

**MEDIVISION MEDICAL IMAGING LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2009**

**CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2009**


---

**Contents**

Independent auditor's report to the shareholders of Medivision Medical Imaging Ltd. ....	3
Consolidated statement of financial position .....	4
Consolidated statement of income .....	5
Consolidated statement of comprehensive income .....	6
Consolidated statement of changes in equity .....	7
Consolidated statement of cash flows .....	8-9
Notes to the consolidated financial statements .....	10
1. General .....	10-11
2.1 Basis of preparation .....	12
2.2 Changes in accounting policy and disclosures .....	12-15
2.3 Summary of significant accounting policies.....	16-23
3. Trade and other receivables .....	24
4. Inventories .....	24
5. Property and equipment .....	24
6. Investments in an associate .....	25
7. Goodwill and Intangible assets .....	25
8. Credit from banks and shareholders.....	26
9. Trade and other payables .....	27
10. Long-term loans from banks and others .....	27
11. Commitments and contingent liabilities .....	28-29
12. Issued capital Composition .....	29-31
13.1 Sales .....	32
13.2 Cost of sales .....	32
13.3 Other income (loss) .....	32
13.4 Selling and marketing expenses .....	33
13.5 General and administrative expenses .....	33
13.6 Research and development expenses .....	33
14. Income tax .....	34
15. Related party disclosures .....	34
16. Financial risk management .....	35

### **Independent auditor's report to the shareholders of Medivision Medical Imaging Ltd.**

We have audited the accompanying financial statements of Medivision Medical Imaging Ltd and its subsidiaries ('the Group'), which comprise the consolidated Financial Position as at 31 December 2009, the consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements of the Group as at 31 December 2008 and for the year then ended, were audited by other independent auditors whose report dated 30 March 2009 expressed unqualified opinion.

We did not audit the financial statements of certain subsidiaries, whose revenues constitute approximately 94.2% of total consolidated revenues for the period ended 30 September 2009. The financial statements of those companies (before reconciliation in 2009 to International Financial Reporting Standards) were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts (including the Group's reconciliation in 2009 of the financial statements of the aforementioned subsidiaries to International Financial Reporting Standards.) 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, and the reports of the other independent auditors, are 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 independent auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

## Consolidated statement of financial position

As at 31 December 2009

	Notes	2009 \$000	2008 \$000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		27	2,785
Restricted cash		-	158
Trade and other receivables	3	175	2,771
Inventories	4	-	1,576
		<u>202</u>	<u>7,290</u>
<b>Non-current assets</b>			
Property and equipment	5	-	600
Investments in an associate	6	2,513	-
Goodwill and Intangible assets	7	-	8,080
Differed tax assets		-	(*) -
		<u>2,513</u>	<u>8,680</u>
<b>Total assets</b>		<b><u>2,715</u></b>	<b><u>15,970</u></b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Credit from banks and shareholders	8	1,168	3,664
Trade and other payables	9	1,036	5,714
		<u>2,204</u>	<u>9,378</u>
<b>Non-current liabilities</b>			
Long-term loans from banks and others	10	-	1,034
Employee benefit liability		61	64
		<u>61</u>	<u>1,098</u>
<b>Total liabilities</b>		<b><u>2,265</u></b>	<b><u>10,476</u></b>
<b>Equity</b>			
Issued capital	12	215	215
Share premium		9,302	9,302
Capital reserve		(311)	(311)
Foreign currency translation differences		-	67
Retained deficit		(8,756)	(*) (6,826)
<b>Equity attributable to equity holders of the parent</b>		<u>450</u>	<u>2,447</u>
Minority interests		-	3,047
<b>Total equity</b>		<b><u>450</u></b>	<b><u>5,494</u></b>
<b>Total equity and liabilities</b>		<b><u>2,715</u></b>	<b><u>15,970</u></b>

(\*) Restated - see Note 2.2

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

24 March, 2010

Date of approval of the  
financial statementsYigal Berman  
Chairman of the BoardNoam Allon  
CEOBoaz Benyamin  
CFO

## Consolidated statement of income

For the year ended 31 December 2009

	Notes	2009 \$000	2008 \$000
Sales	13.1	6,377	14,410
Cost of sales	13.2	(3,402)	(6,630)
<b>Gross profit</b>		<b>2,975</b>	<b>7,780</b>
Other income (loss)	13.3	2,147	(*) (520)
Selling and marketing expenses	13.4	(2,195)	(4,832)
General and administrative expenses	13.5	(1,670)	(2,319)
Research and development costs, net	13.6	(1,290)	(2,859)
<b>Operating loss</b>		<b>(33)</b>	<b>(2,750)</b>
Financial income		60	261
Financial expenses		(592)	(792)
share of loss of an associate		(1,701)	-
<b>loss before tax</b>		<b>(2,266)</b>	<b>(3,281)</b>
Income tax expenses	14	(2)	(*) (1,341)
<b>Loss for the year</b>		<b>(2,268)</b>	<b>(4,622)</b>
attributable to:			
Equity holders of the parent		(1,970)	(3,296)
Minority interests		(298)	(1,326)
		<b>(2,268)</b>	<b>(4,622)</b>
Earnings per share			
Basic, loss for the year attributable to ordinary equity holders of the parent		<u>\$ (0.27)</u>	<u>\$ (0.4)</u>

(\*) Restated - see note 2.2

**Consolidated statement of comprehensive income**


---

**For the year ended 31 December 2009**

	Notes	<u>2009</u>	<u>2008</u>
		\$000	\$000
<b>Loss for the year</b>		<u><b>(2,268)</b></u>	<u><b>(4,622)</b></u>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		20	(103)
<b>Total comprehensive loss</b>		<u><b>(2,248)</b></u>	<u><b>(4,725)</b></u>
attributable to:			
Equity holders of the parent		(1,950)	(3,399)
Minority interests		(298)	(1,326)
		<u><b>(2,248)</b></u>	<u><b>(4,725)</b></u>
Earnings per share			
Basic, loss for the year attributable to ordinary equity holders of the parent		<u>\$0.23</u>	<u>\$0.4</u>

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

## Consolidated statement of changes in equity

For the year ended 31 December 2009

	Attributable to equity holders of the Parent							
	Share capital	Share premium	Capital reserve	Foreign currency translation differences	Retained deficit	Total	Minority interests	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>As at 1 January 2008</b>	<b>165</b>	<b>8,775</b>	<b>(311)</b>	<b>132</b>	<b>(*) (3,492)</b>	<b>(*) 5,269</b>	<b>(*) 4,454</b>	<b>(*) 9,723</b>
Total comprehensive loss	-	-	-	(65)	(*) (3,334)	(*) (3,399)	(*) (1,326)	(*) (4,725)
Convertible loan converted into shares	50	576	-	-	-	626	-	626
Warrants, equity component of convertible loans issued by subsidiary and exercise of options into common stock of a subsidiary	-	(105)	-	-	-	(105)	(98)	(203)
Cost off share-based payment	-	56	-	-	-	56	17	73
<b>As at 31 December 2008</b>	<b>215</b>	<b>9,302</b>	<b>(311)</b>	<b>67</b>	<b>(*) (6,826)</b>	<b>(*) 2,447</b>	<b>(*) 3,047</b>	<b>(*) 5,494</b>
Total comprehensive loss	-	-	-	(20)	(1,930)	(1,950)	(298)	(2,248)
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</b>	<b>215</b>	<b>9,302</b>	<b>(311)</b>	<b>-</b>	<b>(8,756)</b>	<b>450</b>	<b>-</b>	<b>450</b>

(\*) Restated - see note 2.2

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

**Consolidated statement of cash flows**

For the year ended 31 December 2009

	<u>2009</u>	<u>2008</u>
	\$000	\$000
<b>Operating activities</b>		
Loss for the year	(2,268)	(4,622)
Non-cash Adjustments to reconcile loss to net cash flows		
Depreciation of Property and equipment and Intangible assets	591	242
Share-based payment	-	73
Loss disposal of property and equipment	16	10
Gain from sale of intangible assets	(2,703)	-
Loss from loss of control in subsidiary	564	-
Loss from sale of investments in subsidiary	477	-
Impairment of goodwill	892	-
Company's share of loss of associate	1,701	-
Financial costs	114	(**) 232
Deferred taxes	-	(*) 1,341
Other	167	14
Working capital adjustments		
Decrease in trade and other receivables	756	1,399
Decrease (increase) in inventories	662	(420)
Decrease in trade and other payables	(5,401)	(421)
	<u>(4,432)</u>	<u>(2,152)</u>
Interest Paid	(148)	(269)
<b>Net cash used in operating activities</b>	<u>(4,580)</u>	<u>(2,421)</u>
<b>Investing activities</b>		
Purchase of Property and equipment	(72)	(184)
Proceeds from sale of Property and equipment	44	8
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 previously consolidated subsidiary (b)	329	-
Additions to intangible assets	(89)	(2,110)
<b>Net cash used in investing activities</b>	<u>4,001</u>	<u>(2,286)</u>
<b>Financing activities</b>		
Receipt of convertible loan from shareholders	450	(**) 400
Short-term credit from banks	(463)	(**) 476
Repayment of long-term loans	(2,154)	(**) (1,311)
<b>Net cash used in financing activities</b>	<u>(2,167)</u>	<u>(435)</u>
Net decrease in cash and cash equivalents	(2,746)	(5,142)
Exchange differences on balances of cash and cash equivalents	(12)	(65)
Cash and cash equivalents at 1 January	2,785	(**) 7,992
<b>Cash and cash equivalents at 31 December</b>	<u>27</u>	<u>(**) 2,785</u>

(\*) Restated - see note 2.2

(\*\*) Reclassified

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

**Consolidated statement of cash flows**

	<u>2009</u>	<u>2008</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>(1,333)</u>	<u>-</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>329</u>	<u>-</u>
<b>c. Significant non-cash transactions:</b>		
Repayment of notes payable and interest through conversion into shares	-	626
Purchase of Property and equipment by finance lease	-	63
Transfer of inventory into Property and equipment	-	34
	<u>-</u>	<u>723</u>

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

## Notes to the consolidated financial statements

---

### 1. General

The consolidated financial statements of the Group for the year ended 31 December 2009 were authorized for issue according with a resolution of the directors on 18 March 2010. The group 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 Haifa, Israel.

The Group is 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 Company are located in the United States of America.

### Definitions

The Company	- Medivision Medical Imaging Ltd.
Subsidiaries	- Companies that are controlled by the Company (as defined in IAS 27) and whose accounts are consolidated with those of the Company.
Associates	- Companies over which the Company has significant influence and that are not subsidiaries. The Company's investment therein is included in the consolidated financial statements of the Company using the equity method.
The Group	- The Company and its subsidiaries.
OIS	- Ophthalmic Imaging Systems.
CCS	- CCS Pawlowski GmbH.
CPI	- The Consumer Price Index as published by the Central Bureau of statistics in Israel.
NIS	- New Israeli Shekels.
Dollar or \$	- USA Dollar.
Euro or €	- European currency.

### Downsizing plan - 2009

at the beginning of 2009, the Company started the implementation of downsizing plan that according to managements' intention is planned to include among other layoffs of employees and significant reduction of expenses and overheads. After the completion of the APA agreement described in below, the Company's main activity will be holding OIS shares. The main share holders are evaluating alternative sources to meet the cash flow requirements'.

### Settlement and Mutual Release Agreement in O.I.S

On 3 May 2009, Ophthalmic Imaging Systems, a subsidiary (hereinafter: "OIS") entered into a Settlement and Mutual Release Agreement (the "Settlement Agreement") by and between OIS, Steven Verdooner, OPKO Health, Inc. ("OPKO") and The Frost Group, LLC (collectively "Defendants"), relating to the case entitled Ophthalmic Imaging Systems v. Steven Verdooner, et al., Case No. 07AS02149 in the Superior Court of California for the County of Sacramento. Mr. Verdooner was formerly the OIS president.

Pursuant to the Settlement Agreement, OIS agreed to dismiss, with prejudice, the lawsuit between the OIS and the Defendants, whereby OIS alleged claims of breach of fiduciary duty, breach of implied contract, intentional interference with contractual relations, intentional interference with prospective economic advantage, violation of section 502 of the Penal Code of California, aiding and abetting breach of fiduciary duty, and aiding and abetting interference with contractual relations. OIS also agreed to release the Defendants from any claims that could have been brought in the foregoing lawsuit, whether known or unknown. The Defendants agreed to pay and paid OIS US\$1,200,000 on 13 May 2009.

OIS and the Defendants entered into the Settlement Agreement to avoid the expense and uncertainty of litigation and without making any admission of liability or concession of wrongdoing.

## **Notes to the consolidated financial statements**

---

### **1. General continued**

#### **O.I.S entered into a Purchase Agreement with AccelMed**

On 24 June 2009, OIS entered into a Purchase Agreement with AccelMed. Pursuant to the terms of the Purchase Agreement, OIS authorized the issuance and sale of up to an aggregate of 13,214,317 shares of OIS common stock and warrants to purchase up to an aggregate of 4,404,772 shares of OIS common stock in two installments. On the date of the Purchase Agreement, OIS completed the first installment (the "1st Installment"), under which issued to AccelMed 9,633,228 shares and a warrant to purchase up to 3,211,076 shares for an aggregate purchase price of \$3,999,972. The 1st Installment Warrant entitles AccelMed to purchase 3,211,076 shares of OIS's common stock at an exercise price of \$1.00 per share. The 1st Installment Warrant expires on 24 June 2012. In addition, in connection with the transaction, OIS also issued to the placement agent, an option to purchase 123,500 shares of OIS's common stock at an exercise price of \$0.01 per share. This option expires on 24 June 2012. As result of the completion of the first 1st Installment, the Company's percentage held in OIS decreased from 56% to 35.4%. As a result of this, the Company recorded a loss of approximately US\$ 564 thousand and stopped the consolidation of O.I.S in the company financial reports starting 24 June 2009.

#### **Asset Purchase Agreement ("APA") with OIS**

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 (the "Company Asset Purchase"). 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 (the "Purchased Agreements"), and rights to intellectual property which resulted from the Company's research and development ("R&D") activities performed in Israel. The Company's R&D staff was acquired by us in early 2009 when OIS hired all of the Company's R&D personnel and moved them to OIS' offices in the United States and Israel. As payment for such assets, OIS agreed to assume a bank loan outstanding with Mizrahi Tefahot Bank Ltd. (the "United Mizrahi Bank") in the amount of \$1,500,000, to which OIS were previously a guarantor, liabilities associated with the acquired assets on and after October 21, 2009, the closing date, and certain taxes, and extinguishment of all intercompany indebtedness owed to OIS with a principal amount of \$4,178,622. At 30 June 2009, OIS' management determined the intercompany indebtedness owed to OIS by the Company was impaired and recorded an allowance for doubtful accounts for the outstanding balance. As of 31 December 2009, these amounts were still determined to be impaired. In connection with the Company Asset Purchase, OIS' management wrote off the balance of intercompany indebtedness owed to OIS by the Company, thus, eliminating the allowance for doubtful accounts. In connection with the MediVision Asset Purchase, management wrote off the balance of intercompany indebtedness owed to us by MediVision, thus, eliminating the allowance for doubtful accounts.

#### **Escrow Agreement (the "Escrow Agreement")**

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.

## Notes to the consolidated financial statements

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain items that are measured at fair value. The consolidated financial statements are presented in dollars all values are rounded nearest thousand (\$000) except when otherwise indicated.

### Statement of compliance

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

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date of such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

### 2.2 Changes in accounting policy and disclosures

#### Restatement

The Company restated its financial statements for the year ended 31 December 2008, in order to retroactively reflect the effect of changes in the accounting treatment of the following issues:

The financial statements for the year ended 31 December 2008 were restated in order to retroactively reflect the cancellation of deferred tax assets recognized in the past, in the financial statements of a subsidiary operating in the United States and as a result in the consolidated financial statements of the Company in respect of tax losses not yet utilized by the subsidiary. Such treatment was applied since the subsidiary does not expect to have taxable income in the foreseeable future, against which such deferred taxes could be utilized.

The financial statements for the year ended 31 December 2008 were restated in order to retroactively reflect the recognition of costs involved in the change of the Company's capital structure as an expense. Prior to this correction, the Company presented the aforementioned costs as a direct off-set to the equity attributable to owners of the parent.

The effect of the changes on the financial statements:

	As previously reported	The change	As presented in these financial statements
	\$000	\$000	\$000
<b>Balance sheets:</b>			
As of 31 December 2008:			
Differed tax assets	1,502	(1,502)	-
Retained deficit	(6,454)	(372)	(6,826)
Minority interests	4,177	(1,130)	3,047
<b>Statements of income:</b>			
Year ended 31 December 2008:			
Other income (loss)	-	(520)	(520)
Income tax expenses	161	(1,502)	(1,341)
Loss for the year	(2,600)	(2,022)	(4,622)

## Notes to the consolidated financial statements

---

### 2.2 Changes in accounting policy and disclosures continued

#### IAS 1 (Revised) - Presentation of Financial Statements:

Pursuant to a revision to IAS 1 (Revised), an additional separate statement, "statement of comprehensive income", may be presented and display net income taken from the statement of income and all items carried in the reported period to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income (loss)) such as adjustments arising from translating financial statements, fair value adjustments of available-for-sale financial assets, changes in the revaluation reserve of fixed assets and the tax effect of these items carried to equity, allocated between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled "statement of comprehensive income" which replaces the statement of income, allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, allocated between the Company and the minority interests.

The revision was adopted on 1 January 2009 with a retrospective restatement of comparative figures.

#### IFRS 8 - Operating Segments:

IFRS 8 deals with operating segments and replaces IAS 14. According to the Standard, the Company adopted a "management approach" in reporting on the financial performance of the operating segments. The segment information is the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

The adoption of the Standard did not have any material effect on the presentation of segment information.

#### IAS 23 (Revised) - Borrowing Costs:

Pursuant to a revision to IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets and inventories. The possibility of immediately recording these costs as an expense has been removed.

The adoption of the Standard is currently irrelevant to the company

#### IAS 40 - Investment Property:

Pursuant to an amendment to IAS 40, investment property under construction or development for future use as an investment property will be classified as investment property if the fair value model is applied and it can be measured reliably. Investment property under construction will be measured at cost if fair value cannot be measured reliably until such time as the fair value becomes reliably measurable or construction is completed, whichever comes earlier.

The adoption of the amendment is currently irrelevant to the company.

#### IFRS 2 - Share-based Payment:

Pursuant to an amendment to IFRS 2, the definition of vesting terms will only include service conditions and performance conditions and the cancellation of a grant that includes non-vesting conditions by the Company or the counterparty will be accounted for by way of acceleration of vesting and not by forfeiture. Conditions that are other than service and performance conditions will be viewed as non-vesting conditions and must therefore be taken into account when estimating the fair value of the instrument granted.

The adoption of the amendment is currently irrelevant to the company.

**Notes to the consolidated financial statements**

---

**2.2 Changes in accounting policy and disclosures continued**

## IAS 16 - Property, Plant and Equipment:

Pursuant to an amendment to IAS 16, fixed assets held for rental that are routinely sold in the ordinary course of business will be transferred to inventories when rental ceases and, accordingly, their sale will be presented in the statement of income as (gross) revenue rather than a (net) gain. Simultaneously, cash payments and cash receipts from investments in such assets will be presented within operating activities in the statement of cash flows rather than within investing activities.

The adoption of the amendment is currently irrelevant to the company.

## IAS 20 - Government Grants:

Pursuant to an amendment to IAS 20, interest-free loans or loans with a below-market rate of interest received by a company from the State will be accounted for upon initial recognition and in subsequent periods pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, the loans will be initially measured at fair value and discounted at market interest. The difference between the loan amount received and the fair value will be accounted for thereafter as a Government grant according to the provisions of the Standard.

This amendment was adopted on 1 January 2009 with a retrospective restatement of comparative figures. The initial adoption of the Standard did not have any material effect on the consolidated financial statements.

## IAS 28 - Investment in Associates:

Pursuant to an amendment to IAS 28, the test of impairment of an investment in an associate will be carried out with reference to the entire investment. Accordingly, a recognized impairment loss is not allocated specifically but rather attributed to the investment as a whole. Therefore, the entire impairment loss previously recognized may be reversed to the extent that the relevant conditions are satisfied.

This amendment was adopted on 1 January 2009 with a retrospective restatement of comparative figures. The initial adoption of the Standard did not have any material effect on the consolidated financial statements.

## IAS 38 - Intangible Assets:

Pursuant to an amendment to IAS 38, expenses incurred for advertising, marketing or promotional activities will be recognized as an expense when the company has the right of access to the advertising goods or when the company receives those services. For these purposes, the activities also include production of catalogs and promotional pamphlets. Also, IAS 38 is amended to allow the unit of production amortization method for all intangible assets even if it results in a lower amount of accumulated amortization than under the straight-line method.

The amendment was adopted retrospectively from 1 January 2009. The initial adoption of the Standard did not have any material effect on the consolidated financial statements.

## IFRS 7 Financial Instruments: Disclosures:

The amendment to IFRS 7 requires additional disclosures about fair value measurement and liquidity risk. According to the amendment, additional disclosures should be made, among others, as to the source of inputs used in making the measurements, using a three level fair value hierarchy for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is required (source of inputs that is not based on market data), as well as disclosure of significant transfers between levels in the fair value hierarchy.

This amendment was adopted on 1 January 2009 with a retrospective restatement of comparative figures. The initial adoption of the Standard did not have any material effect on the consolidated financial statements.

**Notes to the consolidated financial statements**

---

**2.2 Changes in accounting policy and disclosures continued**

## IFRIC 13 - Customer Loyalty Programmes:

IFRIC 13 applies to customer loyalty awards which the company grants as part of a sales transaction in order to promote future purchases by the same customers. Subject to meeting qualifying conditions, the customer can redeem the award in the future for free or discounted goods or services.

The Interpretation prescribes that customer credit awards granted are accounted for as a separate component of the sales transaction in which they were granted. Total sale consideration is allocated between the award credits and the other components of the sale (such as the main product or service) by reference to the fair value of the credit award.

The adoption of the Standard is currently irrelevant to the company

## IFRIC 15 - Agreements for the Construction of Real Estate:

IFRIC 15 establishes rules for distinguishing between agreements for the construction of real estate within the scope of IAS 11 and similar agreements within the scope of IAS 18. When an agreement is specifically negotiated for the construction of an asset or a combination of assets when the buyer is able to specify the major structural elements and specify any changes therein, the agreement is within the scope of IAS 11. Accordingly, revenue will be recognized by reference to the stage of completion. In contrast, when the buyer has only limited ability to influence the design or to specify only minor variations, the agreement is an agreement for the sale of real estate within the scope of IAS 18.

The adoption of the Standard is currently irrelevant to the company

## IFRIC 16 - Hedges of a Net Investment in a Foreign Operation:

IFRIC 16 prescribes that a risk arising from changes in foreign exchange rates of the presentation currency of a company does not create an exposure to which hedge accounting can be applied consequently, a hedged risk may be designated only in respect of the company's functional currency. Moreover, the risk arising from changes in foreign exchange rates of the functional currency of any subsidiary may be hedged by any entity within the Group.

The adoption of the Standard is currently irrelevant to the company

## IFRIC 18 - Transfers of Assets from Customers:

IFRIC 18 ("the Interpretation") provides guidance on the accounting for a company that receives items of fixed assets or cash from its customers for the acquisition, provision of services or construction of assets.

According to the Interpretation, when an item of fixed asset is transferred, as above, it shall be assessed whether the transferred item meets the definition of fixed assets, including control. If this is the case, the asset shall be measured in the financial statements at fair value as an asset received in the framework of an asset exchange transaction or service with commercial substance in accordance with IAS 18. When the asset is identified, revenue is recognized for the asset or service performed if the relevant criteria of IAS 18 are met, including those relating to the existence of several separately identifiable features. Accordingly, in a contract for the provision of services, revenue is recognized over the service performance period. The Interpretation applies to transfers received after 1 July 2009.

The adoption of the Standard is currently irrelevant to the company

## Notes to the consolidated financial statements

### 2.3 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.

The significant management judgments in applying the accounting policies (critical accounting policies) of the Group are presented in Note Y, below.

#### Financial statements in U.S. Dollars

The majority of the Company's and its US subsidiary (OIS) sales are denominated in Dollars and the majority of their costs are incurred in Dollars or linked thereto. Accordingly, the Company has determined the Dollar as the currency of the Company and OIS primary economic environment, and thus as their functional currency in accordance with IAS 21. The consolidated financial statements are presented in Dollar.

The financial currency of a certain subsidiary is the Euro, which is the currency of the economic environment in which that subsidiary operates. On consolidation, assets and liabilities have been translated into Dollar at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Gains and losses from the translation of the subsidiary's financial statements to dollars are reflected in shareholders' equity under "foreign currency translation differences". On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Dollar at the closing rate.

Transactions and balances originally denominated in Dollars are presented at their original amounts. Balances in non-Dollar currencies are translated into Dollars using historical and current exchange rates for non-monetary and monetary balances respectively. For non-Dollar transactions reflected in the statement of operations, the exchange rates prevailing at the date of the transaction are used. Depreciation and changes in inventories deriving from non-monetary items are based on historical exchange rates.

All transaction gains and losses from the above translation are reflected in the statement of operations in financial expenses, net.

#### Financial statements in U.S. Dollars continued

Data regarding the representative exchange rates of the NIS in relation to the Dollar and the Euro on the balance sheet date and the changes therein during the reported periods are as follows:

	Exchange rate of the NIS	
	US Dollar	Euro
31 December 2009	3.775	5.44
31 December 2008	3.802	5.30
<b>Change during the year ended:</b>	<b>%</b>	<b>%</b>
31 December 2009	(0.7)	2.64
31 December 2008	(1.1)	(6.34)

## Notes to the consolidated financial statements

---

### 2.3 Summary of significant accounting policies continued

#### 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.

For the purposes of the consolidated cash flows statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### Restricted cash

Restricted cash is primarily invested in certificates of deposits, which mature within one year and is used as security for a line of credit of OIS.

#### 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.

#### Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined as follows:

Raw materials - on a first-in, first-out basis.

Work-in-progress and finished products - cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating activities.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is computed by the straight-line method, on the basis of the estimated useful lives of the assets.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Annual depreciation rates are:	%
Machinery and equipment	15 – 25
Office furniture and equipment	6 – 15
Computers and peripheral equipment	20 – 33
Vehicles	16.67
Leasehold improvements	Over the term of the lease

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects

**Notes to the consolidated financial statements**

---

**2.3 Summary of significant accounting policies continued****Property and equipment continued**

Current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of operations.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

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

**Business Combinations and goodwill**

Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquirer's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets.

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill arising from the purchase of OIS (for which the agreement date was prior to 31 March 2004) was amortized on a straight-line basis over its useful economic life of 20 years. Goodwill is stated at cost less accumulated amortization at 31 December 2004, and any impairment in value.

**Notes to the consolidated financial statements**

---

**2.3 Summary of significant accounting policies continued****Business Combinations and goodwill continued**

In accordance with the transition provisions of IFRS 3, the Group has ceased amortizing goodwill commencing on 1 January 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). The Company has not recorded any important losses with respect to its annual goodwill test, in the reported periods. (See also I above).

**Convertible debt:****Convertible debt with fixed conversion terms**

The component parts (liability and equity elements) of such convertible debt are measured and reported separately in the balance sheet. Upon the issuance of such convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debt. This amount is shown as a liability on the amortized cost basis until conversion or repayment. The remainder, if any, of the proceeds received upon the issuance of the convertible debt is allocated to the equity component (option) and included in shareholders' equity. The value of the option is not changed in subsequent periods.

Such convertible debt is considered as a compound financial instrument that contains both a liability and an equity component.

Issuance costs are allocated between the liability and equity components of the convertible debt based on the allocation of the proceeds to those components when they are first recognized.

**Convertible debt with variable conversion terms**

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.

**Long term employee benefit**

The Company's liability for employee rights upon retirement with respect to its Israeli employees is calculated, pursuant to Israeli severance pay law, based on the most recent salary of each employee multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company makes monthly deposits to insurance policies and severance pay funds. The liability of the Company is fully provided for.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies, and includes immaterial profits.

The liability for employee rights upon retirement in respect of the employees of the non-Israeli subsidiaries of the Company is calculated on the basis of the labor laws of the country in which the subsidiary is located and is covered by an appropriate accrual.

**Notes to the consolidated financial statements**

---

**2.3 Summary of significant accounting policies continued****Income taxes**

Tax expense recognized in profit or loss comprise the sum of deferred tax and current tax not recognized directly in equity.

Deferred income tax is provided for, using the liability method, on all temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax assets, and unused tax losses can be utilized.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured, without discounting, at the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

**Revenue recognition**

Revenue is recognized when the significant risks and rewards of ownership have passed to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities has been met.

The multiple components of the Group's revenue are considered separate units of accounting in that revenue recognition occurs at different points of time for product shipment, installation and training services, and service contracts based on performance or contract period.

Revenue for product shipment is recognized when title passes to the customer, which is upon shipment, provided there are no conditions to acceptance, including specific acceptance rights. If the Group make an arrangement that includes specific acceptance rights, revenue is recognized when the specific acceptance rights are met. Upon review, the Group concluded that consideration received from their customer agreements are reliably measureable because the amount of the consideration is fixed and no specific refund rights are include in the arrangement. The Group defers 100% of the revenue from sales shipped during the period that they believe may be uncollectible.

Installation revenue is recognized when the installation is complete. Separate amounts are charged and assigned in the customer quote, sales order and invoice, for installation and training services. These amounts are determined based on fair value, which is calculated in accordance with industry and competitor pricing of similar services and adjustments according to market acceptance. There is no price reduction in the product price if the customer chooses not to have the Group complete the installation.

Extended product service contracts are offered to the Group's customers and are generally entered into prior to the expiration of the Group's one year product warranty. The revenue generated from these transactions are recognized over the contract period, normally one to four years.

The Group does not have a general policy for cancellation, termination or refunds associated with the sale of their products and services. All items are on a quote/purchase order with payment terms specified for the whole order. Occasionally, the Group has customers who require specific acceptance tests and according, the Group does not recognize such revenue until these specific tests are met.

**Notes to the consolidated financial statements**

---

**2.3 Summary of significant accounting policies continued****Research and development costs and other intangible assets**

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period of which the assets are not yet in use it is tested for impairment annually.

Other intangible assets include acquired and internally developed software and knowledge used in production that qualify for recognition as an intangible asset in a business combination. They are accounted for using the cost model whereby capitalized costs are amortized on a straight line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in I. above. The following useful life is applied:

- EMR related software – 15 years.

**Royalty-bearing grants**

Royalty-bearing grants from the Chief Scientist and BIRD-F for funding certain approved research projects are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred and are presented as a reduction of research and development expenses.

**Earnings per share**

The Group 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.

**Concentrations of credit risk**

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash, cash equivalents (including restricted cash) and trade receivables.

Cash and cash equivalents are deposited with high credit quality banks and financial institutions in Israel, Germany and the U.S.A. Management believes that the financial institutions that hold the Group's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

The Group has adopted credit policies and standards intended to accommodate industry growth and inherent risk. The Group performs ongoing credit evaluations of its customers' financial condition and has limited the risk by implementing a policy that requires deposits from customers, and that takes into account the number of customers and their geographic dispersion. The Group includes provisions in the financial statements which, in the opinion of management, are adequate to cover doubtful accounts.

## Notes to the consolidated financial statements

---

### 2.3 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.

#### Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

**Notes to the consolidated financial statements**

---

**2.3 Summary of significant accounting policies continued****Financial assets**

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- Financial assets at fair value through profit or loss;
- held to maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The financial assets of the Group were classified as "loans and receivables".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

**Financial liabilities**

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial instruments (including embedded derivatives) that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within "financial expenses" or "financial income".

## Notes to the consolidated financial statements

## 3. Trade and other receivables

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Trade receivables	73	2,343
associate	42	-
Prepaid expenses	9	354
Other receivables	51	74
	<u>175</u>	<u>2,771</u>

## 4. Inventories

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Raw materials (at cost)	-	425
Work in progress (at cost)	-	367
Finished goods (at net realizable value)	-	784
	<u>-</u>	<u>1,576</u>

## 5. Property and equipment

	<u>Machinery &amp; equipment</u>	<u>Office furniture &amp; equipment</u>	<u>Computers &amp; peripheral equipment</u>	<u>Vehicles (*)</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:						
<b>At 1 January 2009</b>	<b>412</b>	<b>1,062</b>	<b>186</b>	<b>130</b>	<b>30</b>	<b>1,820</b>
Additions	62	10	-	-	-	72
Disposals	(138)	(69)	(186)	-	(29)	(422)
Disposals due to loss of control in previous consolidated subsidiary	(313)	(1,003)	-	(130)	(1)	(1,447)
Foreign translation	(23)	-	-	-	-	(23)
<b>At 31 December 2009</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated depreciation:						
<b>At 1 January 2009</b>	<b>345</b>	<b>649</b>	<b>178</b>	<b>19</b>	<b>29</b>	<b>1,220</b>
Additions	6	112	5	4	-	127
Disposals	(136)	(50)	(180)	-	(27)	(393)
Disposals due to loss of control in previous consolidated subsidiary	(215)	(711)	(3)	(23)	(2)	(954)
<b>At 31 December 2009</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value:						
<b>At 31 December 2009</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 December 2008</b>	<u>67</u>	<u>413</u>	<u>8</u>	<u>111</u>	<u>1</u>	<u>600</u>

## Notes to the consolidated financial statements

### 6. Investments in an associate

The company has 35.33% in Ophthalmic 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.

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 to AccelMed on 24 June 2009.

The company holds 9,361,311 shares of OIS common stock which their market value as at 31 December 2009 is 7 million US dollars.

Share of the associate statement of financial position	<b>2009</b>
	\$000
Current assets	3,281
Non-current assets	1,325
Current Liabilities	(1,590)
Non-current Liabilities	(1,258)
<b>Equity</b>	<b>1,758</b>
Goodwill	755
<b>Carrying amount of the investment</b>	<b>2,513</b>
Share of the associate revenue and loss (for the period 1 July 2009 - 31 December 2009)	
Revenue	2,919
Loss	(1,701)

### 7. Goodwill and Intangible assets

	Development cost and other	Goodwill	Total
	\$000	\$000	\$000
Cost:			
<b>At 1 January 2009</b>	4,872	4,233	9,105
Additions		-	-
Disposals	(2,480)	(786)	(3,266)
Disposals due to loss of control in and sale of previous consolidated subsidiaries	(2,392)	(1,706)	(4,098)
Transfer to investments in an associate	-	(755)	(755)
Foreign translation	-	39	39
<b>At 31 December 2009</b>	<b>-</b>	<b>1,025</b>	<b>1,025</b>
Amortization:			
<b>At 1 January 2009</b>	-	1,025	1,025
Additions	-	-	-
<b>At 31 December 2009</b>	<b>-</b>	<b>1,025</b>	<b>1,025</b>
Net book value:			
<b>At 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2008</b>	<b>4,872</b>	<b>3,208</b>	<b>8,080</b>

**Notes to the consolidated financial statements****8. Credit from banks and shareholders**

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Short-term bank credit	-	505
Line of credit	42	150
Convertible shareholder loans	933	349
Liability with respect to conversion component	193	100
Current maturities of long-term loans	-	2,560
	<u>1,168</u>	<u>3,664</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%.

The loan will be convertible at the election of the shareholders at a price per share reflecting a discount rate of 20% of the average share price during the 30 days before conversion. The proceeds were allocated to a shareholders loan component and to a liability with respect to the conversion component.

As security for the Company's obligation including repayments of the loan and any interest due thereon and the Conversion Rights, the Company shall grant to the shareholders a pledge in shares of common stock of OIS held by the Company subject to a discount at a rate of 30% of the price of OIS' shares, to be allocated among each Shareholder pro-rata to the portion of the Loan which he actually provides.

**Notes to the consolidated financial statements****9. Trade and other payables**

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Trade payables	442	1,409
Employees	2	1,066
shareholders	390	278
Deferred extended warranty revenue	-	1,925
Advances from customers	-	111
Warranty provision	-	76
Accrued expenses and other	202	849
	<u>1,036</u>	<u>5,714</u>

**10. Long-term loans from banks and others**

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Bank loans	-	1,377
Capitalized lease	-	119
Convertible shareholders loans	-	2,098
	-	3,594
Current maturities of long-term loans	-	(2,560)
	-	<u>1,034</u>

**Bank loans:**

In November 2006, the Company obtained a long-term bank loan in the amount of \$750. The loan with interest at an annual rate of LIBOR+ 3.75% was paid on October 2009.

In February 2007, the Company obtained a long-term bank loan in the amount of \$500. The loan with interest at an annual rate of LIBOR+ 3.75% was paid on October 2009.

**Convertible shareholders loans:**

On 29 October 2007, OIS entered into a Purchase Agreement (the 'Purchase Agreement') with certain purchasers, pursuant to which OIS issued to the Purchasers (i) an aggregate of \$2,750 in principal amount of its 6.5% interest bearing Convertible Notes Due 30 April 2010 (the 'Notes'), which Notes are convertible into 1,676,829 shares of OIS common stock, no par value, and (ii) warrants ('Warrants') to purchase an aggregate of 616,671 shares of OIS common stock at an exercise price of \$1.87 per share. The Warrant expires on 10 December 2012.

## Notes to the consolidated financial statements

---

### 11. Commitments and contingent liabilities

#### Chief Scientist

The Company was committed, under agreements with the Chief Scientist in respect of certain research and development projects, to pay royalties to the Chief Scientist at the rate of 3.5% of the sales of products resulting from the research and development which resulted with the Angiovision product line, at an amount not to exceed the amount of the grants received by the Company, as participation in the research and development program. The sales of the AngioVision product line have decreased significantly. As of 31 December 2008 the Company had an outstanding contingent obligation to pay royalties in the amount of \$1,804. The obligation to pay these royalties is contingent on actual sales of the AngioVision 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. As of 31 December 2009 the company received note from Chief Scientists that all the programs are closed ( See also note 1 above)

#### 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 banks are secured by a fixed lien on the Company's share capital, goodwill, patents and insurance rights and a 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 7), 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

#### Claims

On 12 March 2007, one of the Company's subcontractors has filed the following legal actions: (i) in the Tel Aviv District court-seeking judgment whereby any intellectual property rights arising from the parties' cooperation shall be partitioned between the Parties in equal parts; and (ii) in the Tel Aviv Magistrates Court- seeking monetary judgment against MediVision with respect to alleged debts.

In February 2008, the company reached a settlement agreement with the subcontractor which was approved by the court. According to this agreement, the Company paid in 2008 the amount of \$200 and shall pay additional amounts for royalties at the amount of \$1 for each product unit sold by Medivision until 31 December 2010 up to the accumulated amount of USD 275,000 (the "Maximum Selling Payments") or if the Selling Payments do not exceed the sum of USD 225,000 by 31 December 2010, then Medivision shall pay to the subcontractor a one-time payment in the sum of the difference between the amount of the Selling Payments and the sum of USD 225,000 (the "Minimum Selling Payments").

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.

## Notes to the consolidated financial statements

### 11. Commitments and contingent liabilities continued

#### Claims continued

On 11 May 2007, OIS filed a civil action in the Superior Court of California for the County of Sacramento against its former president Steven Verdooner. OIS subsequently moved for and were granted an order amending the complaint to add claims against defendants Opko Health, Inc. and the Frost Group, LLC. The complaint alleges against Mr. Verdooner claims of breach of fiduciary duty, intentional interference with contract, and intentional interference with prospective economic advantage, and it alleges claims against Opko Health and the Frost Group, as stated above, of interference and with aiding and abetting Verdooner's interference and breach of fiduciary duty. The complaint requests total damages against defendants in excess of \$7,000.

On 3 May 2009 O.I.S reached a Settlement Agreement, with the former president as mentioned in note 1 above.

### 12. Issued capital

Authorized shares:

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Ordinary shares of NIS 0.1 each	8,485	6,807
Convertible loan converted into shares on 30 June 2008	-	1,678
	<u>8,485</u>	<u>8,485</u>

Ordinary shares issued and fully paid

	<u>Thousands</u>	<u>\$000</u>
At 1 January 2008	6,807	165
Convertible loan converted into shares	<u>1,678</u>	<u>50</u>
At 31 December 2008	<u>8,485</u>	<u>215</u>
<b>At 31 December 2009</b>	<b><u>8,485</u></b>	<b><u>215</u></b>

On 30 June 2008 the Company issued 1,677,573 Ordinary Shares NIS 0.1 par value to certain majority shareholders (the "Shareholders") in respect of the Term Sheet signed in September 2007 between the Shareholders, in connection with a convertible loan provided by them to the Company during the fourth quarter of 2007 and January 2008. In consideration of the issued shares, the shareholders loan in the amount of \$626 was converted in to share capital of the Company.

#### 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 consolidated financial statements

## 12. 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 2009 there are 546,312 options outstanding, of which 546,312 are exercisable into Ordinary shares as follows:

Issue date	Expiry date	Exercise price	2009	2008
			Number outstanding	Number outstanding
1999	2010	0.50-1.50	251,112	263,112
2004	2014	2.02-2.53	24,000	24,000
2004	2014	0.80	271,200	271,200
			<u>546,312</u>	<u>558,312</u>

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

	2009	2009	2008	2008
	No	WAEP	No	WAEP
	\$000	\$000	\$000	\$000
Outstanding at 1 January	558,312	1.07	763,489	0.88
forfeited during the year	12,000	0.88	205,177	1.83
Outstanding at 31 December	<u>546,312</u>	<u>1.09</u>	<u>558,312</u>	<u>1.07</u>
exercisable at 31 December	<u>546,312</u>	<u>1.12</u>	<u>546,312</u>	<u>1.07</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 consolidated financial statements**

---

**12. 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.

## Notes to the consolidated financial statements

## 13.1 Sales

	<u>2009</u>	<u>2008</u>
	\$000	\$000
North America	4,761	11,676
Europe	1,402	2,578
Other	214	156
	<u>6,377</u>	<u>14,410</u>

## 13.2 Cost of sales

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Materials consumed	1,700	2,769
Salaries	1,448	3,566
Other	200	244
	<u>3,348</u>	<u>6,579</u>
Changes in work in progress and finished products	54	51
	<u>3,402</u>	<u>6,630</u>

## 13.3 Other income (loss)

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Gain from sale of assets to OIS	2,280	-
Gain from sale of OIS shares	11	-
Loss on issuance shares by OIS to third parties	(563)	-
Loss from a fair value adjustment of in Investments in OIS	(892)	-
Income from settlement	1,200	-
Other income	111	-
Expenses involved in change of the company's capital structure	-	(520)
	<u>2,147</u>	<u>(520)</u>

**Notes to the consolidated financial statements****13.4 Selling and marketing expenses**

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Salaries and related expenses	1,367	3,173
Advertising and exhibitions	154	491
Foreign travel	222	549
Communications	4	49
Miscellaneous	448	570
	<u>2,195</u>	<u>4,832</u>

**13.5 General and administrative expenses**

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Salaries and related expenses	692	936
Professional services	422	529
Rent	229	250
Communications	23	72
Vehicles maintenance	16	19
Doubtful and bad debts	-	65
Depreciation	123	55
Miscellaneous	165	393
	<u>1,670</u>	<u>2,319</u>

**13.6 Research and development expenses**

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Salaries and related expenses	996	1,612
Subcontractors and consultants	85	370
Materials and supplies	15	42
Depreciation	-	24
Miscellaneous	194	811
	<u>1,290</u>	<u>2,859</u>

**Notes to the consolidated financial statements****14. Income tax**

The components of income tax expense for the year ended 31 December 2009 are:

	<u>2009</u>	<u>2008</u>
	\$000	\$000
Current tax:		
Current income tax charge	2	(1)
Deferred tax:		
Relating to carry forward tax losses	-	(160)
Cancellation of deferred tax assets recognized in the past (*)	-	(*) 1,502
<b>Income tax expense reported in the income statement</b>	<u>2</u>	<u>1,341</u>

(\*) Restated - see note 2.2

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

**15. 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>2009</u>	<u>2008</u>
	\$000	\$000
Amounts owed to related parties:		
Shareholders	1,516	951
Directors	19	5
Amounts owed by related parties:		
Associate	42	-
Transactions:		
Interest to related parties	98	40
Salaries to key management personnel of the Company (shareholders), including stock-based compensation	91	171
Salaries to key management personnel of a Subsidiary (shareholders)	193	576
Fees to directors of the Company	54	27
Salaries to directors of a Subsidiary	24	45

**Notes to the consolidated financial statements**

---

**16. 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.