

MEDIVISION MEDICAL IMAGING LTD.

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2004 AND FOR THE NINE MONTHS AND THREE MONTHS THEN ENDED**

MEDIVISION MEDICAL IMAGING LTD.

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The Board of Directors
MEDIVISION MEDICAL IMAGING LTD.

RE: REVIEW OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2004 AND FOR THE NINE MONTHS AND THREE MONTHS THEN ENDED

We have reviewed the accompanying interim consolidated balance sheet of Medivision Medical Imaging Ltd. and its subsidiaries (“the Group”) as of September 30, 2004, and the related interim consolidated statements of operations for the nine months and three months then ended and statements of changes in shareholders’ equity and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to issue a review report on these consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2004. 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 Group’s personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

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

Haifa, Israel
November 16, 2004

MEDIVISION MEDICAL IMAGING LTD.

CONSOLIDATED BALANCE SHEETS

U.S. Dollars (in thousands)

	September 30, 2004	December 31, 2003
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	2,548	1,315
Restricted cash for line of credit	150	150
Trade receivables	2,198	1,735
Other accounts receivable and prepaid expenses	500	239
Inventories	1,044	521
<u>Total</u> current assets	6,440	3,960
 PROPERTY AND EQUIPMENT:		
Cost	1,331	1,881
Less - accumulated depreciation	1,055	1,616
Property and equipment, net	276	265
DEFERRED TAX ASSET	500	500
 OTHER ASSETS:		
Goodwill and other assets, net of accumulated amortization	4,173	4,125
<u>Total</u> assets	11,389	8,850

November 16, 2004

Date of approval

*Ariel Shenhar
Director and
Vice-President Finance*

*Noam Allon
Director and
Chief Executive Officer*

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

MEDIVISION MEDICAL IMAGING LTD.

CONSOLIDATED BALANCE SHEETS

U.S. Dollars (in thousands)

	September 30, 2004	December 31, 2003
	Unaudited	Audited
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and current maturities	2,154	2,067
Trade payables	613	591
Other accounts payable and deferred revenue	3,981	2,993
<u>Total current liabilities</u>	6,748	5,651
LONG-TERM LIABILITIES:		
Long-term loans (net of current maturities)	1,634	2,182
Accrued severance pay	141	142
<u>Total long-term liabilities</u>	1,775	2,324
<u>Total liabilities</u>	8,523	7,975
MINORITY INTERESTS	537	4
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of NIS 0.1 par value each:		
Authorized: 10,000,000 shares as of September 30, 2004 and December 31, 2003; Issued and outstanding; 6,804,675 shares as of September 30, 2004 and December 31, 2003	165	165
Additional paid-in capital	8,391	8,391
Capital reserve	(311)	(311)
Accumulated deficit	(5,916)	(7,374)
<u>Total shareholders' equity</u>	2,329	871
<u>Total liabilities and shareholders' equity</u>	11,389	8,850

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

MEDIVISION MEDICAL IMAGING LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. Dollars (in thousands) -(except share and per share amounts)

	For the nine months ended		For the three months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	Unaudited			
Sales	8,156	7,667	3,091	2,552
Cost of sales	3,231	3,152	1,274	1,060
Gross profit	4,925	4,515	1,817	1,492
Research and development costs, net	701	622	246	256
Selling and marketing expenses	2,376	2,281	790	780
General and administrative expenses	1,250	1,270	434	378
	4,327	4,173	1,470	1,414
Operating income	598	342	347	78
Financial expenses, net	(245)	(223)	(85)	(20)
	353	119	262	58
Other income, net	1,297	5	137	-
Profit before taxes on income	1,650	124	399	58
Taxes on income	(9)	(11)	(9)	(8)
Profit after taxes on income	1,641	113	390	50
Minority interests	183	-	101	-
Net profit	1,458	113	289	50
Basic earnings per share (in Dollars)	0.21	0.02	0.04	0.01
Weighted average number of shares used in calculating earnings per share	6,804,675	6,804,675	6,804,675	6,804,675

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

MEDIVISION MEDICAL IMAGING LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. Dollars (in thousands)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

	Share Capital	Additional Paid-in Capital	Capital Reserve	Accumulated Deficit	Total Shareholders' Equity
	Unaudited				
Balance at January 1, 2004	165	8,391	(311)	(7,374)	871
Net profit for the period	-	-	-	1,458	1,458
Balance at September 30, 2004	<u>165</u>	<u>8,391</u>	<u>(311)</u>	<u>(5,916)</u>	<u>2,329</u>

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

	Share Capital	Additional Paid-in Capital	Capital Reserve	Accumulate d Deficit	Total Shareholders' Equity
	Unaudited				
Balance at January 1, 2003	165	8,391	(311)	(7,846)	399
Net profit for the period	-	-	-	113	113
Balance at September 30, 2003	<u>165</u>	<u>8,391</u>	<u>(311)</u>	<u>(7,733)</u>	<u>512</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. Dollars (in thousands)

	For the nine months ended	
	September 30,	
	2004	2003
	Unaudited	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income for the period	1,458	113
Adjustments for:		
Depreciation	73	54
Minority interests	183	-
Loss on disposition of equipment	2	-
Gain on the sale and issuance of shares of a subsidiary	(1,308)	-
Interest on long-term loans	5	(2)
Non cash payment of interest	36	-
Amortization of goodwill and other assets	210	181
Accrued severance pay, net	(1)	11
Increase in operating income before working capital changes	658	357
Increase in trade receivables	(348)	(474)
Increase in other accounts receivable and prepaid expenses	(72)	(214)
Decrease (increase) in inventories	(327)	143
Increase (decrease) in trade payables	20	(7)
Increase (decrease) in other accounts payable and deferred revenue	(155)	240
Net cash provided by (used in) operating activities	(224)	45
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in other assets, net	-	(45)
Proceeds from disposition of fixed assets	1	-
Acquisition of a consolidated subsidiary (Note 3)	a 119	-
Pledged investment	-	(150)
Proceeds from the sale of shares of subsidiary	1,364	-
Purchase of property and equipment	(67)	(21)
Net cash provided by (used in) investing activities	1,417	(216)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of long-term loans	(685)	(656)
Proceeds from exercise of options by the minority shareholders of a subsidiary	49	-
Receipt of long-term loans	1,041	1,200
Deferred debt issuance costs	(114)	-
Short-term credit, net	(250)	(176)
Net cash provided by financing activities	41	368
Increase in cash and cash equivalents	1,234	197
Cash and cash equivalents at the beginning of the period	1,309	1,545
Cash and cash equivalents at the end of the period (Note 2)	2,543	1,742

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. Dollars (in thousands)

	For the nine months Ended	
	September 30,	
	2004	2003
	Unaudited	
Supplementary information:		
Cash paid during the period as interest	<u>68</u>	<u>100</u>
Supplemental schedule of non-cash financing activities:		
Repayment of notes payable and interest through conversion into common stock of a subsidiary	<u>617</u>	<u>-</u>
Short-term credit for purchase of subsidiary	<u>739</u>	<u>-</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 September 30, 2004 and for the nine-month and three-month periods then ended have been prepared in a condensed format, 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 remains in effect. Accordingly, the accounting policies and methods of computation that were followed in the preparation of the interim financial statements are identical with those followed in the preparation of the annual financial statements. Nevertheless, the interim financial statements do not include all the information and disclosures required in the annual financial statements, and therefore, they should be read in conjunction with the Company's annual financial statements as at December 31, 2003.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the nine-month and three-month periods ended September 30, 2004, are not necessary indicative of the results that may be expected for the year ending December 31, 2004.

- b. According to IFRS 3 goodwill acquired in a business combination after March 31, 2004 is not amortized and instead the goodwill is tested for impairment on an annual basis in accordance with IAS - 36 Impairment of Assets. The Company applied this IFRS for goodwill acquired in a business combination that occurred after March 31, 2004 (See Note 3). As for goodwill previously recognized, the Company will apply IFRS 3 from beginning of January 1, 2005.
- c. Below are data on the representative exchange rates of the Dollar in relation to the New Israeli Shekel ("NIS"), and the changes therein during the reported periods:

Exchange rate of \$1:

	<u>NIS</u>
September 30, 2004	4.482
December 31, 2003	4.379
September 30, 2003	4.441

Rate of increase (decrease) in the period:

	<u>%</u>
9 months ended September 30, 2004	2.4
3 months ended September 30, 2004	(0.3)
For the year ended December 31, 2003	(7.6)
9 months ended September 30, 2003	(6.3)
3 months ended September 30, 2003	3.0

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars (in thousands)

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

Cash and cash equivalents are comprised of the following:

	September 30,	
	2004	2003
	Unaudited	
Cash and cash equivalents	2,548	1,791
Short-term bank credit	(5)	(49)
	2,543	1,742

NOTE 3:- ACQUISITION OF CONSOLIDATED SUBSIDIARY

- a. Effectively as of July 1, 2004, the Company acquired 54% of the voting shares of CCS Pawlowski GmbH. (CCS), a Company incorporated in Jena, Germany. CCS designs, develops, manufactures and markets Ophthalmic digital imaging and image enhancement systems.

The consideration for the acquisition was \$821 of which \$789 is to be paid in cash and the balance of \$32 will be paid as a second installment by transfer of shares of MediVision's US subsidiary, Ophthalmic Imaging Systems, Inc. ("OIS").

The fair value of the assets and liabilities acquired from CCS as of July 1, 2004 were allocated as follows:

	U. S. Dollars (in thousands)
Cash and cash equivalents	169
Fixed and other assets, net	20
Trade receivables	115
Other accounts receivable	189
Inventories	196
	689
Short-term loans	(2)
Trade payables	(2)
Other accounts payable and deferred revenue	(404)
Long-term loans	(8)
	273
Fair value of net tangible assets	273
Minority interests	(125)
Goodwill arising on acquisition	673
	821

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars (in thousands)

NOTE 3:- ACQUISITION OF CONSOLIDATED SUBSIDIARY (continued)

Net cash acquired with subsidiary	169
Cash paid	<u>(50)</u>
Net cash inflow	<u><u>119</u></u>

Since the date of acquisition, CCS has contributed \$20 to the net profit of the Group.

- b. Effectively, as of July 1, 2004 the Company holds 54% of CCS share capital. The agreement signed between the Company and CCS's other shareholders also provides for MediVision to reach 63% of holdings in CCS before September 2005 at a price which is based on achievement of certain milestones. MediVision has the option to reach up to 80% of CSS's holdings until January 2007. As part of the agreement, both sides are to provide CCS with a shareholders' loan in the amount of €57 thousand. The agreement also allows for additional shareholders' loans. If any additional financing shall be required for funding CCS' activities, each one of the two shareholders of the Company shall provide cash financing or a security (such as guarantee, pledge or similar security) in an amount pro-rata to its respective nominal holdings of CCS's shares on such date. The additional amount to be potentially provided for financing by both parties will be limited up to €100 thousand of additional shareholders' loans or security.

NOTE 4:- SALE OF OIS SHARES

Pursuant to a Common Stock Purchase Agreement dated June 1, 2004 between the Company and S2 Partners LP, the Company sold 550,000 of OIS's common stock to S2 Partners LP at a price of \$1.35 per share. On June 23, 2004, the Company through Nollenberger Capital Partners Inc. acting as its agent sold an additional 500,000 shares of OIS's common stock at a price of \$1.38 per share. The consideration received from the sales of these shares amounted to \$1,364 (net of expenses of \$69), and the Company recorded a gain of \$979. The Company also recorded a gain of \$329 resulting from the issuance of shares by OIS upon the exercise of options by the minority. The gain is included in other income. As a result of the foregoing transactions, the Company currently owns approximately 74% of OIS's outstanding common stock.

NOTE 5:- MODIFICATION OF SHARE CAPITAL OF OIS

On September 25, 2003, OIS entered into a loan agreement with Laurus Master Fund Ltd. ("Laurus"). During the period, pursuant to this agreement, OIS opted to pay \$581 of principal and \$36 of interest through the issuance of 576,322 shares of common stock at conversion price of \$1.07 per share. Additionally, 53,334 employee options were exercised into OIS shares of common stock in consideration of \$49.

MEDIVISION MEDICAL IMAGING LTD.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars (in thousands)

NOTE 6:- CONVERTIBLE NOTE OF OIS

In April 2004, OIS issued a \$1 million secured three-year convertible note to Laurus Master Fund Ltd. ("Laurus") with a fixed coupon price of 6.5% per annum. Laurus may convert the convertible note into OIS's common stock at a fixed conversion price of \$1.22. Repayment of the principal, and interest accrued thereon, is payable, at OIS's option, in cash or in shares of common stock, under certain limitations. Additionally, OIS issued detachable warrants to Laurus to purchase 313,000 shares of OIS's common stock at exercise prices ranging between \$1.40 and \$1.83 per share. The warrants are exercisable through April 27, 2009.

NOTE 7:- LEGAL PROCEEDINGS IN OIS

On March 9, 2004, OIS filed a civil action in the United State District of California against several of its former employees, led by former vice-president Mark Fukuhara, who have been doing business for the last two years as Imaging Service Group (ISG) and Zeta Development Laboratories in El Dorado Hills, California, and several affiliated persons and companies, including Dale Brodsky, Eyepictures, Inc., Johnny Justice Jr., and two of his ophthalmic equipment businesses, Zeta Development Labs, Inc. (doing business as Justice Diagnostic Imaging) and Justice Ophthalmic, Inc. The complaint alleges claims for misappropriation of trade secrets, violations of the federal computer fraud and abuse act, copyright infringement, breach of contract, interference with contract, and false advertising. The complaint seeks monetary damages and injunctive relief against the defendants.

On August 20, 2004, the United States District Court for the Eastern District of California granted the Company's application for a preliminary injunction against certain of the defendants.

As the Company is unable to predict the final outcome of this complaint, no asset has been recorded in respect thereof in the financial statements.