



# Visonic Interim **Results & Accounts**

Period ended 30 June 2006



**Visonic**<sup>®</sup>

*For a secure way of life*



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## Visonic **Interim Results**

Visonic (LSE: VSC.L; TASE: VSC.TA), the international developer and manufacturer of electronic security systems (alarms) and home management systems, is pleased to announce its Interim Results for the half year ended 30 June 2006.

### **HIGHLIGHTS**

- Good growth in earnings per share – up 25% to 9.6 cents (from 7.7 cents in H1-2005)
- Profit before tax up 6% to \$4.4m (from \$4.1m in H1-2005), PBTA at \$4.5m
- Group sales increased to \$32.7m (\$32.2m in H1-2005)
- Incoming orders were up 6.5% above the comparable period, principally due to good performance of the core business
- Very strong balance sheet with \$20.7m in cash and equivalents and strong cash generation
- New products received well by market: PowerLink and PowerMaxPro

### **VISONIC'S CEO, DR. AVI SHACHRAI, COMMENTED:**

“Once again Visonic has delivered a satisfactory performance in profits and earnings per share during the first half of 2006. We have made significant progress with our sales strategy, entering distribution agreements with major international companies which we regard as the foundation for future profitable growth.”

“The Group's new products, PowerMaxPro and PowerLink, have been well received in the market place. We advanced our expansion into the telemedicine field by further investment in TMT Telemedicine Web Medical Center (hereafter “TMT”).”

“Sales in the first two months of the second half in the core business of Visonic remain strong.”



## Chairman's & CEO's Statement

### RESULTS OVERVIEW

Group sales for the period increased to \$32.7 million (from \$32.2 million in H1-2005). However, orders booked during the period totaled \$34 million, 6.5% ahead of last year's first half. Production is expected to supply these orders during the remainder of the year.

Sales by business segments showed mixed results. The Security & Home Management segment, which includes Telemedicine & Home Healthcare, recorded positive revenue growth of 5.4% over the comparable period. Conversely, Location Tracking Systems, which largely comprises Visonic Technologies (VT) Real Time Location Solutions saw a decrease in sales, in comparison with an exceptionally strong result for H1-2005. This can be attributed, to a large extent, to the shifting of government money in the U.S. from investments in institutions such as hospitals and prisons, VT's primary market, to funding major relief efforts which followed incidents such as the Katrina hurricane, which has affected VT sales.

Across the Group's geographic markets, Mainland Europe continued to lead sales results with a 4.9% increase. Sales to the UK remained stable compared with last year and sales to Israel have been markedly strong, with a 17% increase.

Gross profit margins remained very satisfactory at 48.5% and profit before tax rose 6% to \$4.4 million with PBTA at \$4.5 million. The average tax rate was reduced to 11.5% in the interim period reflecting a lowering of the tax rate in Israel, and the tax benefits to which the company is entitled as an Approved Enterprise. For this reason earnings per share grew faster than PBT, and at 9.6 cents, are up 25% from the 7.7 cents reported for H1 2005.



## • Chairman's & CEO's Statement (cont.)

The Group's balance sheet remains very strong with \$20.7 million in cash and cash equivalents. Cash flow was positive with \$1.9 million cash flow from operating activities. Cash outflow from investment activities amounted to \$1.5 million which was invested in new manufacturing equipment and machinery for production; the SAP ERP system, and a \$0.9 million investment in TMT. Finally, the exercise of employee share options brought in \$0.4 million of which \$0.1 million was utilised in retiring long term debt.

### **SECURITY & HOME MANAGEMENT**

As demonstrated by the progress in the Security & Home Management segment, the Group's comprehensive solutions for the residential environment have proven attractive to distribution partners such as telecommunications and utilities companies, who through their customer base, provide access to a mass market. Distribution agreements signed with such companies during the latter part of 2005 are now generating revenue and several significant new customers have been added during H1 2006.

Visonic's ongoing commitment to investment in research and development supports an active new product launch and upgrade program. The core PowerMax+ product has recently been complemented by the sophisticated PowerMaxPro wireless security system, which provides Internet accessible home and office security and control. Coupled with the PowerLink peripheral, the system's capabilities extend to fully integrated and highly secure Internet based visual surveillance and control.

One of the first customers of the new PowerMaxPro security system is a major North American telecom company which will offer Visonic's PowerMaxPro and peripheral products to its customers, as an enhancement to its security and home control product and service range. The major part of the initial \$1.2 million order will be supplied during 2006.



## **Chairman's & CEO's Statement** (cont.)

### **TELEMEDICINE AND HOME HEALTHCARE**

During the period, the Group strengthened its position in the home healthcare market through an investment in a joint venture, with the French home security and telemedicine solutions company, TMT. In exchange for an investment of Euro 711,366, Visonic gained a stake of 12.15% in the TMT. TMT offers a telemedicine platform based on Amber and Bluetooth-enabled, capable of communicating with wireless diagnostic equipment.

Telemedicine enables a patient's health to be monitored and health problems diagnosed remotely from the patient's home, allowing patients to retain their independence and be treated in their own homes, at less cost than in hospital. Potential customers for this technology include private health insurance companies.

Much effort and activity is being invested for the longer-term benefit of the Group in expanding marketing and sales infrastructure for the division – however, lead times to sales are extended in this sector and the Board does not expect to see immediate results.

### **LOCATION TRACKING SYSTEMS**

Visonic also delivers, through its subsidiary Visonic Technologies ("VT"), state of the art hospital security systems covering a broad range of essential functions for modern hospitals including property and personnel tracking, and access control. Although VT sales in ROW have increased during the period, in comparison with H1-2005, VT sales to North America and the UK, which represent around half of VT's turnover, have declined. This can be attributed, to a large extent, as was mentioned before, to the shifting of government money in the U.S. from investments in institutions to funding major relief efforts which followed incidents such as the Katrina hurricane. The Board of Visonic is reviewing VT's performance and is exploring various options.

# Chairman's & CEO's Statement (cont.)

## DUAL LISTING

During the period, Visonic became the second Israeli company traded on the London Stock Exchange to perform a dual listing on the Tel-Aviv Stock Exchange, under the symbol VSC.TA. Trading commenced on April 2, 2006. The Board believes the dual listing may attract more new Israeli and international investors to trade in the Company's shares, to the benefit of all the Company's shareholders. Visonic's London listing will continue to be the Company's primary one.

## OUTLOOK

The Board remains confident of the Group's strategy and its prospects, particularly in the core business of Visonic for the year.



**Yaacov Kotlicki**  
Chairman

6 September 2006



**Dr. Avi Shachrai**  
President & CEO



# ●●● **Review Report** of Interim Consolidated Financial Statements



The Board of Directors  
Visonic Ltd.

Re: Report on review of interim condensed consolidated financial statements for the six months ended 30 June 2006

## **INTRODUCTION**

We have reviewed the accompanying interim condensed balance sheet of Visonic Ltd. and its subsidiaries (the "Group") as of 30 June 2006 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six months then ended and explanatory notes. Management is responsible for the preparation and presentation 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 reports of other accountants in respect of the review of the interim financial statements of subsidiaries, whose assets constitute approximately 23.2 per cent of total consolidated assets as of 30 June 2006 and whose revenues constitute approximately 45.8 per cent of total consolidated revenues for the six months then ended.



# ●●● **Review Report** of Interim Consolidated Financial Statements (cont.)

## **SCOPE OF REVIEW**

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

## **CONCLUSION**

Based on our review and the reports of other accountants referred to above, 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.

Tel-Aviv, Israel  
4 September 2006

*Kost Forer Gabbay and Kasierer*  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

# Consolidated Balance Sheets

	As of 30 June		As of
	2006	2005	31 December
	US\$ '000		2005
	Unaudited		US\$ '000
			Audited
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	8,221	5,991	7,021
Short-term deposits	9,830	7,500	8,100
Available-for-sale financial assets	159	1,765	1,196
Held-to-maturity investments	2,509	2,019	3,517
Trade receivables	17,480	16,512	14,336
Other accounts receivable	3,044	2,503	2,396
Inventories	10,313	9,057	9,315
<b>Total current assets</b>	<b>51,556</b>	<b>45,347</b>	<b>45,881</b>
<b>NON-CURRENT ASSETS:</b>			
Held-to-maturity investments	-	3,091	1,024
Other investment	920	-	-
Property and equipment, net	6,291	5,023	5,565
Prepaid expenses	684	-	707
Deferred tax assets	1,554	*) 1,496	1,293
Intangible assets, net	1,834	1,646	1,767
<b>Total non-current assets</b>	<b>11,283</b>	<b>11,256</b>	<b>10,356</b>
<b>Total assets</b>	<b>62,839</b>	<b>56,603</b>	<b>56,237</b>

# Consolidated Statements of **Income**

	As of 30 June		As of
	2006	2005	31 December
	US\$ '000		2005
	Unaudited		US\$ '000
			Audited
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks and current maturities of long-term loans	6,860	2,262	6,452
Trade payables	8,646	6,939	6,456
Employees benefits	2,264	2,065	1,955
Related companies	51	67	51
Other current liabilities	1,780	2,132	2,338
<b>Total current liabilities</b>	<b>19,601</b>	<b>13,465</b>	<b>17,252</b>
<b>LONG-TERM LIABILITIES:</b>			
Bank loans	3,115	9,343	3,229
Accrued severance pay liability	86	*) 303	86
<b>Total long-term liabilities</b>	<b>3,201</b>	<b>9,646</b>	<b>3,315</b>
<b>EQUITY:</b>			
Share capital	21	21	21
Additional paid-in capital	23,207	22,496	22,740
Net unrealized gains (losses) reserve	(11)	31	35
Retained earnings	16,820	*) 10,944	12,874
<b>Total equity</b>	<b>40,037</b>	<b>33,492</b>	<b>35,670</b>
<b>Total liabilities and equity</b>	<b>62,839</b>	<b>56,603</b>	<b>56,237</b>

\*) Restated, see Note 3.

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

4 September 2006

Date of approval of the  
financial statements

  
Yaacov Kotlicki  
Chairman of the Board

  
Dr. Avigdor Sacharai  
Chief Executive Officer

  
Shmuel Koren  
Chief Financial Officer

## Consolidated Statements of **Income** (cont.)

	Six months ended 30 June		Year ended 31 December
	2006 US\$ '000 Unaudited	2005	2005 US\$ '000 Audited
Sales	32,723	32,239	62,781
Cost of sales	(16,782)	*) (16,402)	(32,677)
Gross profit	15,941	15,837	30,104
Research and development costs, net	(2,327)	*) (2,468)	(4,665)
Selling and marketing expenses	(7,172)	*) (6,884)	(14,118)
General and administrative expenses	(2,299)	*) (2,092)	(3,935)
Share-based payments expense	(78)	(78)	(156)
Total operating expenses	(11,876)	(11,522)	(22,874)
Operating profit	4,065	4,315	7,230
Financial income (expenses), net	338	(146)	(546)
Other income (expenses), net	7	(9)	(28)
Profit before taxes on income	4,410	4,160	6,656
Taxes on income	(464)	(1,054)	(1,620)
Net profit	3,946	*) 3,106	5,036
Basic earnings per share (in cents)	9.6	7.7	12.4
Diluted earnings per share (in cents)	9.5	7.6	12.3
Weighted average number of shares used for computing basic earnings per share	41,057,778	40,453,890	40,629,711
Weighted average number of shares used for computing diluted earnings per share	41,551,276	40,773,378	40,904,097

\*) Restated, see Note 3.

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

## Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company					Total income
	Share capital US\$ '000	Additional paid-in capital US\$ '000	Net unrealized gains (losses) reserve US\$ '000	Retained earnings US\$ '000	Total US\$ '000	US\$ '000
<b>Six months ended 30 June 2006 (Unaudited)</b>						
Balance at beginning of period	21	22,740	35	12,874	35,670	-
Net loss on available-for-sale financial assets	-	-	(46)	-	(46)	(46)
Exercise of options	*) -	389	-	-	389	-
Share-based payments expense	-	78	-	-	78	-
Net profit	-	-	-	3,946	3,946	3,946
Balance at end of period	21	23,207	(11)	16,820	40,037	3,900
<b>Six months ended 30 June 2005 (Unaudited)</b>						
Balance at beginning of period	21	22,110	17	7,838	29,986	-
Net gains on available-for-sale financial assets	-	-	14	-	14	14
Issuance of shares	*) -	232	-	-	232	-
Exercise of options	*) -	76	-	-	76	-
Share-based payments expense	-	78	-	-	78	-
Net profit	***) -	-	-	3,106	3,106	3,106
Balance at end of period	21	22,496	31	10,944	33,492	3,120

## Consolidated Statements of Changes in Equity (cont.)

	Attributable to equity holders of the Company					Total income
	Share capital US\$ '000	Additional paid-in capital US\$ '000	Net unrealized gains (losses) reserve US\$ '000	Retained earnings US\$ '000	Total US\$ '000	US\$ '000
<b>Year ended</b>						
<b>31 December 2005 (Audited)</b>						
Balance at beginning of year	21	22,110	17	7,838	29,986	-
Net gains on available-for-sale financial assets	-	-	18	-	18	18
Issuance of shares, net	*) -	232	-	-	232	-
Exercise of options	*) -	242	-	-	242	-
Share-based payments expense	-	156	-	-	156	-
Net profit	-	-	-	5,036	5,036	5,036
Balance at end of year	21	22,740	35	12,874	35,670	5,054

\*) Less than \$ 1,000.

\*\*) Restated, see Note 3.

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

# Consolidated Statements of Cash Flows

	Six months ended 30 June		Year ended 31 December
	2006	2005	2005
	US\$ '000 Unaudited		US\$ '000 Audited
<b>Cash flows from operating activities:</b>			
Net profit	3,946	*) 3,106	5,036
Adjustments to reconcile net profit to net cash provided by operating activities (a)	(2,093)	(1,642)	280
Net cash provided by operating activities	1,853	1,464	5,316
<b>Cash flows from investing activities:</b>			
Short-term deposits, net	(1,730)	(500)	(1,100)
Purchase of available-for-sale financial assets	-	(1,000)	(1,000)
Proceeds from sale of available-for-sale financial assets	1,032	-	573
Proceeds from held to maturity investments	2,000	-	500
Acquisition of intangible assets	(201)	(128)	(377)
Proceeds from sale of property and equipment	-	-	11
Purchase of property and equipment	(1,517)	(1,485)	(2,769)
Investment in other investment	(920)	-	-
Net cash used in investing activities	(1,336)	(3,113)	(4,162)
<b>Cash flows from financing activities:</b>			
Exercise of options	389	76	242
Decrease in balances with related party	-	(738)	(754)
Receipt of long-term loans from banks	-	3,000	3,000
Repayment of long-term loans from banks	(114)	(275)	(2,388)
Short-term bank credit, net	408	(267)	(77)
Net cash provided by financing activities	683	1,796	23
Increase in cash and cash equivalents	1,200	147	1,177
Cash and cash equivalents at the beginning of the period	7,021	5,844	5,844
Cash and cash equivalents at the end of the period	8,221	5,991	7,021
<b>Non-cash activities:</b>			
Issuance of shares in exchange for minority interest in VS	-	232	232

\*) Restated, see Note 3.

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

# Consolidated Statements of Cash Flows (cont.)

	Six months ended 30 June		Year ended 31 December
	2006	2005	2005
	US\$ '000 Unaudited		US\$ '000 Audited
<b>(a) Adjustments to reconcile net profit to net cash provided by operating activities:</b>			
Income and expenses not involving cash flows:			
Depreciation and amortization	934	809	1,642
Deferred taxes, net	(261)	*) 16	329
Decrease in accrued severance pay liability	-	(61)	(281)
Income from sales of available-for-sale financial assets	(41)	-	-
Loss (gain) from sale of property and equipment, net	(9)	-	26
Revaluation of bank loan	-	(2)	(3)
Interest on held-to-maturity investments	32	96	165
Share-based payments expense	78	78	156
<b>Changes in asset and liability items:</b>			
Increase in trade receivables	(3,144)	(3,542)	(1,366)
Decrease (increase) in other accounts receivable	(648)	(9)	98
Increase in inventories	(998)	(1,212)	(1,470)
Decrease (increase) in long-term prepaid expenses	23	-	(707)
Increase in trade payables	2,190	2,518	2,035
Increase in employees benefits	309	*) 250	33
Decrease in other current liabilities	(558)	(583)	(377)
	<u>(2,093)</u>	<u>(1,642)</u>	<u>280</u>
<b>(b) Supplemental disclosure of cash flows information</b>			
Cash paid during the period for:			
Interest	209	222	537
Income taxes	1,072	1,238	2,458

\*) Restated, see Note 3.

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



# ••• **Notes** to Consolidated Financial Statements

## **NOTE 1: GENERAL**

These financial statements have been prepared in a condensed format as of 30 June 2006 and for the six months period then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of 31 December 2005, and their accompanying notes.

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES AND METHODS OF COMPUTATIONS**

These interim condensed financial statements are prepared in accordance with IAS 34 “Interim Financing Reporting”.

The significant accounting policies and methods of computations applied in the preparation of the interim financial statements are the same as those applied in the annual financial statement as of 31 December, 2005.

## **NOTE 3: RESTATEMENT**

In 2005, the Company changed the accounting treatment of the severance pay liability based on IAS 19, “Employees benefits” from the termination benefits attitude to the post-employment benefits attitude. As a result, the Company restated the comparative data in its financial statements.

Accordingly, the financial statements of the Company for the period ended 30 June 2005 have been restated to reflect the change in accounting treatment.

## Notes to Consolidated Financial Statements (cont.)

The effect of the above changes on the financial statements are as follows:

	30 June 2005 and the six months then ended		
	As reported US\$ '000	Increase (decrease) US\$ '000	Restated US\$ '000
<b>Balance sheet:</b>			
Deferred tax assets	1,620	(124)	1,496
Severance pay liability	885	(582)	303
<b>Statement of income:</b>			
Cost of sales	16,408	(6)	16,402
Research and development costs, net	2,476	(8)	2,468
Selling and marketing expenses	6,890	(6)	6,884
General and administrative expenses	2,100	(8)	2,092
Net profit	3,078	28	3,106

### NOTE 4: OTHER INVESTMENT

On 26 February 2006, the Company closed an agreement with TMT Telemedicine - Web Medical Center LLC ("TMT") and its controlling shareholders (as defined in the agreement) to invest 920,000 through issuance of shares in TMT which reflects holdings of 12.15 per cent, on a fully diluted basis of the outstanding capital stock of TMT.

TMT was founded in 2003 in Lyon, France. TMT develops service solutions for home care, based on telemedicine technologies.

# Notes to Consolidated Financial Statements (cont.)

## NOTE 5: SEGMENT REPORTING

### a. General:

1. The Group companies operate in two principal business segments: location tracking systems and security and home management.
2. All revenues and expenses are allocated directly to the business segments.

### b. The following data is presented in accordance with IAS 14:

	Six months ended 30 June 2006 (Unaudited)			
	Security and home management	Location tracking systems	Adjustments	Total consolidated
	US\$ '000	US\$ '000		
Total revenues	29,725	2,998	-	32,723
Segment operating profit (loss)	4,145	(80)	-	4,065
Unallocated financial income, net				338
Other income, net				7
Taxes on income				(464)
Net profit				3,946

	Six months ended 30 June 2005 (Unaudited)			
	Security and home management	Location tracking systems	Adjustments	Total consolidated
	US\$ '000	US\$ '000		
Total revenues	28,198	4,041	-	32,239
Segment operating profit	4,139	176	-	*) 4,315
Unallocated financial expenses, net				(146)
Other expenses, net				(9)
Taxes on income				(1,054)
Net profit				*) 3,106

\*) Restated, see Note 3.

## Notes to Consolidated Financial Statements (cont.)

	Six months ended 30 June 2005 (Unaudited)			
	Security and home management	Location tracking systems	Adjustments	Total consolidated
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Total revenues	55,568	7,213	-	62,781
Segment operating profit	7,194	36	-	7,230
Unallocated financial expenses, net				(546)
Other expenses, net				(28)
Taxes on income				(1,620)
Net profit				5,036

- c.** Geographical split of sales: Below are the consolidated sales of the Group according to geographic markets without taking into account the location where the product was manufactured.

	Six months ended		Year ended
	30 June		31 December
	2006	2005	2005
	US\$ '000		US\$ '000
	Unaudited		Audited
Mainland Europe	20,255	19,304	34,457
North America	5,723	6,417	12,371
U.K.	3,102	3,010	5,778
Israel	1,636	1,399	2,955
Far East and Pacific	1,190	1,402	2,631
Other	817	707	4,589
	32,723	32,239	62,781

# Enhancing Security for People Worldwide

Enhancing Security for People Worldwide



**Visonic®**

*For a secure way of life*



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