C.M.T. MEDICAL TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

IN U.S. DOLLARS

INDEX

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ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

C.M.T. MEDICAL TECHNOLOGIES LTD.

We have audited the accompanying financial statements of C.M.T. Medical Technologies Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2006 and 2007 and the consolidated statements of operations, consolidated statements of changes in equity and consolidated statements of cash flow for each of the two years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

We did not audit the financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), of a subsidiary, whose assets constitute approximately 21% and 32% of total consolidated assets as of December 31, 2006 and 2007, respectively, and whose revenues constitute approximately 16% and 22% of total consolidated revenues for the years ended December 31, 2006 and 2007, respectively, after the reconciliation of those financial statements from U.S. GAAP to International Financial Reporting Standards, which we have audited. The financial statements of this subsidiary were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for that company, is based on the reports of the other auditors.

Also, we did not audit the financial statements prepared in accordance with International Financial Reporting Standards of a joint venture, the investment in which, at equity, amounted to $ 1,138 thousand as of December 31, 2007, and the Company's equity in its loss amounted to $ 414 thousand, for the year ended December 31, 2007. The financial statements of this company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those company's, are based on the reports of the other auditors.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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 from material misstatement.

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

We believe that the audit evidence we have obtained and the reports of the other 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 auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2006 and 2007, and of its financial performance and its cash flows for each of the two years in the period ended December 31, 2007, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
April 10, 2008

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

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2007	Convenience translation (Note 2e) December 31, 2007
	U.S. dollars		Euro
	(In thousands)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 3)	1,856	1,718	1,168
Short-term deposits (Notes 4)	11,500	11,678	7,936
Trade receivables (Note 5)	4,640	3,378	2,296
Income tax receivable	508	-	-
Other current assets (Note 6)	1,359	1,244	845
Inventories (Note 7)	2,090	1,815	1,233
Total current assets	21,953	19,833	13,478
NON-CURRENT ASSETS:			
Deferred taxes (Note 21i)	596	877	596
Long-term investments (Note 8)	1,810	955	649
Interest in a joint venture (Note 9)	-	1,138	773
Long-term receivables (Note 10)	219	240	163
Property and equipment, net (Note 11)	851	672	457
Goodwill (Note 2x)	200	-	-
Total non-current assets	3,676	3,881	2,638
Total assets	25,629	23,714	16,116

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

CONSOLIDATED BALANCE SHEETS

	December 31,		Convenience translation (Note 2e) December 31,
	2006	2007	2007
	U.S. dollars		Euro
	(In thousands)		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables (Note 12)	3,505	2,414	1,641
Provision for warranty (Note 13)	84	66	45
Income tax payables	-	376	256
Other current liabilities (Note 14)	1,651	1,556	1,056
Total current liabilities	5,240	4,412	2,998
NON-CURRENT LIABILITIES:			
Government grants (Notes 2q ,16,18b)	923	1,732	1,177
Accrued severance pay, net (Note 15)	515	426	290
Total non-current liabilities	1,438	2,158	1,467
EQUITY: (Note 20)			
Share capital	1,079	1,080	734
Additional paid-in capital	8,493	9,523	6,472
Retained earnings	9,662	7,234	4,916
Treasury shares	(283)	(693)	(471)
Total equity	18,951	17,144	11,651
Total liabilities and equity	25,629	23,714	16,116

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

April 10, 2008		
Date of approval of the financial statements	Chaya Greenberg Chairwoman of the Board of Directors	Nadine Tomaschoff Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		Convenience translation (Note 2e) Year ended December 31,
	2006	2007	2007
	U.S. dollars		Euro
	(In thousands)		
Revenues	23,992	22,385	15,213
Cost of revenues (Note 22a)	11,341	11,461	7,789
Gross profit	12,651	10,924	7,424
Operating expenses:			
Research and development costs, net (Note 22b)	5,217	5,603	3,808
Selling and marketing (Note 22c)	2,355	2,610	1,774
General and administrative (Note 22d)	3,300	3,604	2,449
Total operating costs and expenses	10,872	11,817	8,031
Other expenses, net	(13)	(5)	(3)
Profit from operations	1,766	(898)	(610)
Financial income (Note 22e)	554	726	493
Financial expenses (Note 22f)	(53)	(306)	(208)
Share of losses of a joint venture	-	(414)	(281)
Profit (loss) before income taxes	2,267	(892)	(606)
Income taxes (expense) (Note 21)	(4)	159	108
Profit (loss) for the year from continuing operations	2,263	(733)	(498)
Loss from discontinued operation	(895)	(890)	(605)
Profit (loss) for the year	1,368	(1,623)	(1,103)
Basic net earnings (loss) per share from continuing operations (Note 2t, 20g)	0.59	(0.19)	(0.13)
Diluted net earnings (loss) per share from continuing operations (Note 2t, 20g)	0.56	(0.19)	(0.13)
Basic net earnings (loss) per share for profit (loss) for the year (Note 2t, 20g)	0.36	(0.42)	(0.28)
Diluted net earnings (loss) per share for profit (loss) for the year (Note 2t, 20g)	0.33	(0.42)	(0.28)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Treasury shares	Total equity
		U.S. dollars in thousands				
Balance as of January 1, 2006	3,733,676	1,070	9,411	10,794	(1,935)	19,340
Purchase of treasury shares	(98,906)	-	-	-	(1,278)	(1,278)
Proceeds from exercise of stock options	258,692	9	(2,310)	-	2,930	629
Cash dividend	-	-	-	(2,500)	-	(2,500)
Cost of share-based payments	-	-	1,392	-	-	1,392
Net profit	-	-	-	1,368	-	1,368
Balance as of December 31, 2006	3,893,462	1,079	8,493	9,662	(283)	18,951
Purchase of treasury shares	(38,689)	-	-	-	(410)	(410)
Proceeds from exercise of stock options	3,000	1	267	-	-	268
Cash dividend	-	-	-	(805)	-	(805)
Cost of share-based payments	-	-	763	-	-	763
Net loss	-	-	-	(1,623)	-	(1,623)
Balance as of December 31, 2007	3,857,773	1,080	9,523	7,234	(693)	17,144

		Convenience translation in Euro (Note 2e) (In thousands)				
Balance as of January 1, 2007	3,893,462	733	5,772	6,566	(192)	12,879
Purchase of treasury shares	(38,689)	-	-	-	(279)	(279)
Exercise of stock options	3,000	1	181	-	-	182
Cash dividend	-	-	-	(547)	-	(547)
Cost of share-based payments	-	-	519	-	-	519
Net loss	-	-	-	(1,103)	-	(1,103)
Balance as of December 31, 2007	3,857,773	734	6,472	4,916	(471)	11,651

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		Convenience translation (Note 2e) Year ended December 31,
	2006	2007	2007
	U.S. dollars		Euro
	(In thousands)		
Cash flows from operating activities:			
Profit (loss) from continuing operations	2,263	(733)	(498)
Loss from discontinued operations	(895)	(890)	(605)
Net profit (loss)	1,368	(1,623)	(1,103)
Adjustments for:			
Depreciation	190	200	136
Impairment of goodwill **)	-	200	136
Inventory write-off *)	-	231	157
Accrued severance pay, net	71	(89)	(61)
Impairment of property and equipment *)	-	46	31
Loss from sale of property and equipment	13	5	3
Share of loss of a joint venture	-	414	281
Exchange differences	(16)	(21)	(14)
Accrued interest on Government grants	27	38	26
Increase in deferred taxes, net	(72)	(280)	(190)
Cost of share-based payments	1,392	763	519
Operating cash flows before working capital changes	2,973	(116)	(79)
Movement in government grants	-	(46)	(31)
Increase (decrease) in trade receivables	(1,092)	1,262	858
Decrease in income tax receivable	271	508	345
Decrease in other current assets	165	115	78
Decrease in inventories	127	44	30
Increase (decrease) in trade payables	1,405	(1,093)	(743)
Decrease in provision for warranty	(2)	(18)	(12)
Increase in income tax payables	-	376	256
Decrease in other current liabilities	(114)	(78)	(53)
Changes in working capital	760	1,070	728
Net cash flows provided by operating activities	3,733	954	649
Cash flows from investing activities:			
Investment in a joint venture	-	(1,550)	(1,053)
Acquisition of minority interest	(200)	-	-
Proceeds from sale of property and equipment	54	11	7
Purchase of property and equipment	(484)	(83)	(56)
Purchase and realization of short and long-term deposits	(300)	677	460
Net cash flows used in investing activities	(930)	(945)	(642)

*) Relates to the discontinued operations.
**) Due to the discontinued operations.
The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2006	Year ended December 31, 2007	Convenience translation (Note 2e) Year ended December 31, 2007
	U.S. dollars	U.S. dollars	Euro
	(In thousands)		
Cash flows from financing activities:			
Proceeds from Government grants	544	800	544
Repayment of Government grants	(742)	-	-
Proceeds from exercise of stock options	629	268	182
Purchase of treasury shares	(1,278)	(410)	(279)
Cash dividend	(2,500)	(805)	(547)
Net cash flows used in financing activities	(3,347)	(147)	(100)
Decrease in cash and cash equivalents from continuing operations	(544)	(138)	(93)
Cash and cash equivalents at beginning of year	2,400	1,856	1,261
Cash and cash equivalents at end of year	1,856	1,718	1,168
(a) Supplemental disclosure of cash flows activities:			
Cash paid during the year for:			
Taxes (operating activities)	345	66	45
Cash received during the year from:			
Interest (operating activities)	139	502	341
Taxes (operating activities)	548	883	600

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

NOTE 1:- GENERAL

a. C.M.T. Medical Technologies Ltd. ("CMT" or "the Company"), an Israeli corporation, is an industrial company. C.M.T. develops, manufactures and markets digital image processing systems for X-ray equipment.

b. C.M.T. Medical Technologies Inc. ("CMT Inc."), a wholly - owned subsidiary of C.M.T. markets the Company's products and purchases materials in the United States.

c. Until November 5, 2006, the Company owned 90% of Medibell Medical Vision Technologies Ltd. ("Medibell"), which is engaged in the development of a device in the field of ophthalmology. On November 5, 2006, the Company increased its holdings in Medibell to 99% by purchasing 9% of Medibell's shares in consideration of $ 200 thousand. On September, 2007, the Company's board of directors decided to cease Medibell's operations (see also Note 19). Such cessation was accounted as abandonment in accordance with IFRS 5.

d. On December 18, 2007, the Company and Tower Semiconductors Ltd. ("Tower") established C&T Medical Solutions Limited Partnership ("C&T LP"). C&T LP will design and develop a detector to be used for medical applications. In addition, the Company and Tower established a company called C&T Medical Solutions Ltd. ("C&T"), which will be the general partner in C&T LP. The Company shall invest $ 1,550,000 and Tower shall invest $ 950,000. (See Note 2f as to the holdings percentages).

e. The Company currently sells its products to two main customers. The Company expects these customers to account for a substantial percentage of the Company's revenues in the coming years. Should these customers cease trading with the Company, its results of operations could be adversely affected.

   For the years ended December 31, 2006 and 2007, these customers accounted for 77% and 72% of the Company's consolidated revenues, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

   The consolidated financial statements of C.M.T. have been prepared on a historical cost basis. The consolidated financial statements are presented in U.S. dollars, and all values are rounded to the nearest thousand, except when otherwise indicated.

b. Statement of compliance:

   The consolidated financial statements of CMT and all of its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Changes in accounting policies:

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

- IFRS 7, "Financial Instruments: Disclosures"
- IAS 1, Amendment, "Presentation of Financial Statements"

The Group has not early adopted IFRS and IFRIC interpretations that have been issued but are not effective as of December 31, 2007. Management expects that adoption of those interpretations will not have a material effect on the financial position and profit of the Group in the period of initial application.

Future changes in accounting policies:

1. IFRS 8, "Operating Segments":

   IFRS 8 replaces IAS 14, "Segment Reporting", and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement, and entities will need to provide explanations and reconciliations of the differences.

2. IFRIC 11 IFRS 2, "Group and Treasury Share Transaction":

   IFRIC 11 was issued in November 2006 and becomes effective for financial years beginning on or after March 1, 2007. This interpretation addresses two issues: whether certain transaction should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2 and share-based payment arrangements that involve two or more entities within the same group.

3. IFRIC 12, "Service Concession Arrangements":

   IFRIC 12 sets out general principles on recognizing and measuring the obligations and related rights in service concession arrangements. As of December 31, 2007, the Company has no obligations and related rights in service concession arrangements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. IFRIC 13, "Customer Royalty Programmers":

IFRIC 13 was issued in June 2007 and becomes effective for financial years beginning on or after July 1, 2008. This Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

5. IFRIC 14, IAS 19, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction":

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19, "Employee Benefits". The Company expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

6. IAS 23, "Borrowing Costs":

A revised IAS 23, "Borrowing Costs" was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

7. IFRS 3 (Revised), "Business Combinations" and IAS 27 (Revised), "Consolidated and Separate Financial Statements":

The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Estimates in connection with the preparation of consolidated financial statements:

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Accrued severance pay:

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at December 31, 2006 and 2007 is $ 515 thousand and $ 426 thousand, respectively. Further details are given in Note 15.

Cost of share-based payments:

The cost of share based payment is determined using the binomial valuation model. The valuation involves making assumptions about expected life of the options and termination rate. Further details are given in Note 20.

Goodwill impairment:

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash-generating unit to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In 2007, the Company impaired a goodwill which was in the amount of $ 200 thousand.

Deferred tax assets:

The Company and its subsidiaries did not record deferred tax assets amounting to approximately $ 1,950 thousand as of December 31, 2007 in respect of loss carryforward as it is uncertain whether there will be taxable income in the future.

Development costs:

Research and development expenses include expenses on upgrading current product lines and expenses on a project which is still in the research phase.
The Company did not capitalize any development costs since the criteria to capitalize development costs were not met. The Company cannot yet demonstrate technical feasibility of completing the intangible asset so that it will be available to use or sell the asset.

Warranty costs:

The Company recognizes a provision for warranty costs. Such provision is recorded based on Company's experience and engineering estimates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Functional and presentation currency:

1. The majority of the Group's sales are made outside Israel in U.S. dollars, and a substantial portion of Group's costs is incurred in U.S. dollars or linked thereto. Accordingly, the Group has determined the U.S. dollar to be the currency of its primary economic environment and thus its functional and presentation currency.

   Transactions and balances denominated in U.S. dollars are presented at their original amounts. Monetary assets and liabilities denominated in non-dollar currencies are translated at the exchange rate prevailing at the balance sheet date. Transactions in non-dollar currencies are recorded at the exchange rate prevailing at the date of transaction. All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the income statement as financial income or expenses, as appropriate.

2. Convenience translation into Euro:

   The financial statements have been translated into Euro using the exchange rate as of December 31, 2007 (€ 1 = U.S. $ 1.4715). The translation was made solely for the convenience of the reader. The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in Euros or convertible into Euros, unless otherwise indicated in these statements.

f. Scope of consolidation:

The scope of consolidation is established according to principles of IAS 27, "Consolidated and Separate Financial Statements". The following companies are consolidated as of the balance sheet date:

Subsidiaries	Country of incorporation	Equity interest
		%
C.M.T. Medical Technologies Inc.	U.S.A.	100
Medibell Medical Vision Technologies Ltd.	Israel	100
C&T Medical Solutions Ltd.	Israel	62
C&T Medical Solutions Limited Partnership	Israel	61.38

See also Note 1b and c.

g. Basis of consolidation:

The consolidated financial statements include the financial statements of C.M.T. Medical Technologies Ltd. ("the parent company") and its subsidiaries after the elimination of all intercompany transactions and balances.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Subsidiaries are consolidated from the date the parent obtains control until such time as control ceases. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. Losses applicable to the minority interest in the consolidated subsidiaries are allocated to the Company since it finances these losses.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

h. Cash and cash equivalents:

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

i. Short-term deposits:

The Company classified deposits with original maturities of more than three months and less than one year as short-term deposits. The short-term deposits are presented at cost, including accrued interest.

j. Inventories:

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	-	purchase cost on a first in, first out basis;
Finished goods and work in progress	-	cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Interest in a joint venture:

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Company recognizes its interest in the joint venture using the equity method. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group.

l. Long-term investments:

Long-term investments are comprised of bank deposits with maturities of more than one year. Bank deposits are presented at their cost.

m. Property and equipment:

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

Equipment manufactured in-house is presented at cost, which does not exceed the cost of replacement equipment.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

The annual depreciation rates are as follows:

	%
Equipment	20 - 33 (mainly 20)
Office furniture and equipment	6 - 15 (mainly 15)
Motor vehicles	15
Leasehold improvements (not exceeding the leasehold period)	10 - 20 (mainly 20)

The carrying value of property and equipment is 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 value exceeds the estimated recoverable amount, the assets are written down to the recoverable amount. The recoverable amount of property and equipment is the greater of fair value less costs to sell and 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 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 income statement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Revenue recognition:

Revenues from sales of products are recognized when the significant risks and rewards of ownership of the products have passed to the buyer (usually on dispatch of the goods) and the amount of revenue can be measured reliably.

Revenues from interest are recognized as the interest accrues (taking into account the effective yield on the asset).

o. Research and development costs:

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an intangible asset 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.

Following initial recognition of the development expenditure as an asset, 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 benefit. During the period of development, the asset is tested for impairment annually.

Development costs are capitalized in accordance with the accounting policy mentioned above. Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product-development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

The Company has several projects in the research phase and two projects in the development phase. The Company did not capitalize development costs since the Company cannot yet demonstrate technical feasibility of completing the intangible asset so that it will be available to use or sell the asset. In addition, the Company is not able to evaluate the expenditure until the intangible asset will be available for use, or the sale of the asset.

p. Warranty costs:

The Company provides a warranty for up to one year, at no extra charge. Upon the sale of products under warranty, a provision is recorded for probable warranty costs, based on the Company's experience and engineering estimates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Royalty-bearing grants:

Royalty-bearing grants for funding of approved research projects are recognized as a liability upon receipt. The liability is reviewed at each balance sheet date whether there is a reasonable assurance that part or all of the grants received will not be repaid based on estimated future sales. If there is such assurance, part or all of the liability is recorded as income. If at the subsequent closing date, the Company revises its estimated future sales, a liability for any amounts previously included as income should be restated with a corresponding loss in the income statement.

r. Deferred taxes:

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only 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 differences can be utilized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred tax liabilities are recognized for all taxable temporary differences, except: in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

s. Accrued severance pay:

The Company operates a defined benefit plan for severance pay pursuant to Israel's Severance Pay Law. Under the law, Israel resident employees are entitled to receive severance pay upon involuntary termination of employment, or upon retirement, which is calculated based on the most recent monthly salary at the time of termination, multiplied by the number of years of employment.

The Company funds its liability for severance pay by monthly payments to pension funds and insurance companies ("plan assets").

The cost of providing severance pay is determined using the projected unit credit actuarial value method. Actuarial gains and losses are recognized immediately in the period in which they occur.

The severance pay liability recognized in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan assets. If such calculation is negative, the asset is measured at the lower of this calculation or the aggregate of past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Basic and diluted earnings (losses) per share:

Basic and diluted earnings (losses) per share are presented in accordance with IAS 33, "Earnings per Share" for all periods presented.

Basic earnings (losses) per share have been computed using the weighted average number of Ordinary shares outstanding during the period. Diluted earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each period, plus the dilutive effect of outstanding stock options during the period.

u. Treasury shares:

Treasury shares acquired by the Company are presented as a reduction of equity, at cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

v. Leases:

Leases where the lessee retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

w. Share based payment transactions:

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as a consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external appraiser using a binomial model. Further details are given in Note 20c.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share. Further details are given in Note 20g.

x. Acquisition of minority interest:

Acquisition of minority interest is accounted for using the parent entity extension method whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

1. Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

2. is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14, "Segment Reporting".

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the income statement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. Exchange rate and linkage basis:

1. Assets and liabilities in or linked to foreign currency are presented according to the representative exchange rates published by the Bank of Israel at balance sheet date.

2. Assets and liabilities linked to the Consumer Price Index in Israel are presented according to the relevant index for each linked asset or liability.

Below are data about the exchange rates of the U.S. dollar and the Consumer Price Index in Israel:

As of	Representative exchange rate of U.S. dollar	Consumer Price Index in Israel for December
	NIS	Points *)
December 31, 2007	0.26	191.2
December 31, 2006	0.237	184.9
December 31, 2005	0.217	185.1
Change during the year ended	%	%
December 31, 2007	(9.0)	3.4
December 31, 2006	(8.2)	(0.1)

*) The index on an average basis of 1993 = 100.

NOTE 3:- CASH AND CASH EQUIVALENTS

	Weighted average annual interest rate		December 31,	
	2006	2007	2006	2007
	%		U.S. dollars in thousands	
Cash			1,465	1,718
Deposits in banks	4.07	-	391	-
			1,856	1,718

NOTE 4:- SHORT-TERM DEPOSITS

Short-term deposits are made for varying periods of between three months and one year, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposits rates.

Short-term effective annual interest rates were 5.42% and 5% in 2006 and 2007, respectively.

NOTE 5:- TRADE RECEIVABLES

Trade receivables, which generally have 30 day terms and bear no interest, are recognized and carried at the original invoice amount less an allowance for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

As at December 31, 2007, trade receivables at nominal value of $ 216,000 (2006: $ 182,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Individually impaired
	U.S. dollars in thousands
As of January 1, 2006	125
Charge for the year	57
As of December 31, 2006	182
Charge for the year	34
As of December 31, 2007	216

As of December 31,, the ageing analysis of trade receivables is as follows:

			Past due but not impaired				
	Total	Neither past due nor impaired	< 30 days	30 – 60 days	60 – 90 day	90 – 120 day	>120 days
	U.S. dollars in thousands						
2006	4,640	4,640	-	-	-	-	-
2007	3,378	3,378	-	-	-	-	-

NOTE 6:- OTHER CURRENT ASSETS

	December 31,	
	2006	2007
	U.S. dollars in thousands	
Government authorities	166	240
Loans to employees (1)	49	99
Prepaid expenses	175	178
Interest receivable	434	289
Other receivables	535	438
	1,359	1,244

(1) The loans are in NIS and bear interest at the rate of 4% which is linked to the Consumer Price Index in Israel.

NOTE 7:- INVENTORIES

	December 31,	
	2006	2007
	U.S. dollars in thousands	
Raw materials and components	1,048	884
Work-in-progress	622	447
Finished products	420	484
	2,090	1,815

The amount of the write-down of inventories recognized as an expense is $ 244 thousand (2006 - $ 0) was recognized as a discontinued operations.

NOTE 8:- LONG-TERM INVESTMENTS

Long-term deposits in banks totaling $ 1,810 thousand and $ 955 thousand, bear an effective interest rate of 5.29% and 5.2% in 2006 and 2007, respectively, and linked to the U.S. dollar.

NOTE 9:- INTEREST IN A JOINT VENTURE

The following table illustrates summarized financial information of the Company interest in the joint venture:

	December 31,	
	2006	2007
	U.S. dollars in thousands	
Share of the associate's balance sheet:		
Current assets	-	1,729
Non-current assets	-	105
Current liabilities	-	(696)
Net assets	-	1,138
Share of the associate's revenue and profit:		
revenues	-	-
loss	-	414
Carrying amount of the investment	-	1,138

NOTE 10:- LONG-TERM RECEIVABLES

In 2004, the Company deposited NIS 945 thousand ($ 240 thousand) with the income tax authorities in Israel, to secure an obligation in that amount in respect of a dispute regarding employee tax related to the former CEO and CFO. Further details are given in Note 18c. The Company is of the opinion that this amount will be refunded or collected.

NOTE 11:- PROPERTY AND EQUIPMENT

	Equipment	Office furniture and equipment	Motor vehicles	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost:					
Balance as of January 1, 2006	2,443	294	262	150	3,149
Additions during the year	301	13	114	56	484
Disposals during the year	(15)	-	(131)	-	(146)
Balance as of December 31, 2006	2,729	307	245	206	3,487
Additions during the year	83	-	-	-	83
Impairment of property and equipment *	(266)	(18)	-	-	(284)
Disposals during the year	(3)	-	(35)	-	(38)
Balance as of December 31, 2007	2,634	198	210	206	3,248
Accumulated depreciation:					
Balance as of January 1, 2006	2,084	235	112	94	2,525
Additions during the year	135	4	35	16	190
Disposals during the year	(14)	-	(65)	-	(79)
Balance as of December 31, 2006	2,205	239	82	110	2,636
Additions during the year	158	5	26	11	200
Impairment of property and equipment *	(224)	(14)	-	-	(238)
Disposals during the year	(3)	-	(19)	-	(22)
Balance as of December 31, 2007	2,136	230	89	121	2,576
Net carrying amount as of December 31, 2007	444	59	84	85	672
Net carrying amount as of December 31, 2006	524	68	163	96	851

*) Related to discontinued operations

NOTE 12:- TRADE PAYABLES

	December 31, 2006	December 31, 2007
	U.S. dollars in thousands	
Trade payables	3,077	2,202
Related parties	2	-
Other payables	426	212
	3,505	2,414

Trade payables are non-interest bearing and are generally at 30-60 day terms.

NOTE 13:- PROVISION FOR WARRANTY

A provision is recognized for expected warranty costs on products sold, based on past experience of the level of repairs and returns.

	U.S. dollars in thousands
Balance as of January 1, 2006	86
Additions during the year	141
Utilized	(143)
Balance as of December 31, 2006	84
Additions during the year	110
Utilized	(128)
Balance as of December 31, 2007	66

NOTE 14:- OTHER CURRENT LIABILITIES

	December 31,	
	2006	2007
	U.S. dollars in thousands	
Employees and payroll accruals	1,340	1,397
Royalties payable (Note 18b)	17	-
Related parties	115	79
Accrued expenses	78	74
Other accounts payable	101	6
	1,651	1,556

NOTE 15:- ACCRUED SEVERANCE PAY, NET

The Company has one defined benefit plan covering substantially all of its employees, which requires contributions to be made to separately administered funds.

The following table summarizes the components of net benefit expenses recognized in the income statement and the funded status and amounts recognized in the balance sheet for the respective plan.

NOTE 15:- ACCRUED SEVERANCE PAY, NET (Cont.)

	Year ended December 31, 2006	Year ended December 31, 2007
	U.S. dollars in thousands	
Current service cost	317	417
Interest cost on benefit obligation	43	102
Expected return on plan assets	(33)	(100)
Net actuarial gain recognized in the year	65	44
Net benefit expenses	392	463
Actual return on plan assets	24	111

	December 31, 2006	December 31, 2007
	U.S. dollars in thousands	
Benefit asset (liability):		
Defined benefit obligation	(2,029)	(2,319)
Fair value of plan assets	1,514	1,893
Benefit liability	(515)	(426)

Changes in the present value of the defined benefit obligation are as follows:

	2006	2007
Opening defined benefit obligation	1,566	2,029
Interest cost on benefit obligation	43	102
Current service cost	317	417
Benefit paid	(69)	(380)
Actuarial gains on obligations	75	55
Exchange differences	97	96
Closing defined benefit obligations	2,029	2,319

Changes in the fair value of plan assets are as follows:

	December 31, 2006	December 31, 2007
	U.S. dollars in thousands	
Opening defined plan assets	1,122	1,514
Expected return on plan assets	33	100
Contribution by employee	340	416
Benefit paid	(69)	(300)
Actuarial losses	(10)	11
Exchange differences	98	152
Fair value of plan assets as of December 31	1,514	1,893

NOTE 15:- ACCRUED SEVERANCE PAY, NET (Cont.)

The actuarial assumptions used are as follows:

	December 31,	
	2006	2007
Discount rate	3.62%	3.78%
Future salary increases	3%	3%
Expected rate of return on assets	3.5%	4.09%

NOTE 16:- GOVERNMENT GRANTS

	December 31,	
	2006	2007
	U.S. dollars in thousands	
As of January 1,	1,111	940
Received during the year	544	800
Repayment during the year	(742)	-
Accrued interest	27	38
Released to the income statement	-	(46)
As of December 31,	940	1,732
Less-Current maturities	17	-
	923	1,732

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,	
	2006	2007
	U.S. dollars in thousands	
a. Transactions with related parties:		
Fees and related benefits to directors	225	210
Professional fees to a shareholder *)	102	-

*) Professional services at fair market prices were given to the Company by a company that is owned by one of its shareholders.

Until the end of 2006, the Company was obliged to pay the chairman of the board of directors an annual management fee at the rate of 5% of the profit before taxes on income.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

	December 31, 2006	December 31, 2007
	U.S. dollars in thousands	
b. Balances with related parties:		
Accounts payable (1)	2	-
Other current liabilities	115	79

(1) The balance bears no interest.

c. Options held by directors to purchase Ordinary shares have the following expiry dates and exercise prices:

Grant date	Number	Exercise price ($)	Expiry date
2002	122,000	9.7	2009
2006	150,050	10.08	2013

Share-based payments in respect of options granted to the chairman of the board of directors are detailed in Note 20f.

d. The Company granted several directors loans in the aggregate amount of $ 203 thousand for the purpose of exercise of options. During 2007, a loan in the amount of $ 163 thousand was repaid. Further details are given in Note 20f.

f. Compensation of key management personnel of the Company:

	Year ended December 31, 2006	Year ended December 31, 2007
	U.S. dollars in thousands	
Short-term benefits	949	946
Termination benefits	48	56
Share-based payment	816	293
Total compensation paid to key management personnel	1,813	1,295

NOTE 18:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

1. The Company leases an industrial building for production and office use through October 31, 2010. The Company was granted options to extend the lease agreement by additional two years and three years, respectively. CMT Inc. leases an office building for office use through February 28, 2009. Future rental payments under non-cancelable operating leases, which are payable in or linked to U.S. dollars, are as follows:

	U.S. dollars in thousands
2008	248
After one year but not more than 5 years	496
	744

Total rent expense for the years ended December 31, 2006 and 2007 was $ 235 thousand and $ 248 thousand, respectively.

2. The Company leases motor vehicles under various operating lease agreements, which expire on various dates. Aggregate minimum lease commitments under non-cancelable leases as of December 31, 2007, are as follows:

	U.S. dollars in thousands
2008	208
2009	32
	240

b. Contingent liabilities:

The Company and a subsidiary participate in programs sponsored by the Israeli Government for the support of research and development activities. The Company and its subsidiary obtained grants from the Office of the Chief Scientist in the Israeli Ministry of Industry, Trade and Labor ("the OCS").

The Company and the subsidiary are obligated to pay royalties to the OCS amounting to 3%-5% of the sales of the products and other related revenues generated from such projects, up to an amount equal to 100% of grants received, linked to the exchange rate of the U.S. dollar, and bearing interest at LIBOR from 1998.

NOTE 18:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

As of December 31, 2007, the Company and the subsidiary had recorded a liability for grants received in the amount of $ 1,421 thousand ($ 940 thousand in 2006). The Company and the subsidiary have an outstanding contingent obligation to pay royalties in the amount of $ 1,531 thousand ($ 716 thousand in 2006), in respect of projects for which there is a reasonable assurance that part or all of the grants received will not be repaid. The Company and the subsidiary will record this obligation as a liability if facts and circumstances would determine the Company and the subsidiary to revise upwards their estimates of future sales.

c. Lawsuits:

In March 2002, the Company's board of directors decided to terminate the employment of the CEO and the CFO.

In May 2002, the Company filed claims against its former CEO and former CFO amounting to $ 440 thousand and $ 487 thousand, respectively, alleging that each of them had breached their duties and obligations as officers of the Company. The Company also demands that the CEO repay a loan provided to him to purchase 25,821 Ordinary shares in the amount of $ 434 thousand.

During July 2002, counter claims were filed against the Company and certain directors by its former CEO and former CFO amounting to $ 3,355 thousand and $ 875 thousand, respectively, mainly in respect of severance pay, vacation pay, bonus payments and loss of Company options.

In January 2003, the Company filed an amended claim against the former CEO and former CFO amounting to $ 6,759 thousand and $ 4,690 thousand, respectively.

In April 2003, the Company filed a criminal complaint against its former CEO. The cause of action is disclosure of confidential information of the Company.

The Company is of the opinion that the monetary exposure will not exceed the provisions provided in these financial statements.

As of balance sheet date there is no progress in these litigations.

d. As to commitments relating to the "approved enterprise", see Note 21a.

NOTE 19:- DISCONTINUED OPERATION

In September 2007, the Company's Board of Directors decided to cease the operations of Medibell a separate business segment that is part of the Company operations. The business of Medibell had developed a device in the field of ophthalmology. As of December 31, 2007, Medibell's operations were classified as discontinued operations. In addition, the Company impaired goodwill in the amount of $ 200 thousand recognized in 2006 from the acquisition of minority interests in Medibell.

The results of Medibell for the year are presented below:

	Year ended December 31,	
	2006	2007
	U.S. dollars in thousands	
Revenue	477	51
Expenses	1,367	911
Gross loss	890	860
Financial expenses	5	30
Loss for the year from a discontinued operation	895	890
Net cash (outflow)/inflow	73	(55)
Basic and diluted net loss per share from discontinued operations (Note 2t)	(0.23)	(0.23)

NOTE 20:- EQUITY

a. Shares:

1. The Company's shares are traded on the Eurolist, in France.

2. The Company decided to adopt a new buy-back program, commencing as of October 20, 2005. According to the French Law, the Company can purchase up to 10% of its issued and outstanding share capital.

3. During 2006 and 2007, 98,906 and 38,689 Ordinary shares were purchased by the Company in consideration of $ 1,278 thousand and $ 410 thousand, respectively.

b. Stock Option Plan:

1. Under the Company's 1998, 2000, 2002 and 2003 Stock Option Plans, the Company reserved for issuance 1,888,662 Ordinary shares to be issued as stock options. As of December 31, 2007, an aggregate of 660,654 Ordinary shares of the Company are still available for future grants.

NOTE 20:- EQUITY (Cont.)

2. Each option granted under the plan is exercisable for a period of 7 years from the date of the grant. The exercise price of the options granted under the plan may not be less than the nominal value of the shares. Most of the options vest gradually over a period of 3 years. Part of the options vest quarterly over a period of 3 years. Any options that are canceled or forfeited before expiration become available for future grant.

3. A summary of the stock option activities in 2006 and 2007 is as follows:

	Options outstanding	
	Number of options	Weighted average exercise price per share
		U.S. dollars
Balance as of January 1, 2006	397,650	
Options granted	605,650	10.08
Options exercised (1)	(258,692)	4.34
Options forfeited	(55,159)	10.07
Balance as of December 31, 2006	689,449	
Options granted	7,800	10.7
Options exercised (2)	(3,000)	8.1
Options forfeited	(117,433)	9.34
Balance as of December 31, 2007	576,816	
Number of options exercisable as of:		
December 31, 2006	202,208	
December 31, 2007	262,458	

(1) The weighted average share price at the date of exercise for the options exercised was € 7.71.

(2) The weighted average share price at the date of exercise for the options exercised was € 8.65.

The options outstanding as of December 31, 2007, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2007	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2007	Weighted average exercise price of options exercisable
U.S. dollars				U.S. dollars
5.85	1,666	3	1,666	5.85
8.1	6,000	1.5	6,000	8.1
9.52	10,000	4.65	6,667	9.52
12.18	40,600	2	40,600	12.18
10.08	518,550	5.25	207,525	10.08
	576,816		262,458	

NOTE 20:- EQUITY (Cont.)

The weighted average fair value of options granted during the year was $ 2.62 ($2.57 in 2006).

c. The fair value was estimated at the date of grant using the binomial model. The following table gives the assumptions made during 2006 and 2007:

	2006 grant	2007 grant
Share price ($)	12.73	10.69
Exercise price ($)	10.08	10.7
Volatility (%)	30.52 - 46.1	34.8
Risk-free interest rate (%)	3.3 - 4.25	3.8
Expected dividend (%)	5.43	5.43
Expected life (years)	5	5

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date the options vest.

Cost of share-based payments for the years ended December 31, 2006 and 2007 amounted to $ 496 thousand and $ 763 thousand, respectively.

d. Dividends:

In 2006, the Company paid dividends in the amount of $ 2,500 thousand (€ 0.498 per share).
In 2007, the Company paid dividends in the amount of $ 947 thousand (€ 0.183 per share).

Such dividends are paid in Euro.

e. On December 18, 2005, the board of directors approved a re-pricing of the exercise price in respect of a certain portion of the options currently held by each of the Company's directors and employees, to an exercise price per share of NIS 1.00, being the Company's shares par value.

Such repricing was effective as of February 2006.

In 2006, the Company recorded cost of share-based payment in the amount of $ 896 thousand due to such repricing.

f. On December 18, 2005, the Company approved a grant of loans to certain directors, officers and employees for the purpose of exercise of options. The term of the loans shall be up to 6 months and may be extended by the Company by an additional period up to an aggregate of 12 months. The loans amount shall bear the minimal interest pursuant to the law.

NOTE 20:- EQUITY (Cont.)

In the event that the shares received as a result of exercise of the option granted and shares are sold by the employee, the entire consideration received as a result of the sale shall be transferred to the Company, until the full repayment of the entire outstanding loan amount, plus accrued interest.

During 2006, the Company granted certain employees and directors loans to exercise options previously granted to them. Such loans were deducted from additional paid-in capital. During 2007, loans in the amount of $ 243 thousand were repaid. Such repayment was accounted as additional paid-in capital.

g. Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing net profit for the year attributable to Ordinary equity holders of the parent by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to Ordinary equity holders of the Company by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

The following reflects the share data used in the basic and diluted earnings per share computations:

	2006	2007
Weighted average number of Ordinary shares for basic earnings per share	3,850,922	3,885,813
Effect of dilution:		
Share options	248,091	-
Weighted average number of Ordinary shares adjusted for the effect of dilution	4,099,013	3,885,813

There have been no other transactions involving Ordinary shares or potential Ordinary shares between the reporting date and the date of completion of these financial statements.

NOTE 21:- INCOME TAXES

a. The Law for the Encouragement of Capital Investments, 1959:

The Company and Medibell have been granted "approved enterprises" and "beneficiary enterprise" status under the Law for Encouragement of Capital Investments, 1959 ("the Law"). According to the provisions of the Law, the Company and Medibell have chosen to enjoy the alternative tax benefits track - waiver of grants in return for tax exemption - and, accordingly, their profit from the "approved enterprises" and "beneficiary enterprise" will be tax-exempt for a period of two to four years, and subject to a reduced tax rate of 15% for an additional period of six to eight years.

NOTE 21:- INCOME TAXES (Cont.)

During 2005, the Company and Medibell transferred their enterprises to development area A. The tax benefits of the third, fourth and fifth plans were adjusted accordingly.

The benefit period begins in the year in which taxable income is first earned, limited to 12 years from the year that the enterprise began operations, or 14 years from the year in which the approval was granted, whichever period ends earlier. In respect of expansion programs pursuant to Amendment No. 60 to the law, the benefit period commences in the later of the year elected by the Company or the first year in which the Company has taxable income, provided that 12 years have not elapsed from the beginning of the year of election and for companies in development area A - 14 years from the beginning of the year of election. The benefit period for part of the enterprises of the Company has ended and, for part, it will end in the years 2007 to 2014. The benefit period for the program of the subsidiary has not yet begun.

If dividends are distributed out of tax exempt profits, the Company will then become liable for tax at the rate applicable to its profits from the approved enterprise in the year in which the income was earned, as if it had not chosen the alternative track of benefits (tax at the rate of 15%).

Since Medibell's operations were ceased during 2007, the approved enterprise status granted to it will be eliminated.

Conditions for the entitlement to the benefits:

The above benefits are conditional upon the fulfillment of the conditions stipulated by the law, regulations published thereunder and the letters of approval for the specific investments in the approved enterprises. In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. The management believes that the Company meets the aforementioned conditions.

b. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, the results for tax purposes are measured based on the changes in the Consumer Price Index in Israel. The Company and Medibell are taxed under this law.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

NOTE 21:- INCOME TAXES (Cont.)

c. Capital gains/losses:

Pursuant to the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2003 ("the reform law"), tax at a reduced rate of 25% will apply on capital gains accrued after January 1, 2003, instead of the regular tax rate. In case of the sale of properties purchased before the adoption of the reform law, the reduced tax rate will apply only to the portion of the profit which accrued after the adoption of the law, as computed according to the law. Further, the reform law states that capital, losses carried forward for tax purposes may be offset against capital gains indefinitely. The reform law also provides for the possibility to offset capital losses from sales of properties outside Israel against capital gains in Israel.

d. Tax rates applicable to the income of the Group companies:

1. Companies in Israel:

In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be progressively reduced to the following tax rates: 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

Because the Company is operating under five approved plans, its effective tax rate is composed of a weighted combination of the various applicable rates or tax exemptions. The computation is made for profit derived from each plan on the basis of formulas determined based on existing rules and regulations.

2. Foreign subsidiary:

The principal tax rate applicable to CMT Inc. is 35%.

e. Final tax assessments:

The Company received final tax assessments through 2005.

Medibell received final tax assessments through 2003.

f. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company is an "industrial company", as defined by this law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation and the right to claim public issuance expenses as a deduction for tax purposes.

NOTE 21:- INCOME TAXES (Cont.)

g. Income tax reconciliation:

A reconciliation of theoretical tax expense assuming all profit is taxed at the statutory rate applicable to companies in Israel and the actual tax expense is as follows:

	Year ended December 31, 2006	Year ended December 31, 2007
	U.S. dollars in thousands	
Profit (loss) before income taxes	1,364	(1,471)
Statutory tax rate in Israel	31%	29%
Theoretical tax expense (benefit)	423	(427)
Decrease in taxes resulting from "approved enterprises" and "beneficiary enterprise"	(401)	-
Non-deductible expenses	460	254
Losses for which deferred taxes were not provided	-	542
Taxes in respect of prior years	-	(23)
Changes in basis of measurement (1)	(506)	(392)
Others	28	(113)
Income taxes (benefit) reported in the income statements	4	(159)

(1) Resulting from the difference between the changes in the Israeli CPI and the exchange rate of the NIS/dollar.

h. Income taxes (expense) included in the income statements:

	2006	2007
Current taxes	76	144
Taxes in respect of prior years	-	(23)
Deferred taxes	(72)	(280)
Income taxes (benefit) reported in income statements	4	(159)

NOTE 21:- INCOME TAXES (Cont.)

i. Deferred taxes:

Deferred taxes are calculated using tax rate of 14% in 2006 and 15% in 2007. The tax rate is composed of a weighted combination of the various applicable rates or tax exemptions. Significant components of the Group's deferred tax assets are as follows:

	December 31,	
	2006	**2007**
	U.S. dollars in thousands	
Net operating losses	80	80
Employee benefits	158	180
Government grants	116	260
Research and development costs	229	346
Other deferred tax assets, net	13	11
Total deferred tax assets	596	877

	Year ended December 31,	
	2006	**2007**
	U.S. dollars in thousands	
Employee benefits	(60)	(22)
Government grants	24	(143)
Research and development costs	(40)	(117)
Other deferred tax assets, net	4	2
Total deferred tax benefit	(72)	(280)

NOTE 21:- INCOME TAXES (Cont.)

j. Available carryforward tax losses:

Accumulated losses of Medibell for Israeli tax purposes, which were derived prior to 2004, in the amount of approximately $ 4,900 thousand, may be carried forward and offset against its taxable income in the future, for an indefinite period. Due to cessation of Medibell's operations, such losses will not be used; therefore the Company did not provide deferred taxes in respect of such losses.

The Company and Medibell file a consolidated tax return commencing 2004.

Accordingly, Medibell's current operating losses for tax purposes can be offset against the Company's taxable income.

As of December 31, 2007, CMT Inc. had U.S. federal net operating loss carryforward of approximately $ 60 thousand ($ 119 thousand in 2006). The subsidiary's losses will expire in the years 2022 to 2024. Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

The Company and its subsidiaries did not record deferred tax assets amounting to approximately $ 1,950 thousand ($ 1,300 thousand in 2006) in respect of loss carryforward as it is uncertain whether there will be taxable income in the future.

NOTE 22:- SELECTED STATEMENTS OF OPERATIONS DATA

a. Cost of revenues:

	Year ended December 31, 2006	Year ended December 31, 2007
	U.S. dollars in thousands	
Materials consumed	8,608	8,791
Salaries, wages and employee benefits	1,199	1,350
Share-based payments	310	97
Subcontractors	574	343
Other manufacturing costs	512	741
Depreciation	82	55
	11,285	11,377
Decrease (increase) in inventories:		
Work-in-progress	147	91
Finished products	(91)	(7)
	11,341	11,461

Major supplier data:

	2006	2007
Percentage of total materials consumed:		
A	19%	10%
B	27%	49%

The Company obtains certain key components from two sources, which are located in Europe. The Company has strategic agreements with these suppliers, which defines CMT as a preferred customer. This preference minimizes the risk involved.

b. Research and development costs:

	Year ended December 31, 2006	Year ended December 31, 2007
	U.S. dollars in thousands	
Materials consumed	370	328
Salaries, wages and employee benefits	2,929	3,519
Share-based payments	194	133
Subcontractors	697	600
Depreciation	32	78
Maintenance and office expenses	409	356
Rental fees	438	494
Foreign travel	140	95
	5,217	5,603

NOTE 22:- SELECTED STATEMENTS OF OPERATIONS DATA (Cont.)

c. Selling and marketing:

	Year ended December 31, 2006	2007
	U.S. dollars in thousands	
Salaries, wages and employee benefits	1,292	1,602
Share-based payments	73	19
Advertising	134	78
Foreign travel	43	95
Depreciation	10	18
Rental fees, maintenance and office expenses	137	104
Others	666	694
	2,355	2,610

d. General and administrative:

	2006	2007
Salaries, wages and employee benefits	848	1,169
Share-based payments	815	514
Rental fees, maintenance and office expenses	253	283
Professional fees	1,132	1,077
Depreciation	46	40
Bad debts	75	162
Impairment of goodwill	-	200
Others	131	159
	3,300	3,604

e. Financial income:

	2006	2007
Interest on short-term deposits	299	655
Exchange rate differences	255	-
Others	-	71
	554	726

f. Financial expenses:

	2006	2007
Exchange rate differences	-	228
Bank charges	26	40
Interest on Government grants	27	38
	53	306

NOTE 23:- FINANCIAL INSTRUMENTS

a. Financial instruments:

The carrying amounts of cash and cash equivalents, short-term deposits, trade receivables, other current assets, trade payables and other current liabilities, approximate their fair value due to the short-term maturity of such instruments. The fair value of government grants amounts to $ 1,321 thousand. Such fair value was calculated by discounting the expected future cash flows at prevailing interest rate.

b. Concentration of credit risks:

Financial instruments that potentially subject the Group to concentration of credit risks consist principally of cash, cash equivalents, short-term deposits and trade receivables.

Cash and cash equivalents and short-term deposits are invested in major banks in Israel and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company investments are financially sound and accordingly, minimal credit risk exists with respect to these investments.

The Group's maximum exposure to credit risk arising from default of the counter party is equal to the carrying amount of these instruments.

The Company's trade receivables are mainly derived from sales to customers in the Far East, North America and Europe (see also Note 1d). The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. In addition, receivables balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. An allowance for doubtful debts is determined with respect to these amounts that the Company has determined to be doubtful of collection. The maximum exposure is the carrying amount.

c. Interest rate risk:

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term liability in respect of Government grants received with a floating interest rate of LIBOR.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

The following table sets out the carrying amount, by maturity, of the Group's financial instrument that is exposed to interest rate risk:

	Increase/ decrease in LIBOR rate	Effect on equity
2006	-5%	2
	-10%	4
	+5%	(2)
	+10%	(4)
2007	-5%	3
	-10%	6
	+5%	(3)
	+10%	(6)

d. Liquidity risk:

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments (short-term and long-term deposits) and financial assets (accounts receivables) and projected cash flows from operations.

The Group's long-term liability in respect of Government grants will be repaid in the future, in a manner of royalties at a rate of 3%-5% of the sales of products developed using these Government grants.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	Year ended December 31, 2007			
	Less than 3 months	3 to 12 months	1 to 5 years	Total
	U.S. dollars in thousands			
Trade payables and other current liabilities	3,970	-	-	3,970
Provision for warranty	-	66	-	66
Income tax payables	-	376	-	376
Governments grants	-	-	1,732	1,732
	3,970	442	1,732	6,144

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

	Year ended December 31, 2006			
	Less than 3 months	3 to 12 months	1 to 5 years	Total
	U.S. dollars in thousands			
Trade payables and other current liabilities	5,156	-	-	5,156
Provision for warranty	-	84	-	84
Governments grants	-	-	923	923
	5,156	84	923	6,163

e. Capital management:

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group monitors capital using a gearing ratio, which is working capital less Government grants divided by total capital. The Group's policy is to keep the gearing ratio between 75% and 85%.

	December 31,	
	2006	2007
	U.S. dollars in thousands	
Current assets	21,953	19,833
Less - current liabilities and Government grants	(6,163)	(6,144)
	15,790	13,689
Equity	18,951	17,196
Gearing ratio	83.3%	79.6%

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