollar to the Euro. As at the reporting date, the assets and liabilities of this subsidiary are translated into the presentation currency of the Company (the Dollar) at the rate of exchange ruling at the balance sheet date and its income statement is translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity.

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

Cash and cash equivalents comprise of the following:

	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	
Cash and cash equivalents	6,309	6,781
Short-term bank credit	(236)	(49)
	<b>6,073</b>	<b>6,732</b>

**NOTE 4:- DEVELOPMENT COSTS**

In the six months ended June 30, 2007, the Company recognized development costs in the amount of \$682 as an intangible asset in accordance with the criteria for recognition as set forth in IAS 38 “Intangible Assets”. The cumulative amount of development costs recognized as an intangible asset in the balance sheet as at June 30, 2007, is \$2,106.

**NOTE 5:- LITIGATION**

During the period OIS, a subsidiary in U.S.A., filed a civil action in the superior court of California for the county of Sacramento against their former president. The complaint alleges against the former president claims of breach of fiduciary duty, intentional interference with contract, and intentional interference with prospective economic advantage. The complaint requests total damages against the former president in excess of \$7,000. Discovery has begun and no trial date has been set yet. Therefore the out come of this litigation can not be predicted.