

**MEDIVISION MEDICAL IMAGING LTD.**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2007**

# **MEDIVISION MEDICAL IMAGING LTD.**

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**FOR THE THREE MONTHS ENDED MARCH 31, 2007**

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**REPORT IN REVIEW OF**  
**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007**

We have reviewed the accompanying interim condensed consolidated financial statements of Medivision Medical Imaging Ltd and its subsidiaries (“the Group”) as at March 31, 2007, comprising of the interim consolidated balance sheet as at March 31, 2007 and the related interim consolidated statements of income, changes in equity and cash flows for the 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 88% of total consolidated assets as of March 31, 2007, and whose revenues constitute approximately 94% of total consolidated revenues for the three months then ended.

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.

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  
May 14, 2007

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED BALANCE SHEETS**

U.S. Dollars (in thousands)

	<b>March 31,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	6,851	6,719
Restricted cash	160	160
Trade receivables, net	3,346	3,486
Other accounts receivable and prepaid expenses	340	279
Inventories	994	1,085
<b><u>Total current assets</u></b>	<b>11,691</b>	<b>11,729</b>
 <b>PROPERTY AND EQUIPMENT</b>		
Cost	1,374	1,276
Less - accumulated depreciation	789	770
<b>Property and equipment, net</b>	<b>585</b>	<b>506</b>
 <b>DEFERRED TAX ASSETS</b>	 <b>1,256</b>	 <b>1,172</b>
 <b>GOODWILL AND OTHER ASSETS</b>	 <b>5,026</b>	 <b>4,721</b>
 <b><u>Total assets</u></b>	 <b>18,558</b>	 <b>18,128</b>

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>March 31,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit and current maturities	1,427	1,316
Trade payables	1,493	1,611
Other accounts payable and accrued expenses	4,664	4,395
<b><u>Total current liabilities</u></b>	7,584	7,322
<b>LONG-TERM LIABILITIES:</b>		
Long-term loans, net of current maturities	839	1,206
Other liabilities	226	201
<b><u>Total long-term liabilities</u></b>	1,063	1,407
<b><u>Total liabilities</u></b>	8,647	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 March 31, 2007 and as December 31, 2006		
Issued and outstanding: 6,807,299 shares as of March 31, 2007 and December 31, 2006.	165	165
Additional paid-in capital	8,585	8,563
Foreign currency translation differences	24	-
Capital reserve	(311)	(311)
Accumulated deficit	(2,552)	(2,723)
	5,911	5,694
<b>Minority interest</b>	4,000	3,705
<b><u>Total equity</u></b>	9,911	9,399
<b><u>Total liabilities and equity</u></b>	18,558	18,128

May 14, 2007

*Date of approval  
of financial statements*

Noam Allon

*Director and  
Chief Executive Officer*

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)

	<b>For the three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	
Sales	4,589	4,033
Cost of sales	<u>1,899</u>	<u>1,742</u>
Gross profit	----- 2,690	----- 2,291
<u>Operating expenses:</u>		
Research and development costs, net	434	755
Selling and marketing expenses	1,058	985
General and administrative expenses	<u>687</u>	<u>525</u>
Total operating expenses	----- 2,179	----- 2,265
Operating income	511	26
Financial expenses, net	<u>34</u>	<u>80</u>
Profit before other income	477	(54)
Other income (expenses), net	<u>(14)</u>	<u>1,335</u>
Profit before taxes on income	463	1,281
Income tax expense	<u>14</u>	<u>-</u>
<b>Net profit for the period</b>	<u><u>449</u></u>	<u><u>1,281</u></u>
Attributable to:		
Equity holders of the parent	171	1,106
Minority interest	<u>278</u>	<u>175</u>
	<u><u>449</u></u>	<u><u>1,281</u></u>
Basic earnings per share (in Dollars)	<u><u>0.02</u></u>	<u><u>0.16</u></u>
Diluted earnings per share (in Dollars)	<u><u>0.02</u></u>	<u><u>0.15</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, 2007**

	Attributable to equity holders of the parent					Total	Minority interest	Total equity	Total Recognized Income
	Share capital	Additional paid-in capital	Capital reserve	Foreign Currency Translation Differences	Accumulated deficit				
Balance at January 1, 2007 (audited)	165	8,563	(311)	-	(2,723)	5,694	3,705	9,399	-
Foreign currency translation differences	-	-	-	24	-	24	-	24	24
Cost of share-based payment	-	22	-	-	-	22	17	39	-
Net profit	-	-	-	-	171	171	278	449	449
Balance at March 31, 2007 (unaudited)	165	8,585	(311)	24	(2,552)	5,911	4,000	9,911	473

**FOR THE THREE MONTHS ENDED MARCH 31, 2006**

	Attributable to equity holders of the parent					Total	Minority interest	Total equity	Total Recognized Income
	Share capital	Additional paid-in capital	Capital reserve	Foreign Currency Translation Differences	Accumulated deficit				
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	-	-	-	-	-	-	707	707	-
Cost of share-based payment	-	9	-	-	-	9	10	9	-
Net profit	-	-	-	-	1,106	1,106	175	1,281	1,281
Balance at March 31, 2006 (unaudited)	165	8,515	(311)	-	(3,240)	5,129	2,573	7,702	1,281

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 three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net profit	449	1,281
<b>Adjustments for:</b>		
Depreciation and amortization	27	39
Gain on sale and issuance of shares of a subsidiary	-	(1,375)
Deferred taxes, net	(84)	-
Cost of share-based payment	39	19
Non cash payment of interest	-	2
Other	24	19
	455	(15)
<b>Changes in operating assets and liabilities:</b>		
Decrease in trade receivables	141	963
Increase in other accounts receivable and prepaid expenses	(61)	(98)
Decrease (increase) in inventories	94	(440)
Decrease in trade payables	(119)	(413)
Increase in other accounts payable and accrued expenses	268	403
	778	400
<b>Net cash provided by operating activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(97)	(34)
Proceeds from sale of shares of a subsidiary	-	1,772
Additions to intangible assets	(297)	-
	(394)	1,738
<b>Net cash used in investing activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term loans	(252)	(365)
	(252)	(365)
<b>Net cash used in financing activities</b>		
Increase in cash and cash equivalents	132	1,773
Net foreign exchange difference	15	-
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)	6,613	6,737

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)

	<u>For the three months ended</u>	
	<u>March 31,</u>	
	<u>2007</u>	<u>2006</u>
	<u>Unaudited</u>	
<b>Supplementary information:</b>		
Cash paid during the period for:		
Interest	<u>47</u>	<u>51</u>
Income taxes	<u>109</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>

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 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 three months ended March 31, 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 three-month period ended March 31, 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>
March 31, 2007	4.155
March 31, 2006	4.665
December 31, 2006	4.225

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

	<u>%</u>
3 months ended March 31, 2007	(1.7)
3 months ended March 31, 2006	1.3
For the year ended December 31, 2006	(8.2)

**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>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	
Cash and cash equivalents	6,851	6,762
Short-term bank credit	(238)	(25)
	<b>6,613</b>	<b>6,737</b>

**NOTE 4:- DEVELOPMENT COSTS**

In the three months ended March 31, 2007, the Company recognized development costs in the amount of \$285 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 March 31, 2007, is \$1,709.

**NOTE 5:- SUBSEQUENT EVENTS**

In April 2007, the Company obtained a long-term bank loan in the amount of \$500. The loan with interest at an annual rate of LIBOR + 3% is to be paid in eighteen monthly installments, commencing in April 2008.