

**MEDIVISION MEDICAL IMAGING LTD.**

**FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2010**

**CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010****Contents**

Independent auditor's report to the shareholders of Medivision Medical Imaging Ltd. ....	3
Statement of financial position .....	4
Statement of comprehensive income .....	5
Statement of changes in equity .....	6
Statement of cash flows .....	7
Notes to the financial statements:	
1. General .....	9
2.1 Basis of preparation .....	9
2.2 Statement of compliance .....	9
2.3 Changes in accounting policy and disclosures .....	10
2.4 Summary of significant accounting policies .....	10
3. Trade and other receivables .....	12
4. Investments in an associate .....	13
5. Credit from banks and shareholders.....	14
6. Trade and other payables .....	14
7. Commitments and contingent liabilities .....	15
8. Issued capital Composition .....	15
9.1 Sales .....	17
9.2 Cost of sales .....	17
9.3 Other income .....	18
9.4 Selling and marketing expenses .....	18
9.5 General and administrative expenses .....	18
9.6 Research and development expenses .....	18
10. Income tax .....	19
11. Related party disclosures .....	19
12. Financial risk management .....	20
13. Significant events after the reporting period .....	21

**Independent auditor's report to the shareholders of Medivision Medical Imaging Limited**

We have audited the accompanying financial statements of Medivision Medical Imaging Limited ('the Company'), which comprise the Financial Position as at 31 December 2010 and 2009 and income statement, statement of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

We did not audit the financial statements of an associate, the investment in which, at equity, amounted to \$1,838 thousand and \$2,046 thousand as of 31 December 2010 and 2009, respectively, and the Company's share in its losses amounted to \$809 thousand and \$2,168 thousand for the years ended 31 December 2010 and 2009, respectively. The financial statements of this associate were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for this associate, is based on the reports of the other auditors.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, based on our audit and the reports of the other auditors, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010 and 2009, and of its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2.3 to the financial statements. The company restated its financial statements for the year ended 31 December, 2009, in order to retroactively reflect the effect of changes in the accounting treatment. We also draw attention to Note 13 to the financial statements. On 22 March 2011 the board of Directors decided to recommend to the General meeting of share holders on voluntary dissolution of the company due to the fact that the company has no more business activity other than holding OIS shares. The intention of the company is to distribute the balance of OIS shares to the shareholders after paying all of the obligations by realizing part of OIS shares as describes above.

Ramat-Gan, Israel  
30 April 2011

  
Haklai & Co.  
Certified Public Accountants

**Statement of financial position**

As at 31 December 2010

		2010	2009
	Notes	\$000	Restated *
		\$000	\$000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		-	27
Trade and other receivables	3	65	175
		65	202
<b>Non-current assets</b>			
Investment in an associate	4	1,838	2,046
<b>Total assets</b>		<b>1,903</b>	<b>2,248</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Credit from banks and shareholders	5	1,892	1,168
Trade and other payables	6	178	1,036
		2,070	2,204
<b>Non-current liabilities</b>			
Employee benefit liability		65	61
<b>Total liabilities</b>		<b>2,135</b>	<b>2,265</b>
<b>Equity</b>			
Issued capital	8	215	215
Share premium		9,302	9,302
Capital reserve		(311)	(311)
Retained deficit		(9,439)	(9,223)
<b>Total equity</b>		<b>(232)</b>	<b>(17)</b>
<b>Total equity and liabilities</b>		<b>1,903</b>	<b>2,248</b>

\* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 2.3

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

30 April 2011

Date of approval of the financial statements

  
Yigal Berman  
Chairman of the Board

  
Noam Alon  
CEO

  
Boaz Benyamini  
CFO

## Statement of comprehensive income

For the year ended 31 December 2010

		2010	2009 **
	Notes	\$000	Restated * \$000
Sales	9.1	-	6,377
Cost of sales	9.2	-	(3,402)
<b>Gross profit</b>		<b>2,975</b>	
Other income	9.3	1,006	2,147
Selling and marketing expenses	9.4	-	(2,195)
General and administrative expenses	9.5	(166)	(1,670)
Research and development costs, net	9.6	-	(1,290)
<b>Operating loss</b>		<b>840</b>	<b>(33)</b>
Financial income			60
Financial expenses		(246)	(592)
share of loss of an associate		(809)	(2,168)
<b>loss before tax</b>		<b>(215)</b>	<b>(2,733)</b>
Income tax expenses	10	-	(2)
<b>Loss for the year</b>		<b>(215)</b>	<b>(2,735)</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		-	20
<b>Total comprehensive loss</b>		<b>(215)</b>	<b>(2,715)</b>
attributable to:			
Owners of the parent		(215)	(2,417)
Non-controlling interests		-	(298)
		<b>(215)</b>	<b>(2,715)</b>
Loss per share			
Basic, loss for the year attributable to ordinary equity holders of the parent		\$ (0.02)	\$(0.33)

\* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 2.3

\*\* Consolidated for nine months ended 30 September 2009.

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

Statement of changes in equity

For the year ended 31 December 2010

	Attributable to equity holders of the Parent							
	Share capital \$000	Share premium \$000	Capital reserve \$000	Foreign currency translation differences \$000	Retained deficit \$000	Total \$000	Minority interests \$000	Total equity \$000
<b>As at 1 January 2009</b>	215	9,302	(311)	67	(6,826)	2,447	3,047	5,494
Total comprehensive loss (Restated *)	-	-	-	(20)	(2,397)	(2,417)	(298)	(2,715)
Dividend paid to minority	-	-	-	-	-	-	(16)	(16)
Change in minority interest due to loss of control in subsidiary	-	-	-	(47)	-	(47)	(2,733)	(2,780)
<b>As at 31 December 2009 (Restated *)</b>	215	9,302	(311)	-	(9,223)	(17)	-	(17)
Total comprehensive loss	-	-	-	-	(215)	(215)	-	(215)
<b>As at 31 December 2010</b>	215	9,302	(311)	-	(9,438)	(232)	-	(232)

\* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 2.3  
The accompanying notes are an integral part of the consolidated financial statements.

## Statement of cash flows

For the year ended 31 December 2010

	2010	2009 **
	\$000	Restated *
<b>Operating activities</b>		
Loss for the year	(215)	(2,715)
Non-cash Adjustments to reconcile loss to net cash flows		
Depreciation of Property and equipment and Intangible assets	-	591
Loss disposal of property and equipment	-	16
Gain from sale of intangible assets	-	(2,703)
Loss from loss of control in subsidiary	-	564
Gain from decrease of investments in subsidiary	(638)	-
Loss (Gain) from sale of investments in subsidiary	(208)	477
Impairment of goodwill	-	892
Company's share of loss of associate	809	2,148
Financial costs	-	114
Deferred taxes	245	-
Other	-	167
Working capital adjustments	-	
Decrease in trade and other receivables	110	756
Decrease (increase) in inventories	-	662
Decrease in trade and other payables	(804)	(5,401)
	<u>(701)</u>	<u>(4,432)</u>
Interest Paid	(44)	(148)
<b>Net cash used in operating activities</b>	<u>(745)</u>	<u>(4,580)</u>
<b>Investing activities</b>		
Purchase of Property and equipment	-	(72)
Proceeds from sale of Property and equipment	-	44
Proceeds from sale of Goodwill and Intangible assets	-	5,122
Loss of control of investment in previously consolidated subsidiary (a)	-	(1,333)
Proceeds from sale of investment in subsidiary	246	
Proceeds from sale of investment in previously consolidated subsidiary (b)	-	329
Additions to intangible assets	-	(89)
<b>Net cash used in investing activities</b>	<u>246</u>	<u>4,001</u>
<b>Financing activities</b>		
Receipt of convertible loan from shareholders	284	450
Short-term credit from banks	188	(463)
Repayment of long-term loans	-	(2,154)
<b>Net cash used in financing activities</b>	<u>472</u>	<u>(2,167)</u>
Net decrease in cash and cash equivalents	(27)	(2,746)
Exchange differences on balances of cash and cash equivalents		(12)
Cash and cash equivalents at 1 January	27	2,785
<b>Cash and cash equivalents at 31 December</b>	<u>-</u>	<u>27</u>

\* Certain amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 2.3

\*\* Consolidated for nine months ended 30 September 2009.

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

## Statement of cash flows

	<u>2010</u>	<u>2009</u>
	\$000	\$000
<b>a. loss of control of investment in previously consolidated subsidiary:</b>		
The subsidiary's assets and liabilities at date of loss of control:		
Working capital (excluding cash and cash equivalents)	-	3,680
Property and equipment	-	328
Goodwill and Intangible assets	-	4,098
Long-term loans	-	(1,397)
Minority interests	-	(2,565)
Capital loss	-	(564)
Investment in associate	-	(4,913)
	<u>-</u>	<u>(1,333)</u>
<b>b. Proceeds from sale of investment in previously consolidated subsidiary:</b>		
The subsidiary's assets and liabilities at date of sale:		
Working capital (excluding cash and cash equivalents)	-	(466)
Property and equipment	-	165
Goodwill	-	786
Long-term loans	-	(108)
Minority interests	-	(172)
Capital loss	-	(477)
Receivables for sale of investments in subsidiaries	-	601
	<u>-</u>	<u>329</u>

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

## Notes to the financial statements

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### 1. General

The financial statements of the company for the year ended 31 December 2010 were authorized for issue according with a resolution of the directors on 20 March 2010. The company is a limited company incorporated and domiciled in Israel whose shares are publicly traded on the Euro. nm market in Belgium. The registered office is located at Yokneam, Israel.

The Company finished the execution of Downsizing plan that was approved by the board of Directors at the beginning of 2009. All the employees were lay off until the 3-td quarter of 2009.

On 24 June 2009, the Company entered into an Asset Purchase Agreement ("APA") with OIS to sell substantially all the assets of the Company, which was completed on 21 October 2009. Such assets included the European operations which consisted of the Company's business as conducted by CCS Pawlowski GmbH ("CCS"), the branch office in Belgium (the "Belgium Activities"), certain agreements under which the Company contracted with third parties for distribution and other services and rights to intellectual property which resulted from the Company's research and development ("R&D") activities performed in Israel.

Pursuant to the terms of the APA and an Escrow Agreement (the "Escrow Agreement") between the Company, OIS and Stephen L. Davis, Esq. dated 24 June 2009, the Company deposited 5,793,452 shares (the "Escrow Shares") of OIS' common stock into escrow. If the Company fails to make certain payments under the APA, the Escrow Shares will be distributed to OIS or sold and the proceeds thereof distributed to OIS. The agreement will terminate upon the later of (i) 21 October 2011 or (ii) the satisfaction and discharge of the \$1,800,000 claim made by the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade & Labor to the Company.

At the date of the signing of this report, the Company received an approval for full discharge of Chief of Scientist claim from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade & Labor.

As a result of these actions the company became a holding company of OIS shares and has no business activity. In order to support the company's operation, the company is selling part of OIS shares.

### Notes to the consolidated financial statements

#### Definitions

The Company	- Medivision Medical Imaging Ltd.
Associate	- Company over which the Company has significant influence and that are not subsidiaries. The Company's investment therein is included in the financial statements of the Company using the equity method.
OIS	- Ophthalmic Imaging Systems.

#### 2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis. The financial statements are presented in dollars all values are rounded nearest thousand (\$000) except when otherwise indicated.

#### 2.3 Statement of compliance

The financial statements of the company have been prepared in accordance with International Financial reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**Notes to the financial statements**

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**2.3 Changes in accounting policy and disclosures****Restatement**

The Company restated its financial statements for the year ended 31 December 2009, in order to retroactively reflect the effect of changes in the accounting treatment of the following issues:

OIS restate its financial statements as at 31 December 2009 and 2010 financial statements to correct errors related to its accounting treatment for warrants issued in 2007, 2009, and 2010. These warrants contain ratchet provisions which require the warrants to be classified as liabilities and fair valued each reporting period rather than equity instruments.

As a result of the accounting policy change, the following adjustments made to the financial statements:

**Statement of financial position**

As at 31 December 2009:

- ▶ Decrease in investment in an associate: \$ 467 thousands.
- ▶ Increase in retained deficit: \$ 467 thousands.

**Statement of income**

For the year ended 31 December 2009:

- ▶ Increase in share of loss of an associate: \$ 467 thousands.
- ▶ Increase in loss for the year: \$ 467 thousands.

The effect on loss per share related to the restatement in 2009 was increase loss per share of \$0.06

**2.4 Summary of significant accounting policies****Use of Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**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.

**Trade receivables**

Trade receivables include amounts billed to customers from transactions arising in the ordinary course of business. Management periodically evaluates the collectability of these receivables. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The allowance for doubtful account balances is estimated based on historical experience and any specific customer installation issues that have been identified. Bad debts are written off when identified.

**Notes to the financial statements**

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**2.4 Summary of significant accounting policies continued****Investment in an associate**

Associates are companies in which the Group has significant influence over the financial and operating policies without having control.

The investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment in the associate is presented in the balance sheet at cost plus changes in the Company's share of net assets and the other comprehensive income (loss) of the associate. The equity method is applied until the loss of significant influence or classification as non-current asset held-for-sale.

Goodwill relating to the acquisition of an associate is initially measured as the difference between the acquisition cost and the Company's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost and is not systematically amortized. Goodwill is examined for impairment as part of the investment in an associate as a whole.

The Company's share of the operating results of the associate is shown in the statement of comprehensive income as Company's share of earnings (losses) of associates and other comprehensive income (loss) net of the associate attributable to the Company is carried to other comprehensive income (loss) in the relevant item in equity. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

Losses of associates in amounts which exceed their shareholders' equity are recognized by the Company to the extent of its investment in the associates with the addition of any losses that the Company may incur as a result of a guarantee or other financial support provided in respect of these associates. For that purpose, the investment contains long-term monetary items receivable (such as loans granted) for which settlement is neither planned nor likely to occur in the foreseeable future.

The financial statements of the Company and of the associates are prepared as of the same dates and periods. The accounting policy in the financial statements of the associates was applied consistently and uniformly with the policy applied in the financial statements of the Group.

**Convertible debt with variable conversion turns**

Such convertible debt is considered as a hybrid financial liability that contains an embedded derivative.

Upon initial recognition of such instrument, the Company recognizes the embedded derivative (the conversion option) separately from the host contract based on its fair value at the initial recognition. The remainder is allocated to the liability component. The derivative is then measured at fair value at each balance sheet date and the changes in the fair value are reported through profit and loss. The liability component is measured after initial recognition at amortized cost using the effective interest method. This component is shown as a liability until conversion or repayment.

Issuance costs are allocated between the embedded derivative and the host based on the allocation of the proceeds shown above. The costs allocated to the embedded derivative are charged to income on initial recognition and the proceeds allocated to the host component are charged to the host component.

**Earnings per share**

The Company calculates basic and diluted earnings per share in accordance with IAS 33, Earnings per Share. Basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period, if any and after consideration with any dilutive effect of the convertible loans.

**Fair value of financial instruments**

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

## Notes to the financial statements

### 2.4 Summary of significant accounting policies continued

#### 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 a given number of shares or rights to shares ('cash-settled transactions').

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based payment is ultimately recognized as an expense in profit or loss with a corresponding credit to "additional paid-in capital".

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

#### Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### 3. Trade and other receivables

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Trade receivables	45	73
associate	1	42
Prepaid expenses	13	9
Other receivables	6	51
	<u>65</u>	<u>175</u>

## Notes to the financial statements

### 4. Investment in an associate

The company has 29.97% and 35.33% as of December 2010 and 2009 respectively in ophthalmic in Imaging Systems, which is involved in the business of designing, developing, manufacturing and marketing digital imaging systems and informatics solutions.

Ophthalmic Imaging Systems is a company incorporated in Sacramento, California, USA, whose shares are traded over the counter on the NASDAQ.

- ▶ On June, 2009 the Company's equity interest of OIS decreased from 56% to 35.4% due to issuance of 9,633,228 shares of OIS common stock.
- ▶ On March, 2010 due to exercise of convertible bonds issued by OIS, the company's holdings in OIS shares and voting rights had decreased to 34.52%.
- ▶ On 26 May, 2010 the 2nd and final installment in OIS was completed, under which OIS issued to AccelMed 3,581,089 shares for an aggregate purchase price of \$1,999,967. As a result the company holdings in OIS decreased to 30.07%.
- ▶ On 2010 the company sold 278,311 shares of OIS. In the free market.

As of December 2010 and 2009 the company holds 9,083,000 and 9,361,311 shares of OIS common stock respectively which their market value as at 31 December 2010 is \$7.72 million.

### Condensed information on financial position as at 31 December

	2010	2009
	\$000	Restated * \$000
Current assets	10,109	9,288
Non-current assets	2,510	3,749
Total assets	<u>12,619</u>	<u>13,037</u>
Current liabilities	8,218	6,117
Non-current liabilities	1,553	3,284
Total liabilities	<u>9,771</u>	<u>9,401</u>
Equity attributable to owners of the parent	<u>2,431</u>	<u>3,171</u>
Equity attributable to non-controlling interests	<u>417</u>	<u>464</u>

### Condensed information on statements of income for the Year ended 31 December

	2010	2009
	\$000	Restated * \$000
Revenues	18,632	13,569
Gross profit	10,303	7,327
Operating loss	(2,919)	(6,343)
Loss for the year	(2,424)	(7,001)
Total comprehensive loss	<u>(2,486)</u>	<u>(7,001)</u>
attributable to:		
Owners of the parent	(2,438)	(6,992)
Non-controlling interests	(48)	(9)

\* The amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 2.3

## Notes to the financial statements

## 5. Credit from banks and shareholders

	2010	2009
	\$000	\$000
Short-term bank credit		
Line of credit	243	42
Convertible shareholder loans	1,386	933
Liability with respect to conversion component	263	193
	<u>1,892</u>	<u>1,168</u>

Convertible shareholder loans and Liability with respect to conversion component:

In September 2007, the Company signed a Term Sheet which summarizes the various understandings reached between the Company and certain of its majority shareholders (the 'Shareholders'), in connection with a convertible loan to be provided by the Shareholders to the Company.

- ▶ On August 2008 the Shareholders granted the Company a loan in the amount of \$400 at an annual rate of 9%.
- ▶ On March 2009 the Shareholders granted the Company a loan in the amount of \$450 at an annual rate of 12%.
- ▶ On November 2010 the Shareholders granted the Company a loan in the amount of \$283 at an annual rate of 6%.

On 20 May, 2010, the company's Board of Directors was informed about the intention of certain majority shareholders to convert all convertible loans granted to the company into shares in accordance to the following terms;

Loans and any interest due thereon may be converted in a whole or in part into ordinary shares of the Company, at a conversion price equal to the lower between (1) the Company's average share price on the Belgium EuroNext Stock Exchange during the 30 days prior the date of an agreement from August, 2008 between certain majority shareholders; and (2) the Company's average share price on the Belgium EuroNext Stock Exchange during the 30 days prior the Conversion, and in each case subject to a discount at the rate of 20% of the Company's average share price on the Belgium EuroNext Stock Exchange at the applicable dates. Never the less, until the day of approving these reports the company was instructed to execute the conversion by several share holders as of March 30, 2011.

## 6. Trade and other payables

	2010	2009
	\$000	\$000
Trade payables	165	442
Employees	-	2
shareholders	-	390
Accrued expenses and other	13	202
	<u>178</u>	<u>1,036</u>

**Notes to the financial statements****7. Commitments and contingent liabilities****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 31 December 2008, grants received from BIRD-F amounted to \$769, and the Group has an outstanding contingent obligation to pay royalties to BIRD-F aggregating up to \$1,154. The obligation to pay these royalties is contingent on actual sales of the product and in the absence of such sales, no payment is required. Company Management is of the opinion that payment of these royalties is remote.

**Liens**

The Company's liabilities to bank are secured by a fixed lien on the Company's floating lien on all of its assets.

To secure its liabilities to its shareholders in respect of convertible loans received during 2008 (see also Note 5), the company pledged 4,837,391 shares of its holdings in the common stock of OIS in favor of its shareholder.

Pursuant to the terms of the APA and an Escrow Agreement (the "Escrow Agreement") between the Company, OIS and Stephen L. Davis, Esq. dated 24 June 2009, the Company deposited 5,793,452 shares (the "Escrow Shares") of OIS' common stock into escrow. If the Company fails to make certain payments under the APA, the Escrow Shares will be distributed to OIS or sold and the proceeds thereof distributed to OIS. The agreement will terminate upon the later of (i) 21 October 2011 or (ii) the satisfaction and discharge of the \$1,800,000 claim made by the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade & Labor to the Company. As mentioned above, at the date of the signing of this report, the Company received an approval from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade & Labor.

**8. Issued capital**

Authorized shares:

<u>2010</u>	<u>2009</u>
\$000	\$000
<u>8,485</u>	<u>8,485</u>

Ordinary shares issued and fully paid

	<u>Thousands</u>	<u>\$000</u>
<b>At 31 December 2010</b>	<u>8,485</u>	<u>215</u>

**Warrants**

In July 2005 the Company obtained a long-term bank loan in the amount of \$2,000. The loan bears interest at an annual rate of LIBOR+ 3.75%, and is to be paid in twenty four monthly installments, commencing on 1 August 2006. The Company and the bank reached a new payments schedule under which the company will pay until June 2009 a monthly payment of \$30 and from there on \$83 unless otherwise agreed between the parties. Under covenants set in the loan agreement, as long as any part of the loan is outstanding, the Company must maintain controlling ownership in OIS shares and a minimum amount of consolidated free cash as set in the agreement. The Company was in compliance with all restrictive loan covenants as of 31 December 2008 and during the reported period.

In consideration for the loan, the Company modified the terms of the warrants issued to the bank during 2002. The warrants to purchase shares of the Company for a total consideration of up to Euro 348,603 may be exercised at any time, for a period ending at the earlier of 8.5 years after 9 December 2002 or 12 months after the consummation of an exit transaction as described in the agreement with the bank. The exercise price will be the lower of Euro 1.3 or the price per share set at the exit transaction less 40%. The Company calculated the incremental fair value (increase in fair value of the warrants before and after the modification) using an option pricing model.

## Notes to the financial statements

## 8. Issued capital continued

## Stock Option Plans

On 17 October 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 2010, 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 limitations). As of 30 December 2009, there are 236,888 Ordinary Shares available for issuance under the 1999 Plan.

On 16 November 2004, the Board of Directors of the Company adopted an Israeli Stock Option Plan (the '2004 ISOP') 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 2004 ISOP. Any options which are canceled or forfeited within the option period will become available for future grants. The vesting period will be 50% after two years, 25% after three years and 25% after four years from the grant date. The 2004 ISOP will terminate in 2014, unless previously terminated by the Board of Directors. As of 31 December 2009, there are 204,800 Ordinary Shares available for issuance under the 2004 ISOP.

As of 31 December 2010 there are 295,200 options outstanding, of which 295,200 are exercisable into Ordinary shares as follows:

Issue date	Expiry date	Exercise price	2010	2009
			Number outstanding	Number outstanding
1999	2010	Euro 0.50-1.50	-	253,112
2004	2014	2.02-2.53	24,000	24,000
2004	2014	0.80	271,200	271,200
			<u>295,200</u>	<u>548,312</u>

The following table illustrates the number (No.) and the weighted average exercise prices (WAEP) of, and movement in, share options during the year:

	2010	2010	2009	2009
	No	WAEP	No	WAEP
	\$000	\$000	\$000	\$000
Outstanding at 1 January	548,312	1.12	546,312	1.12
forfeited during the year	253,112	-	-	-
Outstanding at 31 December	<u>295,200</u>	<u>1.09</u>	<u>546,312</u>	<u>1.09</u>
exercisable at 31 December	<u>295,200</u>	<u>1.12</u>	<u>546,312</u>	<u>1.12</u>

The fair value of options grants is estimated at the date of grant using the Black-Scholes option pricing model. The following are the data and assumptions used:

Dividend yield (%)	0
Historical Volatility (%)	74
Expected Volatility (%)	74
Risk free interest rate (%)	3.5
Expected life of options (years)	4
Exercise price (US dollars)	2.58-3.23
Share price (US dollars)	3.14
Fair value (US dollars)	1.77-1.93

**Notes to the financial statements**


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**8. Issued capital continued**
**Stock Option Plans continued**

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 Company recorded employee compensation expense of \$56 and \$88 for the years ended 31 December 2008 and 2007, respectively, with a corresponding increase in equity (additional paid-in capital).

In addition, compensation expense of \$30 and \$33 was recorded for the years ended 31 December 2008 and 2007, respectively, in connection with grants of options by OIS.

There were no grants during fiscal years 2008 and 2007.

**9.1 Sales**

	<b>2010</b>	<b>2009</b>
	\$000	\$000
North America	-	4,761
Europe	-	1,402
Other	-	214
	<u>-</u>	<u>6,377</u>

**9.2 Cost of sales**

	<b>2010</b>	<b>2009</b>
	\$000	\$000
Materials consumed	-	1,700
Salaries	-	1,448
Other	-	200
	<u>-</u>	<u>3,348</u>
Changes in work in progress and finished products	-	54
	<u>-</u>	<u>3,402</u>

**9.3 Other income**

	<b>2010</b>	<b>2009</b>
	\$000	\$000
Gain from sale of assets to OIS	-	2,280
Gain from sale of OIS shares	208	11
Loss on issuance shares by OIS to third parties	638	(563)
Loss from a fair value adjustment of in Investments in OIS	-	(892)
Income from settlement	-	1,200
Other income	160	111
	<u>1,006</u>	<u>2,147</u>

## Notes to the financial statements

## 9.4 Selling and marketing expenses

	<b>2010</b>	<b>2009</b>
	\$000	\$000
Salaries and related expenses	-	1,367
Advertising and exhibitions	-	154
Foreign travel	-	222
Communications	-	4
Miscellaneous	-	448
	<u>-</u>	<u>2,195</u>

## 9.5 General and administrative expenses

	<b>2010</b>	<b>2009</b>
	\$000	\$000
Salaries and related expenses	-	692
Professional services	163	422
Rent	-	229
Communications	-	23
Vehicles maintenance	-	16
Depreciation	-	123
Miscellaneous	3	165
	<u>166</u>	<u>1,670</u>

## 9.6 Research and development expenses

	<b>2010</b>	<b>2009</b>
	\$000	\$000
Salaries and related expenses	-	996
Subcontractors and consultants	-	85
Materials and supplies	-	15
Miscellaneous	-	194
	<u>-</u>	<u>1,290</u>

**Notes to the financial statements**

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**10. Income tax**

The Company has tax assessments that are deemed final through 2003.

**11. Related party disclosures**

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Amounts owed to related parties:		
Shareholders	<u>1,384</u>	<u>1,516</u>
Directors	<u>19</u>	<u>19</u>
Amounts owed by related parties:		
Associate	<u>-</u>	<u>42</u>
Transactions:		
Interest to related parties	<u>197</u>	<u>98</u>
Salaries to key management personnel of the Company (shareholders), including stock-based compensation	<u>27</u>	<u>91</u>
Salaries to key management personnel of a Subsidiary (shareholders)	<u>-</u>	<u>193</u>
Fees to directors of the Company	<u>18</u>	<u>54</u>
Salaries to directors of a Subsidiary	<u>-</u>	<u>24</u>

**Notes to the financial statements**

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**12. Financial risk management****Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Company Management designs principles for overall risk management, as well as develops policies covering specific areas, such as foreign exchange risk, pricing risk, interest rate risk, credit risk and liquidity risk.

The Company's principal financial instruments are comprised of accounts receivable, cash and cash equivalents, trade and other payables, short-term bank credit and long-term loans which arise directly from its operations. During the year the Company did not undertake trading in financial instruments (including derivatives).

**Credit Risk**

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales are made to customers with an appropriate credit history. The carrying amount of accounts receivable, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

Cash (including cash equivalents and restricted cash) is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

**Foreign Exchange Risk**

The Company performs purchases of goods and services and sells its products, receives loans and credit lines, which are denominated mainly in USD and partly in Euro and in NIS. As a result, the Company is exposed to foreign exchange risk.

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

**Price Risk**

The Company does not hold equity securities or any other publicly traded investments and therefore is not exposed to price risk with respect to financial instruments.

**Cash Flow and Fair Value Interest Rate Risk**

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to LIBOR interest rate risk as its borrowings are linked significantly to the LIBOR. The Company has no interest-bearing assets.

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions.

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in a short-term perspective. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

The Company maintains cash and cash equivalents to meet its liquidity requirements for up to 30-day periods.

**Notes to the financial statements**

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**13. Significant events after the reporting period**

- ▶ After the reporting period the company has realized OIS shares in consideration of 329 thousand dollars. Following the realization, the company's holdings in OIS shares and voting rights decreased to 28.48%. The capital gain derived from the realization of the shares was 237 thousand dollars.
- ▶ The Board of Directors approved at 22 March 2011 an agreement to sell on May 2011 additional shares of OIS in the amount of 143 thousand dollars in order to meet the company cash flow requirements.
- ▶ On 22 March 2011 the board of Directors decided to recommend to the General meeting of share holders on voluntary dissolution of the company due to the fact that the company has no more business activity other than holding OIS shares. The intention of the company is to distribute the remain of OIS shares to the shareholders after paying all of the obligations by realizing part of OIS shares as describes above.