



25 mai, 2010

ATTESTATION SUR LES COMPTES ANNUEL DE L'EXERCICE CLOS LE 31/12/2009 :

J'atteste, à ma connaissance, que les comptes sont établis conformément aux normes comptables applicables et donnent une image fidèle du patrimoine, de la situation financière et du résultat de la société et de l'ensemble des entreprises comprises dans la consolidation et que le rapport de gestion ci-joint présente un tableau fidèle de l'évolution des affaires, des résultats et de la situation financière de la société et de l'ensemble des entreprises comprises dans la consolidation ainsi qu'une description des principaux risques et incertitudes auxquels elles sont confrontées.

Mr. Jacques BELIN

Président du Conseil d'Administration



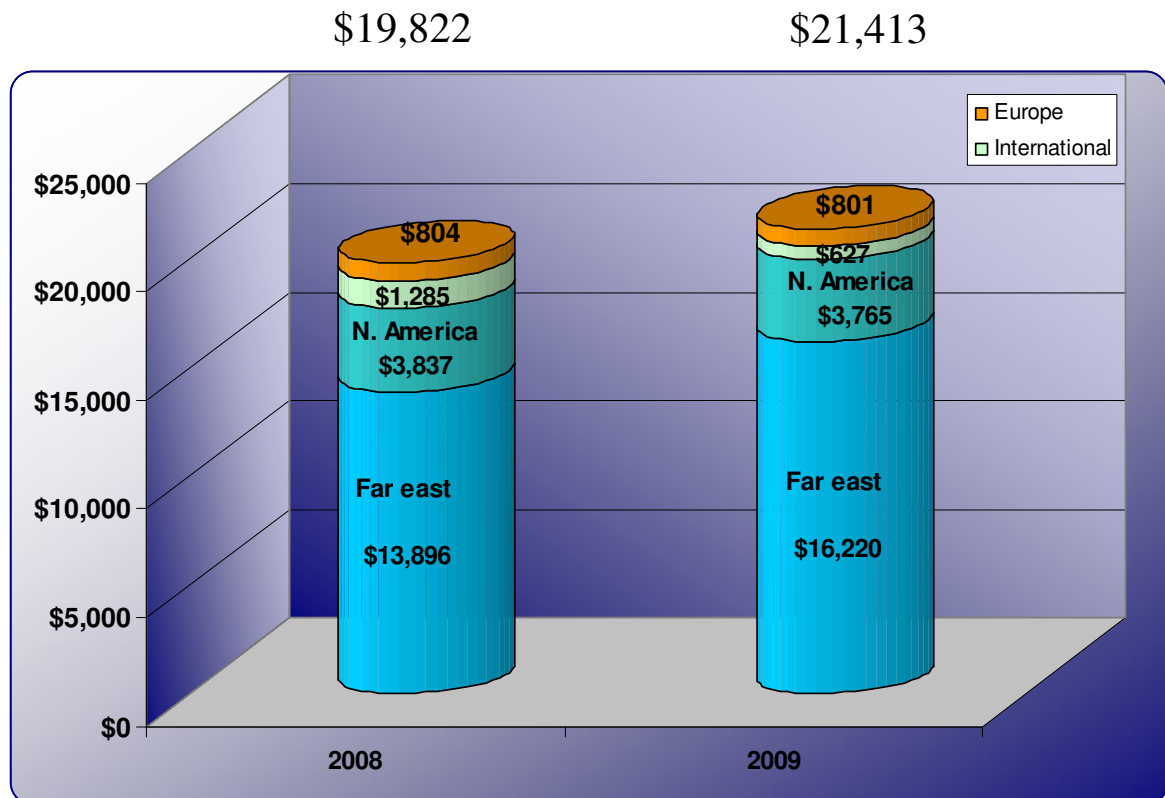
Management Report On 2009

The successful launch of CMT Medical Technologies Ltd.'s new products in 2009 resulted in increased revenues in the second half of 2009. Overall, the Company generated total revenues of \$ 21.4 million in 2009, as compared to \$ 21.1 million in 2008.

Revenues from Product Sales

The following table illustrates the geographical breakdown of the Company's revenues from sales of products. During 2009, there was an increase in revenues from the far-east as shown in the table below.

**Geographical breakdown
Revenues from sales of products**
(in thousands, USD)





The Company's gross margin reached approximately 44% of total revenues in 2009 compared to approximately 36% of total revenues in 2008. The mix of products sold and a favorable ILS/USD exchange rate were key factors contributing to the increase in gross margin.

Operating Expenses

In 2009, the gross amount of research and development expenses, before taking into account the cancellation of a \$2.6 million accrued liability to the Chief Scientist in Israel, was approximately \$5.3 million, a decrease compared to \$5.9 million in 2008. This decrease resulted from the termination of a project funded by the Chief Scientist. This termination also resulted in the cancellation of a \$2.6 million accrued liability to the Chief Scientist in respect of funded research and development expenses incurred in prior years. As a result, research and development expense for 2009 was approximately \$2.7 million (only 12.5% of revenue).

Selling and marketing expenses have been falling from \$2.2 million in 2008 (which exceeded 11% of revenue in 2008) to \$1.6 million in 2009 (7.3% of revenue). In July 2009, the Company closed down the New Jersey office of its U.S. subsidiary, CMT Inc., and transferred the U.S. sales and marketing activities to Thales Components Corporation, a U.S. subsidiary of Thales SA ("TCC"). In addition, in October 2009 the Company entered into a distribution agreement with an affiliate of Thales SA, Thales Electron Devices SA ("TED") in an effort to improve the Company's non-OEM sales channel. These measures resulted in cost savings in 2009.

In 2009, general and administrative expenses reached approximately \$3.0 million, unchanged from 2008. General and administrative expenses represented approximately 14% of revenue in 2009 and 15% of revenue in 2008. During the first half of 2009, general and administrative expenses increased to approximately 25.5% of revenues as a result of the following non-recurring events that impacted general and administrative expenses during such period:

- The Company entered into a mediation agreement which resulted in the settlement of lengthy legal dispute that commenced in 2002 with the Company's former CEO and CFO. In addition to the settlement cost incurred in 2009, the Company also incurred legal and other expenses in 2009 and in prior years with respect to this dispute.



- The Company incurred legal and other expenses in connection with Thales' tender offer for the Company's shares in early 2009 and Thales' acquisition of control over the Company as a result of such tender offer.

Expenses incurred in 2009 with respect of the events described above are not expected to recur. In addition, following completion of the tender offer and Thales' acquisition of control over the Company, the Company has been able to reduce expenses related to its board of directors and also expenses related to investor relations in the second half of 2009. The combined effect of the above and the increase in revenues in the second half of 2009 resulted in the stabilization of annual general and administrative expenses for 2009 at approximately 14% of revenues.

The Company's cash position, consisting of cash, cash equivalents and short-term and long-term deposits, as of December 31, 2009 reached approximately \$ 14.8 million compared to approximately \$ 13.8 million as of December 31, 2008.

Main events

Following the completion of the tender offer, the Company held discussions with its parent company, Thales SA, to explore opportunities for taking certain cooperative measures with Thales for the benefit of the Company and its shareholders, including measures intended to reduce the cost of distributing the Company's products in the United States.

As of June 30, 2009, the Company has been distributing its products in the United States through its wholly-owned U.S. subsidiary, CMT Inc. As indicated above, in an effort to reduce the Company's selling and marketing expenses in the U.S. as part of the initiative described above, in July 2009 the Company closed down the New Jersey office of its U.S. subsidiary, CMT Inc., and transferred the U.S. sales and marketing activities of CMT Inc. to TCC. The Company has reserved an amount in its 2009 financial statements to compensate TCC for the use of its premises and for related services provided by TCC in the United States during 2009.

In addition, as indicated above, in an effort to improve the Company's non-OEM sales channel, in 2009 the Company entered into a distribution agreement with TED. Under this agreement, TED sells and distributes the Company's products, other than sales to the Company's key OEM customer, using TED's extensive marketing and sales network.



Main risk sources

Key customer risk:

The Company currently derives the vast majority of its product sales revenues from sales of products to one key OEM customer that sells the Company's products in various geographical areas. The Company expects this customer to continue to account for a substantially high percentage of the Company's revenues in the coming years. Should this customer cease doing business with the Company, its results of operations would be materially adversely affected.

Key supplier risk:

The Company obtains certain key components from two suppliers, which are located in Europe. The Company has strategic agreements with these suppliers, which treat CMT as a preferred customer.

Concentration of credit risks:

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

Cash and cash equivalents and short-term and long-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 Company funds and investments are financially sound and accordingly, minimal credit risk exists with respect to these investments. In addition, management believes that should a counter party to an investment made by the Company default on its obligations to the Company, the Company's maximum loss would be equal to the carrying amount of such investment plus any related fees and expenses incurred by the Company with respect to such default.

Currency exchange rate risk:



The bulk of the Company's expenses are denominated in New Israeli Shekels ("ILS") and most of the Company's revenues are denominated in US dollars. The strengthening of the ILS against the US dollar, as well as any other foreign currency in which the Company sells products, has the effect of increasing the U.S. dollar cost of the Company's operations and therefore adversely affecting the Company's results of operations which are denominated in US dollars.

As most of the Company's revenues are denominated in US dollars, the recent decline in the EURO is not expected to have a significant impact on the Company's financial results.

As currency exchange rate uncertainties continue, the Company, with the advice of currency experts, will continue to do its best to reduce the effects of currency exchange rate volatility. The Company's options to minimize currency exchange rate risks are limited. Although the Company uses hedging techniques to reduce the risk associated with fluctuations in currency exchange rates, the Company may not be able to eliminate the effects of currency fluctuations.

World economy risk:

The Company's results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Global economic instability and uncertainty, accompanied with the credit crisis and reduced demand for X-ray imaging system products, affect the willingness and ability of the manufacturers to make capital investments, and are causing a severe slow-down in the X-ray imaging system industry as a whole. These events have an adverse effect on the Company's revenues.

During cyclical downturns, such as those the Company has experienced in the past and is likely to experience in the future, material reductions in the demand for the type of capital equipment and process technology that the Company offers may cause the Company's sales and revenues to decline. In addition, the Company's ability to reduce expenses in response to any downturn or slowdown in the rate of capital investment by manufacturers in these industries may be limited.

The future success of the Company's business will depend on the Company's ability to increase product sales, successfully introduce new products, expand its sales force and distribution network and control costs, which the Company may be unable to do. As a result, the Company may not be able to continue its revenue growth and profitability.



Buy back

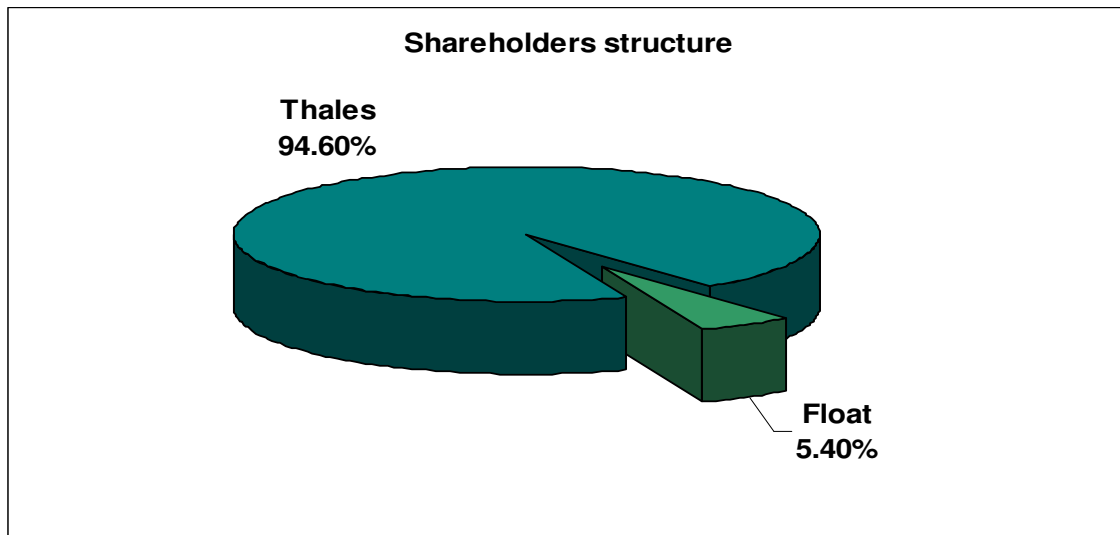
As of December 2008, the Company ceased buying back its shares. As of December 31, 2009, the number of the shares held by the Company represented approximately 5.2% of the Company's issued share capital. All of the Company's shares that are held by the Company are dormant shares.

Capital Structure

To our knowledge, the capital structure of the Company as of December 31, 2009 and as of the date of this report was as follows:

The total number of shares outstanding as of December 31, 2009 was 3,803,904, par value 1 ILS per share (excluding 208,782 shares held by the Company as dormant shares).

The following table illustrates the shareholders of the Company as of December 31, 2009:



Company shares held by Thales in excess of 90% of the outstanding share capital are considered dormant shares.



Low Trading Volume of Company Shares

The Company shares are traded on Euronext Paris under the symbol ENXTPA: CMD. However, the current float of the Company shares represents only 5.4% of the Company's issued and outstanding share capital, as Thales and its affiliates collectively hold 94.6% of the Company shares. In addition, no analyst currently covers the Company. The average daily trading volume of the Company shares in first half of 2009 was approximately 15,500 shares. Following the acquisition by Thales of 94.6% of the Company shares, the average daily trading volume in the second half of 2009 was approximately 600 shares, as shown in the table below.

	Ordinary Shares	As % of Total Outstanding Shares
Average Daily Volume:		
July – December 2009	607	0.015%
January – June 2009	15,532	0.4%
Total Volume:		
July – December 2009	33,976	0.8%
January – June 2009	1,025,133	27%

As a result, investing in the Company shares may involve liquidity risks due to the low public float and trading volume of the Company shares.

C.M.T. MEDICAL TECHNOLOGIES LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

IN U.S. DOLLARS

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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, 2009 and 2008 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years then ended, and a summary of significant accounting policies and other explanatory notes.

We did not audit the financial statements of a subsidiary, whose assets constitute approximately 4% and 17% of total consolidated assets as of December 31, 2009 and 2008, respectively, and whose revenues constitute approximately 5% and 15% of total consolidated revenues for the years ended December 31, 2009 and 2008, respectively. Also, we did not audit the financial statements of a joint venture, the investment in which, at equity, amounted to \$ (108) thousand and \$ 670 thousand as of December 31, 2009 and 2008, respectively, and the Group's share of its loss amounted to \$ 454 thousand and \$ 790 thousand, for the years ended December 31, 2009 and 2008 respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other 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, 2009 and 2008, and of its financial performance and its cash flows for each of the two years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
May 25, 2010

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

**C.M.T. MEDICAL TECHNOLOGIES LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

	<u>Note</u>	<u>December 31,</u>		<u>Convenience translation (Note 2e)</u>
		<u>2008</u>	<u>2009</u>	<u>December 31,</u>
		<u>U.S. dollars</u>		<u>2009</u>
		<u>(In thousands)</u>		<u>Euro</u>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	3	6,727	9,062	6,287
Short-term deposits	4	2,871	3,654	2,535
Short-term investments	8	-	1,410	978
Trade receivables	5	2,415	3,002	2,083
Other account receivables	6	904	611	424
Inventories	7	2,377	1,279	887
<u>Total current assets</u>		<u>15,294</u>	<u>19,018</u>	<u>13,194</u>
NON-CURRENT ASSETS:				
Deferred taxes	21i	1,158	1,493	1,036
Long-term investments	8	4,188	721	500
Interest in a joint venture	9	670	-	-
Long-term receivables	10	243	58	40
Property and equipment, net	11	634	742	515
<u>Total non-current assets</u>		<u>6,893</u>	<u>3,014</u>	<u>2,091</u>
<u>Total assets</u>		<u>22,187</u>	<u>22,032</u>	<u>15,285</u>

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

**C.M.T. MEDICAL TECHNOLOGIES LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

	<u>Note</u>	<u>December 31,</u>		<u>Convenience translation (Note 2e)</u>
		<u>2008</u>	<u>2009</u>	<u>December 31,</u>
		<u>U.S. dollars</u>		<u>2009</u>
		<u>(In thousands)</u>		<u>Euro</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Trade payables	12	3,277	1,724	1,196
Warranty provisions	13	48	68	47
Income tax payables		344	278	194
Government grants	16	-	200	139
Other current liabilities	14	2,569	2,216	1,537
<u>Total current liabilities</u>		<u>6,238</u>	<u>4,486</u>	<u>3,113</u>
NON-CURRENT LIABILITIES:				
Government grants	16	2,184	-	-
Employee benefit liability	15	561	428	297
Interest in joint venture	9	-	108	75
<u>Total non-current liabilities</u>		<u>2,745</u>	<u>536</u>	<u>372</u>
EQUITY: (Note 19)				
Share capital		1,080	1,103	765
Premium		7,351	8,474	5,879
Share-based payments reserve		2,338	2,477	1,718
Retained earnings		3,618	6,139	4,259
Treasury shares		(1,183)	(1,183)	(821)
<u>Total equity</u>		<u>13,204</u>	<u>17,010</u>	<u>11,800</u>
<u>Total liabilities and equity</u>		<u>22,187</u>	<u>22,032</u>	<u>15,285</u>

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

May 25, 2010
Date of approval of the
financial statements

Jacques Belin
Chairman of the Board
of Directors

Nadine Tomaschoff
Chief Financial Officer

**C.M.T. MEDICAL TECHNOLOGIES LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31,		Convenience translation (Note 2d)
		2008	2009	Year ended December 31, 2009
		U.S. dollars		Euro
		(In thousands), except per share data		
Revenues from sale of products		19,822	21,413	14,855
Revenues from construction contracts		1,300	-	-
Total revenues	21a	21,122	21,413	14,855
Cost of revenues from sale of products		12,868	11,970	8,304
Cost of revenues from construction contracts		550	-	-
Total cost of revenues	21b	13,417	11,970	8,304
Gross profit		7,705	9,443	6,551
Operating expenses:				
Research and development costs, net	21c	5,910	2,685	1,863
Selling and marketing	21d	2,198	1,560	1,082
General and administrative	21e	2,968	2,967	2,058
<u>Total operating costs and expenses</u>		11,076	7,212	5,003
Other income (expenses), net		(24)	4	3
Profit (loss) from operations		(3,395)	2,235	1,551
Financial income	21f	511	559	388
Financial expenses	21g	(164)	(154)	(107)
Share of losses of a joint venture		(790)	(454)	(315)
Profit (loss) before income taxes		(3,838)	2,186	1,517
Income taxes	20	281	335	232
Profit (loss) from continuing operations		(3,557)	2,521	1,749
Profit (loss) from discontinued operations		(59)	-	-
Net profit (loss)		(3,616)	2,521	1,749
Total comprehensive income		(3,616)	2,521	1,749
Basic and diluted profit (loss) per share	19e	(0.94)	0.66	0.46

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

**C.M.T. MEDICAL TECHNOLOGIES LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Premium	Share-based payments reserve	Retained earnings	Treasury shares	Total equity
	U.S. dollars in thousands						
Balance as of January 1, 2008	3,857,773	1,080	7,351	2,172	7,234	(693)	17,144
Purchase of treasury shares	(114,965)	-	-	-	-	(490)	(490)
Cost of share-based payments	-	-	-	166	-	-	166
Loss	-	-	-	-	(3,616)	-	(3,616)
Balance as of December 31, 2008	3,742,808	1,080	7,351	2,338	3,618	(1,183)	13,204
Exercise of options	96,667	23	1,123	-	-	-	1,146
Cost of share-based payments	-	-	-	139	-	-	139
Net profit	-	-	-	-	2,521	-	2,521
Balance as of December 31, 2009	<u>3,839,475</u>	<u>1,103</u>	<u>8,474</u>	<u>2,477</u>	<u>6,139</u>	<u>(1,183)</u>	<u>17,010</u>
	Convenience translation in Euro (Note 2e)						
	(In thousands)						
Balance as of January 1, 2009	3,742,808	749	5,100	1,622	2,510	(821)	8,160
Exercise of options	96,667	16	779	-	-	-	795
Cost of share-based payments	-	-	-	96	-	-	96
Net profit	-	-	-	-	1,749	-	1,749
Balance as of December 31, 2009	<u>3,839,475</u>	<u>765</u>	<u>5,879</u>	<u>1,718</u>	<u>4,259</u>	<u>(821)</u>	<u>11,800</u>

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

**C.M.T. MEDICAL TECHNOLOGIES LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		Convenience translation (Note 2d)
	2008	2009	Year ended December 31, 2009
	U.S. dollars		Euro
	(In thousands)		
<u>Cash flows from operating activities:</u>			
Net profit (loss)	(3,616)	2,521	1,749
Adjustments for:			
Depreciation	211	209	145
Inventory write-off *)	11	-	-
Accrued severance pay, net	135	(133)	(92)
Gain from sale of property and equipment	-	(12)	(8)
Share of loss of a joint venture	790	454	315
Exchange differences	(3)	7	4
Accrued interest on Government grants	77	71	49
Increase in deferred taxes, net	(281)	(335)	(232)
Cost of share-based payments	166	707	490
Impairment of government grants liability	-	(2,631)	(1,825)
Operating cash flows before working capital changes	1,106	(1,663)	(1,154)
Decrease (increase) in trade receivables	963	(587)	(407)
Decrease in other current and non-current assets	339	295	205
Decrease (increase) in inventories	(562)	1,098	760
Decrease (increase) in balance with joint venture	(322)	322	223
Increase (decrease) in trade payables	863	(1,553)	(1,077)
Increase (decrease) in provision for warranty	(18)	20	14
Decrease in income tax payables	(32)	(66)	(46)
Increase (decrease) in other current liabilities	1,013	(115)	(80)
Changes in working capital	2,244	(586)	(408)
Net cash flows provided by (used in) operating activities	(266)	272	187

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		Convenience translation (Note 2d)
	2008	2009	Year ended December 31, 2009
	U.S. dollars		Euro
	(In thousands)		
<u>Cash flows from investing activities:</u>			
Proceeds from sale of property and equipment	-	17	12
Purchase of property and equipment	(173)	(331)	(230)
Purchase and realization of short and long-term investments	5,563	1,223	849
Net cash flows provided by investing activities	5,390	909	631
<u>Cash flows from financing activities:</u>			
Proceeds from Government grants	375	576	400
Proceeds from exercise of stock options	-	578	401
Purchase of treasury shares	(490)	-	-
Net cash flows provided by (used in) financing activities	(115)	1,154	801
Increase in cash and cash equivalents from continuing operations	5,009	2,335	1,619
Cash and cash equivalents at beginning of year	1,718	6,727	4,668
Cash and cash equivalents at end of year	6,727	9,062	6,287
<u>(a) Supplemental disclosure of cash flows activities:</u>			
Cash paid during the year for:			
Taxes	109	17	12
Cash received during the year from:			
Interest	621	129	113
Taxes	230	107	74

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

NOTES TO 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. See also Note 18e.
- c. The Company currently sells its products to one main customer. The Company expects this customer to account for a substantial percentage of the Company's revenues in the coming years. Should this customer cease trading with the Company, its results of operations could be adversely affected.

For the years ended December 31, 2009 and 2008, these customers accounted for 82% and 80% of the Company's consolidated revenues, respectively.

- d. On December 16, 2008, Thales SA ("Thales"), a publicly traded company in France, and the Board of directors of the Company entered into a letter agreement whereby Thales agreed to file a cash tender offer for all the shares of the Company at a price per share of €5.65. On December 17, 2008, Thales filed the offer pursuant to section III of book II and specifically articles 232-1 et seq. of the AMF General Regulations. On March 24, 2009, Thales announced it purchased 94.6% of the Company's shares. The remaining 5.4% of the Company's shares are held by the public.
- e. Definitions:

In these financial statements:

The Company or CMT	- C.M.T. Medical Technologies Ltd.
CMT Inc	- C.M.T. Medical Technologies Inc.
The Group	- The Company and its subsidiaries as describes in Note 2f.
Subsidiaries	- Companies that are controlled by the Company (as defined in IAS 27) and whose accounts are consolidated with those of the Company.
The parent company	- Thales SA.
Related parties	- As defined in IAS 24.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

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.

The preparation format of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. Interpretations issued by the IFRIC and by the SIC.

Consistent accounting policies and initial adoption of IFRS:

The accounting policies adopted in the financial statements are consistent with those of all periods presented.

Changes in accounting policies in view of the adoption of new standards:

IAS 1 (Revised) - Presentation of Financial Statements:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 7 Financial Instruments: Disclosures:

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

The amendment did not have a material effect on disclosures about financial instruments in the financial statements.

IAS 20 - Government Grants:

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

The amendment was adopted as a prospective change from January 1, 2009 for Scientist's grants received after that date.

b. Significant accounting estimates and assumptions:

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions:

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.

Development costs:

Research costs are recognized in the statement of income when incurred, in accordance with the accounting policy described in Note 2q.

Deferred tax assets:

Deferred tax assets are recognized for unused carryforward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in Note 20.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the balance sheet date are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The accounting policy in the financial statements of the subsidiaries was applied consistently and uniformly with the policy applied in the financial statements of the Company.

d. 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 Company has determined the U.S. dollar to be the currency of the primary economic environment of each company in the Group and, thus, the 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, 2009 (€ 1 = U.S. \$ 1.4415). 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 financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. 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:

<u>Subsidiaries and joint ventures</u>	<u>Country of incorporation</u>	<u>Equity interest %</u>
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	62

See also Note 1b, c and d.

f. Cash and cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition.

g. 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 according to their term of deposit.

h. Trade receivables and allowance for doubtful accounts:

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.

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful.

i. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs.

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

Raw materials	- at cost of purchase using the weighted average cost method.
Finished goods and work in progress	- on the basis of weighted average costs which take into account materials, labor and other direct and indirect manufacturing costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

j. Financial instruments:

Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the statement of income.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

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

Financial assets at fair value through profit or loss:

Derivatives are classified as held for trading, unless they are designated as effective hedging instruments.

Held-to-maturity investments:

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables:

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost using the effective interest method taking into account also directly attributable transaction costs. Short-term borrowings (such as granting loans to customers and other receivables) are measured based on their terms, normally at nominal value. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A transaction involving factoring of accounts receivable and / or credit card vouchers is derecognized when the abovementioned conditions are met.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

Financial liabilities:

A financial liability is derecognized when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in the statement of income. If the exchange or modification is immaterial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized from the exchange.

k. Interest in a joint ventures:

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. Under the equity method, the investment in the joint venture is carried in the balance sheet at cost plus post acquisition changes in the Group's share at net assets of the joint venture. The income statement reflects the share of the results of operations of the joint venture. Where there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of that change accordingly in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The financial statements of the joint venture are prepared for the same reporting period as of the Company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its joint venture. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognizes the amount in the income statement.

1. Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment. Likewise, when a major inspection is performed its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the useful life of the asset 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)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Taxes:

Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes, except in a limited number of exceptions. Deferred taxes are carried directly to equity if the tax relates to items that are taken to equity.

Deferred tax balances are measured at the tax rates that are expected to apply to the period when the taxes are taken to the statement of income or to equity, based on tax laws that have been enacted or substantively enacted by the balance sheet date. The amount for deferred taxes in the statement of income represents the changes in said balances during the reported period, excluding changes attributable to items carried directly to equity.

Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as the sale of the investments in investees is not expected in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

Deferred tax assets and deferred tax liabilities are presented in the balance sheet as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

Current taxes:

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized in equity is recognized in equity and not in the income statement.

n. Government grants:

Government grants are recognized where there is reasonable assurance that the grant will be received and the Company will comply with the attached conditions.

Government grants from the Office of the Chief Scientist in Israel for funding research and development activities that include a liability to pay royalties to the State depending on future sales from development are recognized upon receipt as a liability if an outflow of economic benefits from the research activity has become probable and leads to sales entitling the State to royalties. Amounts paid as royalties are recognized as settlement of liability. When no such economic benefits are probable, the receipts from the grant are deducted from research and development costs in the statement of income. In such event, the royalty liability is accounted for as a contingent liability pursuant to IAS 37 until the date on which the liability is recognized once all the above conditions are met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

At each balance sheet date, the Company evaluates whether there is reasonable assurance that the liability, in whole or in part, will not be settled (since the Company will not be required to pay royalties) based on the best estimate of future sales, if any, and if so, the appropriate liability is derecognized and a gain is recognized in the statement of income. If in a later period, the estimated future sales indicate that there is no such reasonable assurance, the appropriate liability reflecting the anticipated royalty payments is recognized concurrently with research and development cost in the statement of income.

o. Employee benefits liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions in insurance companies and classified as defined contribution plans or as defined benefit plans.

The Company operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relation is presented by the projected unit credit method. The actuarial assumptions comprise future salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate on Government bonds with maturity that matches the estimated term of the benefit payments.

The Company makes current deposits in respect of its liabilities to pay compensation to certain of its employees in pension funds and insurance companies ("the plan assets").

Actuarial gains and losses are recognized in the statement of income in the period in which they occur.

3. Termination and voluntary retirement benefits:

Employee termination benefits are carried as an expense when the Company has committed, without realistic possibility of withdrawal, to terminate employees before the normal retirement date according to a detailed formal plan. Benefits to employees in respect of voluntary retirement are carried when the Group has offered the employees a plan that encourages voluntary redundancy, it is expected that the offer will be accepted and the number of respondents can be reliably measured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. 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).

Revenues from construction contracts:

Revenues from construction contracts are recognized on the percentage of completion basis provided that the revenues are fixed or can be reasonably estimated, collection is probable, costs related to performing the work are determinable or can be reasonably determined, there is no substantial uncertainty regarding the ability of the Company to complete the contract and to meet the contractual terms, and the percentage of completion can be reasonably estimated. The percentage of completion is determined based on the ratio of actual cost to total estimated cost. As for contracts in which a loss is anticipated, a provision is recorded for the full amount of the expected loss.

q. 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.

r. Profit (loss) per share:

Profit (loss) per share are calculated by dividing the loss attributable to equity holders of the parent by the weighted number of Ordinary shares outstanding during the period. Basic profit (loss) per share only include shares that were actually outstanding during the period. Potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted loss per share when their conversion increases profit (loss) per share from continuing operations. Furthermore, potential Ordinary shares that are converted during the period are included in diluted profit (loss) per share only until the conversion date and from that date in basic profit (loss) per share. The investor's share of loss of an investee is included based on the profit (loss) per share of the investee multiplied by the number of shares held by the investor.

s. Treasury shares:

The Company's shares held by the Company are recognized at cost and deducted from equity. Gains or losses on purchase, sale, issue or cancellation of treasury shares are recognized directly in equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Leases:

Leases where the Group as a 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.

u. 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 of the equity instruments 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 19b.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the 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.

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.

v. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

Following are the types of provisions included in the financial statements:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Warranty costs:

The Group recognizes a provision for warranty (up to one year) for sale of its products, based on past experience of the level of repairs and returns. Warranty is limited to malfunctions as defined by the Group and does not include warranty for damages incurred by the customer. Assumptions used to calculate the provision are based on current sales levels and current information available about returns based on the two-year warranty period for all products sold.

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is measured at its present value.

w. Standards issued but not yet effective:

IFRS 3 (Revised) - Business Combinations and IAS 27 (Amended) - Consolidated and Separate Financial Statements:

IFRS 3 (Revised) and the amendments to IAS 27 ("the Standards") will be effective for annual financial statements for periods beginning on January 1, 2010. The combined early application of the two Standards is permitted from the financial statements for periods beginning on January 1, 2008.

The principal changes expected to take place following the adoption of the Standards are:

- The definition of a business was broadened so that it contains also activities and assets that are not managed as a business as long as the seller is capable of operating them as a business.
- IFRS 3 currently prescribes that goodwill, as opposed to the acquiree's other identifiable assets and liabilities, will be measured as the excess of the cost of the acquisition over the acquirer's share in the fair value of the identifiable assets, net on the acquisition date. According to the Standards, non-controlling interests, including goodwill, can be measured either at fair value or at the proportionate share of the acquiree's fair value of net identifiable assets, this in respect of each business combination transaction measured separately.
- Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, are not simultaneously recognized as goodwill adjustments. If the contingent consideration is classified as a liability it will be measured at fair value through profit or loss.
- Direct acquisition costs attributed to a business combination transaction are recognized in the statement of income as incurred as opposed to the previous requirement of carrying them as part of the consideration of the cost of the business combination, which has been removed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be against profit or loss and not as adjustment to goodwill.
- A transaction with the minority interests, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognized in the statement of income or have any effect on the amount of goodwill, respectively.
- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, will be allocated between the parent company and minority interests, even if the minority has not guaranteed or has no contractual obligation for sustaining the subsidiary or of investing further amounts.
- On the loss or achievement of control of a subsidiary, the remaining investment, if any, will be revalued to fair value against gain or loss from the sale and this fair value will represent the cost basis for the purpose of subsequent treatment.

The Company believes that the effect of the Standards on the financial statements is not expected to be material.

IFRS 9 - Financial Instruments:

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which represents the first phase of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in the statement of income or in other comprehensive income (loss), in accordance with the election of the accounting policy on an instrument-by-instrument basis. Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard will be effective starting January 1, 2013. Earlier application is permitted. Early adoption will be made with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

The Company believes that the effect of the new Standard on the consolidated financial statements is not expected to be material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2008	2009
	U.S. dollars in thousands	
Cash in hand	3,104	3,532
Deposits in banks	3,623	5,530
	6,727	9,062

NOTE 4:- SHORT-TERM DEPOSITS

Short-term deposits in U.S. dollars 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 2% and 1.1% in 2008 and 2009, respectively.

NOTE 5:- TRADE RECEIVABLES

a. Composition:

	December 31,	
	2008	2009
	U.S. dollars in thousands	
Open accounts	2,592	3,019
Less - allowance for doubtful accounts	177	17
Trade receivables, net	2,415	3,002

b. Trade receivables are non-interest bearing and are generally on 30-60 credit day terms.

As of December 31, 2009 and 2008, the ageing analysis of trade receivables is as follows (U.S. dollars in thousands):

	Total	Neither past due nor impaired	Past due but not impaired		
			< 30 days	30 – 60 days	> 60 days
2009	3,002	2,669	286	5	42
2008	2,415	2,122	5	10	278

As of December 31, 2009, the ageing of trade receivables is mainly current debts within the credit terms and the significant majority of trade receivables behind payment schedule are good debt, which was examined by the Company's management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- TRADE RECEIVABLES (Cont.)

- c. As of December 31, 2009, trade receivables at nominal value of approximately \$ 17 thousand (2008: \$ 177 thousand) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	U.S. dollars in thousands
As of January 1, 2008	216
Released during the year	(39)
As of December 31, 2008	177
Released during the year	(160)
As of December 31, 2009	17

NOTE 6:- OTHER ACCOUNT RECEIVABLES

	December 31,	
	2008	2009
	U.S. dollars in thousands	
Government authorities	264	124
Loans to employees (1)	35	48
Prepaid expenses	122	69
Interest receivable	75	52
Advances to suppliers	-	73
Other receivables	408	245
	904	611

- (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,	
	2008	2009
	U.S. dollars in thousands	
Raw materials and components	1,403	798
Work-in-progress	422	352
Finished products	552	129
	2,377	1,279

The amount of the write-down of inventories recognized as an expense was \$ 145 thousand (2008 - \$ 11 thousand).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- SHORT AND LONG-TERM INVESTMENTS

In 2008 the Company invested in several U.S. dollar debentures which are traded overseas and classified as held-to-maturity investments.

In January and June 2009, the principal amount of \$ 2,006 thousand was repaid to the Company by the issuer.

As of December 31, 2009, an amount of \$ 1,412 is to be settled in October and December 2010 and the remaining amount of \$ 721 will be settled in February 2011. The debentures bear interest rates between 4.2% - 6.125%.

NOTE 9:- INTEREST IN A JOINT VENTURE

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. CMT holds 62% in C&T and Tower holds 38% in C&T. The Company holds 61.38% in C&T LP, Tower holds 37.62% in C&T LP and C&T holds 1% in C&T LP. As of the balance sheet date the Company and Tower invested \$ 1,550,000 and \$ 950,000, respectively.

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

	December 31,	
	2008	2009
	U.S. dollars in thousands	
Share in joint venture's balance sheet:		
Current assets	1,052	222
Current liabilities	(382)	(330)
Net assets	670	(108)
Share in joint venture's revenue and profit:		
Loss	790	454

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- LONG-TERM RECEIVABLES

	December 31,	
	2008	2009
	U.S. dollars in thousands	
Tax authorities *)	243	-
Car deposit	-	58
	243	58

*) In 2004, the Company deposited NIS 945 thousand (\$ 249 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.

As a result of the court ruling as described in Note 18b, the abovementioned amount was settled.

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, 2008	2,543	289	210	206	3,248
Additions during the year	142	13	-	18	173
Impairment of property and equipment	(4)	-	-	-	(4)
Disposals during the year	-	-	(14)	-	(14)
	2,681	302	196	224	3,403
Balance as of December 31, 2008					
Additions during the year	272	1	-	58	331
Disposals during the year	-	(33)	(81)	-	(114)
	2,953	270	115	282	3,620
Balance as of December 31, 2009					
Accumulated depreciation:					
Balance as of January 1, 2008	2,136	230	89	121	2,576
Additions during the year	133	38	27	13	211
Impairment of property and equipment	(4)	-	-	-	(4)
Disposals during the year	-	-	(14)	-	(14)
	2,265	268	102	134	2,769
Balance as of December 31, 2008					
Additions during the year	178	6	20	13	217
Disposals during the year	-	(33)	(75)	-	(108)
	2,443	241	47	147	2,878
Balance as of December 31, 2009					
Net carrying amount as of December 31, 2009	510	29	68	135	742
Net carrying amount as of December 31, 2008	416	34	94	90	634

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- TRADE PAYABLES

	December 31,	
	2008	2009
	U.S. dollars in thousands	
Trade payables and checks payable	3,277	1,724

NOTE 13:- WARRANTY PROVISIONS

	U.S. dollars in thousands
Balance as of January 1, 2008	66
Additions during the year	77
Utilized	(95)
Balance as of December 31, 2008	48
Additions during the year	51
Utilized	(31)
Balance as of December 31, 2009	68

NOTE 14:- OTHER CURRENT LIABILITIES

	December 31,	
	2008	2009
	U.S. dollars in thousands	
Employees and payroll accruals	1,827	1,541
Related parties	63	-
Accrued expenses	19	273
Advances from customers	244	80
Other accounts payable	416	322
	2,569	2,216

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- a. Expenses recognized in the statement of income:

	Year ended December 31,		
	2007	2008	2009
	U.S. dollars in thousands		
Current service cost	417	387	307
Interest cost on benefit obligation	102	125	106
Expected return on plan assets	(100)	(67)	(49)
Net actuarial loss (gain) recognized in the year	44	198	(115)
Net benefit expenses	463	643	249
Actual return on plan assets	111	(146)	290

- b. The plan assets (liabilities), net:

	2008	2009
	U.S. dollars in thousands	
Benefit asset (liability):		
Defined benefit obligation	(2,490)	(2,655)
Fair value of plan assets	1,929	2,227
Benefit liability, net	(561)	(428)

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

Opening defined benefit obligation	2,319	2,490
Interest cost on benefit obligation	125	106
Current service cost	387	307
Benefit paid	(360)	(194)
Actuarial loss (gains) on obligations	(15)	125
Exchange differences	34	(179)
Closing defined benefit obligations	2,490	2,655

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

Opening defined plan assets	1,893	1,929
Expected return on plan assets	67	49
Contribution by employer	427	302
Benefit paid	(266)	(186)
Actuarial gain (loss)	(213)	241
Exchange differences	21	(108)
Fair value of plan assets as of December 31	1,929	2,227

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

e. The actuarial assumptions used are as follows:

	December 31,	
	2008	2009
Discount rate	3.2%	2.48%
Future salary increases	3%	3%
Expected rate of return on assets	3.59%	3.2%

NOTE 16:- GOVERNMENT GRANTS

	December 31,	
	2008	2009
	U.S. dollars in thousands	
As of January 1,	1,732	2,184
Received during the year	375	576
Accrued interest	77	71
Released to profit and loss	-	(2,631)
As of December 31,	2,184	200

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

The Company is obligated to pay royalties to the OCS amounting to 3%-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.

On September 2009, the Company submitted an application to close one of the sponsored programs which has failed. As a result, the Company released to the income statement an amount of \$ 2,631.

As of December 31, 2009, the liability for OCS grants is in the amount of \$ 200 (\$ 2,184 thousand in 2008) which represents the amounts received during 2009 (including interest) and not used due to failure of the program mentioned above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related party:

	Key management personnel of the Company	Parent Company	Related parties
<u>As of December 31, 2009:</u>			
Trade receivables	-	123	-
Trade payable	-	210	-
Other current liabilities	68	-	1
Employee benefit liability	19	-	-
 <u>As of December 31, 2008:</u>			
Other current liabilities	24	-	63

b. Transactions with related parties:

	Key management personnel of the Company	Parent Company	Related parties
<u>Year ended December 31, 2009:</u>			
Revenues	-	465	-
Expenses:			
Salary, bonus and other benefits	1,306	-	-
Fees to directors	-	-	103
Share-based payments to directors (Note 19b)	-	-	568
Purchases	-	3,613	-
 <u>Year ended December 31, 2008:</u>			
Expenses:			
Salary bonus and other benefits	442	-	-
Fees to directors	-	-	319
Share-based payments to directors	-	-	65

Transactions with related parties were executed at fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

- c. In May 2009, the Company entered into an employment agreement with the new CEO according to which he is entitled to a monthly salary plus benefit as stated in the agreement. In addition, he is entitled up to 20% - 30% bonus from his annual salary.
- d. Key management personnel of the Company:

	Year ended December 31,	
	2008	2009
Salary to management personnel	400	922
Bonus to management personnel	-	23
Shared-based payment to management personnel	16	(16)
Other benefits to management personnel	26	377
	442	1,306

- e. Options held by key management personnel of the Company to purchase Ordinary shares have the following expiry dates and exercise prices:

<u>Grant date</u>	<u>Number</u>	<u>Exercise price (€)</u>	<u>Expiry date</u>
2002	10,000	8.05	2012
2006	207,850	8	2013

NOTE 18:- COMMITMENTS AND CONTINGENT LIABILITIES

- a. Commitments:

1. The Company leases in an operating lease an industrial building for production and office use until April 30, 2010. The Company was granted options to extend the lease agreement by additional two years and three years, respectively. On February 2010, the Company exercised the option to extend the lease agreement for an additional period of 2.5 years ending October 31, 2012. The remaining additional period was adjusted to 2.5 years, accordingly. Future rental payments under non-cancelable operating leases as of December 31, 2009 which are payable in or linked to U.S. dollars, are as follows:

	<u>U.S. dollars in thousands</u>
2010	237
2011	207
2012	172
	616

Total rent expense for the years ended December 31, 2008 and 2009 was \$ 209 thousand and \$ 201 thousand, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2009, are as follows:

	U.S. dollars in thousands
2010	9
2011	7
2012	51
	67

b. Lawsuits:

The Company had an open claims against its former CEO and former CFO from 2002 and 2003, alleging that each of them had breached their duties and obligations as officers of the Company and disclosure of confidential information of the company respectively.

A counter claims were filed against the Company and certain directors by its former CEO and former CFO mainly in respect of severance pay, vacation pay, bonus payments and loss of Company options.

During 2009, a mediation agreement was entered between the parties according to which, each of the parties will propose an amount they are willing to pay to the other side. The mediator, which was appointed by the court, will accept one of the offers and it will be considered final decision by both sides.

On August 10, 2009, the court rendered a ruling according to which it accepted the Company's proposal. The ruling determines that the former CEO& former CFO will be paid (together) approximately \$ 715 thousand (NIS 2,800,000) plus linkage differentials and interest from March 2002. The payments mainly cover amounts in respect to severance pay, vacation pay and notice payments.

- c. As to commitments relating to the "approved enterprise", see Note 20a.
- d. As to commitments relating to government grants, see Note 16.
- e. As of June 30, 2009, the Company has been distributing its products in the United States through its wholly-owned U.S. subsidiary, CMT Inc. The Company has been exploring with its parent company, Thales SA, the possibility of taking certain cooperative measures with Thales for the benefit of the Company and its shareholders, including measures that are intended to reduce the cost of distributing the Company's products in the United States. As part of this initiative, effective July 1, 2009, CMT Inc. terminated its office space lease in New Jersey and moved its office to the premises of Thales Components Corporation, a U.S. subsidiary of Thales ("TCC"). The Company is expected to compensate TCC for the use of its premises and for related services provided by TCC in the United States.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- f. On October 19, 2009 the Board of Director of CMT approved a Distribution Agreement (the "Agreement") between the Company and Thales Electron Devices S.A. ("TED"), a Thales SA affiliate. The objective of the Agreement is to promote the distribution and sales of the Company's products using TED extensive marketing and selling network. The Agreement is non-exclusive and sets forth the obligations of both parties. The obligations, selling terms and conditions are in line with comparable distribution agreements existing in the Company. The Agreement is valid for 12 months and renewable for same additional periods.

NOTE 19:- EQUITY

a. General:

1. The Company's shares are traded on the Eurolist market, in France.
2. Each holder of an Ordinary share shall have the following rights: voting rights at the general meeting, right to receive dividends, rights upon liquidation of the Company and right to nominate directors in the Company
3. The Company had a buy-back program, according to which the Company can purchase 10% of its issued and outstanding share capital. Due to change of control this program is inactive.

During 2008, 114,965 Ordinary shares were purchased by the Company in consideration of \$ 490 thousand.

b. Stock Option Plan:

1. Under the Company's 1997, 1998, 2000, 2002, 2003 and 2006 Stock Option Plans, the Company reserved for issuance 1,888,662 Ordinary shares to be issued as stock options. As of December 31, 2009, an aggregate of 642,604 Ordinary shares of the Company are still available for future grants.
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- EQUITY (Cont.)

3. A summary of the stock option activities in 2008 and 2009 is as follows:

	Options outstanding	
	Number of options	Weighted average exercise price per share
		Euro
Balance as of January 1, 2008	576,817	
Options granted (1)	75,000	2.75
Options forfeited	(151,950)	7.26
Balance as of December 31, 2008	499,867	
Options granted (2)	95,000	2.79
Options forfeited	(170,700)	6.14
Options exercised	(96,667)	2.79
Balance as of December 31, 2009	327,500	
Number of options exercisable as of:		
December 31, 2008	262,458	
December 31, 2009	327,500	

- (1) On December 28, 2008, the Company modified the terms of the options. In the event of a change of control as determined in the agreement, the options shall become fully vested and exercisable immediately prior to the consummation of such transaction and the executive shall the right to sell the options to the Company in consideration of \$ 340,000. The modification of the vesting terms does not result in any additional expense recorded in 2008.

Due to the change of control in March 2009, the former president and CEO, who left the Company in March 2009, exercised his right, according to his employment agreement, and the unvested options granted to him were sold to the Company at tender offer price with total consideration of \$ 340,000 that was paid to him.

- (2) On November 24, 2008, the board of directors and the audit committee of the Company have approved in principle a grant of options under the 2003 plan to its directors, to purchase 95,000 ordinary shares. The grant and its terms were subject to the approval of the shareholders of the Company. The options shall vest over three years and shall be accelerated in the event of a change of control of the Company or a M&A transaction. On February 25, 2009, the options were granted to the directors. The fair value of the options granted were \$ 568 thousand. All options were exercised in March 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- EQUITY (Cont.)

The options outstanding as of December 31, 2009, have been separated into ranges of exercise price as follows:

<u>Exercise price</u> Euro	<u>Options outstanding as of December 31, 2009</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Options exercisable as of December 31, 2009</u>	<u>Weighted average exercise price of options exercisable</u> Euro
8.00	309,700	3.25	309,700	8.00
8.00	7,800	3.85	7,800	8.00
8.05	<u>10,000</u>	2.3	<u>10,000</u>	8.05
	<u>327,500</u>		<u>327,500</u>	

The weighted average fair value of options granted during the year was \$ 5.98 (\$ 1.37 in 2008).

- c. The fair value was estimated at the date of grant using an economic model. The following table gives the assumptions made during 2008 and 2009:

	<u>2008 grant</u>	<u>2009 grant</u>
Share price (€)	2.75	5.56
Exercise price (€)	2.75	2.79
Volatility (%)	40.55-40.59	92.8
Risk-free interest rate (%)	3.96-4.45	1
Expected dividend (%)	4.25	-
Expected life (years)	7	7
Model used	Binominal	B & S

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.

Cost of share-based payments for the years ended December 31, 2008 and 2009 amounted to \$ 166 thousand and \$ 139, respectively.

- d. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- EQUITY (Cont.)

e. Profit (loss) per share:

The following reflects the share data used in the basic and diluted profit (loss) per share computations:

	2008	2009
Weighted average number of Ordinary shares for basic loss per share	3,803,124	3,821,416
Effect of dilution:		
Share options	-	-
Weighted average number of Ordinary shares adjusted for the effect of dilution	<u>3,803,124</u>	<u>3,821,416</u>

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 20:- INCOME TAXES

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

The Company has 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 has chosen to enjoy the alternative tax benefits track - waiver of grants in return for tax exemption - and, accordingly, its profit from the "approved enterprises" and "beneficiary enterprise" will be tax-exempt for a period of ten years.

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 tax benefit period of the Company are as follow:

- For three of the enterprises of the Company the tax benefit period has ended.
- For the fourth enterprise of the Company the tax benefit period will end in 2009.
- For the fifth enterprise of the Company the tax benefit period will end in 2013.

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%).

Conditions for the entitlement to the benefits:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- INCOME TAXES (Cont.)

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 in Israel:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes in Israel were adjusted for the changes in the Israeli CPI.

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. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Commencing 2008, the amendment to the law includes, among others, the cancellation of the CPI adjustment of the inflationary additions and deductions and the additional deduction for depreciation.

- c. 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.

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

1. Companies in Israel:

The rate of the Israeli corporate tax is as follows: 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 - 25%. Tax at a rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

The effect of the abovementioned change on the balances of deferred taxes has been an increase in net income of approximately U.S.\$ 443 thousand which was carried to taxes on income.

Because the Company is operating under two 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- INCOME TAXES (Cont.)

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.

CMT Inc. has not been assessed since its incorporation.

f. 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 record a deferred tax asset in respect of such losses.

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

Accordingly, Medibell's current operating losses (since 2004) for tax purposes can be offset against the Company's taxable income.

As of December 31, 2009, CMT Inc. had U.S. federal net operating loss carryforward of approximately \$ 1,200 thousand (\$ 750 thousand in 2008). The subsidiary's losses will expire in the years 2022 to 2029. 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 \$ 1,109 thousand (\$ 1,450 thousand in 2008) in respect of loss carryforward as it is uncertain whether there will be taxable income in the future.

g. Deferred taxes:

Deferred taxes are calculated using tax rate of 15% in 2008 and between 17%-23% in 2009. 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,	
	2008	2009
	U.S. dollars in thousands	
Net operating losses	36	308
Employee benefits	199	174
Government grants	305	34
Research and development costs	615	958
Other deferred tax assets, net	3	19
Total deferred tax assets	1,158	1,493

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- INCOME TAXES (Cont.)

	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
Net operating losses	44	(272)
Employee benefits	(19)	25
Government grants	(45)	271
Research and development costs	(269)	(343)
Other deferred tax assets, net	8	(16)
	<u> </u>	<u> </u>
Total deferred tax benefit	<u>(281)</u>	<u>(335)</u>

h. Income tax reconciliation:

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

	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
Income (loss) before income taxes	<u>(3,838)</u>	<u>2,186</u>
Statutory tax rate in Israel	<u>27%</u>	<u>26%</u>
Theoretical tax expenses (benefit)	(1,036)	568
Non-deductible expenses	64	11
Losses for which deferred taxes were not provided	888	(272)
Tax benefit	-	(197)
Change in deferred taxes due to changes in tax rates	-	(443)
Changes in basis of measurement (1)	(243)	54
Others	46	(56)
	<u> </u>	<u> </u>
Tax benefit reported in the income statements	<u>(281)</u>	<u>(335)</u>

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

i. Income taxes included in profit and loss:

	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
Current taxes	-	-
Taxes in respect of prior years	-	-
Deferred taxes	(281)	(335)
	<u> </u>	<u> </u>
Tax benefit reported in income statements	<u>(281)</u>	<u>(335)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- SELECTED STATEMENTS OF INCOME DATA

a. Additional information on revenues:

Revenues from the main customer (10% and above from total revenues):

	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
A	16,867	17,607

Revenues composition based on geographic region of the customers (10% and above from total revenues):

	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
Israel	285	462
Far East	14,462	15,342
North America	4,137	3,657

b. Cost of revenues from sale of products:

	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
Materials consumed and subcontractors	10,394	10,840
Salaries, wages and employee benefits	1,750	870
Share-based payments	97	29
Other manufacturing costs	531	649
Depreciation	52	75
	12,824	12,463
Decrease (increase) in inventories:		
Work-in-progress	(25)	(70)
Finished products	68	(423)
	12,867	11,970
Cost of revenues from construction contracts:		
Salaries, wages and employee benefits	550	-

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- SELECTED STATEMENTS OF INCOME DATA (Cont.)

c. Research and development costs:	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
Materials consumed	401	82
Salaries, wages and employee benefits	3,581	3,689
Share-based payments	73	40
Subcontractors	628	268
Depreciation	90	76
Car expenses	608	514
Rental fees, maintenance and office expenses	428	407
Others	101	240
Less – income from decrease in OCS provisions (Note 16)	-	(2,631)
	5,910	2,685
d. Selling and marketing:		
Salaries, wages and employee benefits	1,475	887
Share-based payments	19	6
Advertising	118	65
Foreign travel	50	44
Depreciation	11	13
Car expenses	112	83
Rental fees, maintenance and office expenses	59	64
Others	354	398
	2,198	1,560
e. General and administrative:		
Salaries, wages and employee benefits	1,223	1,247
Share-based payments	(24)	632
Rental fees, maintenance and office expenses	143	69
Professional fees	1,095	881
Depreciation	36	45
Car expenses	109	114
Bad debts	(33)	(104)
Impairment of goodwill	-	-
Others	419	83
	2,968	2,967
f. Financial income:		
Interest on short-term deposits	426	137
Exchange rate differences	-	295
Others	85	127
	511	559

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- SELECTED STATEMENTS OF INCOME DATA (Cont.)

g. Financial expenses:

	Year ended December 31,	
	2008	2009
	U.S. dollars in thousands	
Amortization	12	51
Exchange rate differences	46	-
Bank charges	29	32
Interest on Government grants	77	71
	164	154

NOTE 22:- FINANCIAL INSTRUMENTS

a. Fair value of 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 \$ 200 thousand (2008: \$ 1,946 thousand). Such fair value was calculated by discounting the expected future cash flows at prevailing market interest rate. The fair value of long-term and short-term investments amounts to \$ 2,131 thousand. Such fair value is approximately on market prices of the debentures as of December 31, 2009.

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, short-term and long-term investments and trade receivables.

Cash and cash equivalents, short-term deposits and short-term and long-term investment 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include government grants, deposits and long-term investments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2009 and 2008.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to float interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2009.

The analyses exclude the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008, including the effect of hedging instruments.

Consumer Price Index ("CPI") rate risk:

The CPI rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market CPI rate. The Group's exposure to the risk of changes in market CPI rates relates primarily to the Company's other current assets and liabilities with interest rates.

CPI rate sensitivity:

The Company's exposure to the risk of changes in the CPI rate sensitivity is immaterial.

Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency of the Company, in which revenues and expenses are incurred).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- FINANCIAL INSTRUMENTS (Cont.)

	<u>Increase/ decrease in NIS and Euro rate</u>	<u>Effect on profit before tax</u>
2009	+10%	-132
	-10%	132
2008	+10%	-338
	-10%	+338

c. Interest rate risk:

The Company's exposure to the risk of changes in market interest rates is immaterial.

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