

12 May 2008

Metal-Tech Ltd
(“Metal-Tech” or “the Company”)

Results for the year ended 31 December 2007

Metal-Tech, the producer and recycler of speciality metals such as Tungsten and Molybdenum, announces results for the year ended 31 December 2007.

Financial Summary:

- Revenues increased nearly 15% to \$136.7m (2006: \$119.1m) as Mongolian plant reached full capacity
- Net loss of \$735,000 (2006: US\$14.0m profit) due to one-off \$7.6m write-down of Uzmetal, start-up operating losses in Mongolia, increased R&D and Business Development expenses and a weakening US Dollar
- Gross profit margins were 14.4% (2006: 17.7%) impacted by start-up production inefficiencies in Mongolia
- Cash and cash deposits balance at 31 December 2007 was \$5.9m (31 December 2006: \$15.8m), excluding a \$6.5m encumbered cash deposit (31 December 2006: \$1.9m)
- Net equity as percentage of total assets at 31 December 2007 was 39% (31 December 2006: 51%)

Operational Summary

- Production of Molybdenum Oxide approached full capacity in Mongolia as most start up inefficiencies having been corrected
- Demand for Tungsten and Molybdenum remained favourable despite some softening in the markets towards the end of the year
- Relationships with customers remain resilient
- Successfully qualified as approved supplier of Molybdenum to a major Japanese industrial concern
- Significant progress in pilot test of metal recovery from spent catalysts
- Significant progress in the development of a proprietary pressure leaching process
- Successful completion of pilot for recovery of metal from tailings using novel process
- A one-off write-off of USD7.6m has been taken to reflect a complete write-off of the Uzbek subsidiary Uzmetal. The Company is contemplating further legal action in an attempt to recover its investment in Uzbekistan

Current year and Outlook

- Management team and organisation restructured to consolidate operations and prepare for growth with focus on high impact opportunities
- Significant financial and technical investment in R&D to execute and secure a re-invigorated expansion strategy
- Size of business development team expanded from one to four full time professionals
- Potential for primary and secondary mining opportunities and metal recycling initiatives such as recovery of metal from tailings and slag dumps
- Stock surplus being addressed by careful examination of all commercial terms and policies that impact on inventory levels

Commenting on the results, Aik Rosenberg, Executive Chairman of the Company, said that: “2007 was a challenging year for the Company as we tackled several operational issues that had an overall impact on the Company’s results. Having resolved most of these issues, and on the basis of effective R&D, the Company has set itself on a path to return to growth. As a result, several key managers were brought on board to take the Company forward. We are particularly delighted that a person of Jonathan Ben-Cnaan’s calibre decided to join us in 2008 and is already making a positive impact.”

Jonathan Ben-Cnaan, Chief Executive Officer said: “I am pleased to have been asked to lead Metal-Tech and grow the business. I believe that the Company has huge potential albeit that 2008 will be a year of important re-organisation as we re-orient Metal-Tech to capture its growth potential through increased focus on business development. We will pursue opportunities which are high-impact and with a realistic probability of success, while maintaining a tight control over costs.

“Looking ahead, the weakening of markets seen towards the end of last year has continued into 2008. However, as no further softening has been experienced and the market remains stable, the Company remains positive about the coming year.”

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Operational Review

Metal-Tech announces its results for the full year ended 31 December 2007. Despite 2007 being one of the most challenging for the Company, it ended with revenues of \$136.7m, up from \$119.1 m in 2006. Market conditions remain good and demand for Tungsten and Molybdenum remain robust with stable prices.

While virtually all revenues are denominated in US Dollars, most costs (other than the cost of raw materials) are denominated in other currencies which have appreciated considerably against the US Dollar. This has led to an increase in both cost of sales and operating costs. The Company has initiated some hedging in order to mitigate this exposure.

Uzbekistan

As previously announced, the Company has been challenging what it considers to be an illegal attempt to take control of its unit in Uzbekistan. As a result, the Company has incurred considerable costs, both legal and other costs as well as management time. A one-off write-off of \$7.6m has been taken to reflect a complete write-off of the Uzbek investment. The Company is contemplating further legal action, in an attempt to recover its investment in Uzbekistan. The cost of this potential additional legal action has been reflected in the Company's forecasts for the current year and is not expected to have a material impact on results.

Mongolia

As stated previously on 26 March 2008, during the year Metal-Tech also encountered a production problem in Mongolia that resulted in a by-product it could not immediately sell (Calcium Molybdate, or CaMo). A solution has been developed to re-process the CaMo to separate the Molybdenum in saleable form, which went through an assessment process. By December, the build-up of CaMo inventory was USD12m. To be prudent, and to prepare for the possibility of having to sell the CaMo as it is (un-beneficiated), which would require a substantial discount from the market price of the contained Molybdenum, the Company decided to write down the value of this inventory. Consequently a \$2.5m write-off was taken. About one third of this CaMo has been sold in the current financial year at prices generally consistent with those anticipated at the time of the write down.

As a result of continuing improvement of the production process at the Company's Mongolia site the production of CaMo as a by-product has declined considerably, and further production improvements are expected.

R & D

In 2007, the Company doubled its spending on R&D, from \$1.1m to \$2m, with considerable investment in both hydrometallurgical technology and unique equipment design, which, if successful, should improve opportunities for growth. The company is expecting to continue spending on R&D at similar levels for the current year.

Strategy/Business development

To secure successfully some of the many opportunities it is exploring, the Company has decided to split the Business Development activity into two main areas, each headed by a Vice President:

- Mining, including primary mining and secondary mining such as recovery of metal from tailings and slag dumps
- Non-mining, including M&A and recovery of metal from spent industrial products such as catalysts

In addition to this, in 2007, the Company took the decision to go through a major revamp of management to enable the Company to better manage its growth. As a result, several key executives have been hired:

- VP Operations
- VP Engineering
- VP Business Development (mining)
- CEO (April 2008)

- VP Business Development (non-mining) (May 2008)

Post balance Sheet Events

Following the appointment of a new CEO, Jonathan Ben-Cnaan, a number of initiatives are underway. The new CEO is re-examining virtually every aspect of the Company's strategy and commercial policies. Under his guidance, the Company is also intensifying business development activity and increasing the size of the Business Development department to achieve its new strategy goals.

The Company has initiated a tight control on costs and as a result the number of opportunities being pursued is being reduced with the focus remaining on transformational opportunities which would have a high-impact on the business, with a reasonable probability of materialising. The new team is also looking to improve production efficiencies and improve operational controls and systems.

Financial Review

Revenues for the twelve month period ended 31 December 2007 increased by 14.7% to \$136.7m (2006: \$119.1m). Good demand for Molybdenum and Tungsten products and strong prices supported this growth trend. This growth was achieved despite the shutdown of the Uzbek plant, which contributed to revenue in the first half of 2006. There was a net loss of \$735,000 (2006: US\$14.0m profit). This was due to a number of factors:

- The one-off write-down of \$7.6m from the dispute in Uzbekistan;
- Start-up operating losses in Mongolia. Operating efficiencies have improved in the current financial year as the plant approaches full production capacity and commissioning nears completion;
- Weakening US Dollar. While virtually all revenues are denominated in US Dollars, most costs (other than the cost of raw materials) are denominated in other currencies which have appreciated considerably against the US Dollar. This has led to an increase in both cost of sales and operating costs.

Gross profit was down from 17.7% to 14.4% mainly due to inefficiencies in the ramp up phase of production in Mongolia which also contributed to a major build-up of inventory (from \$41m to \$70m).

Operating income decreased by 27% to \$12.3m (2006: \$16.9m), reflecting the production inefficiencies during the commissioning phase of the Mongolia plant and the impact of the weak dollar. General & Administrative costs increased to \$4.7m (2006: \$2.0m) reflecting the increased investment in business development and the recruitment of key people.

During the period ended 31 December 2007 cash and short term cash deposits decreased by \$9.8m to \$5.9m.

Outlook

2008 will be a year of important re-organisation as the Company hones its production efficiency and re-orient's itself to capture its growth potential through increased focus on business development. It has commenced pursuing high-impact opportunities while maintaining a tight control over costs.

The weakening in its markets seen towards the end of last year has continued into 2008. However, as no further softening has been experienced and the market remains stable, the Company remains positive about the coming year. ”

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>Note</u>	<u>December 31,</u>	
		<u>2007</u>	<u>2006</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	5,939	15,755
Restricted cash	5	6,561	1,898
Available for sale marketable securities	6	95	806
Trade receivables	7	10,543	13,320
Other accounts receivable	9	9,973	1,115
Inventories	8	69,527	41,002
		<u>102,638</u>	<u>73,896</u>
NON-CURRENT ASSETS:			
Investment in joint ventures	11	4,183	9,327
Deferred finance costs	2	528	679
Deferred taxes	18	415	2,421
Property, plant and equipment	10	26,022	20,644
		<u>31,148</u>	<u>33,071</u>
<u>Total assets</u>		<u>133,786</u>	<u>106,967</u>

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	Note	December 31,	
		2007	2006
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank credit	12	11,381	10,322
Short-term loans and current maturities	13	17,130	7,661
Trade payables		26,044	14,622
Related parties	19	202	1,003
Other accounts payable	14	16,744	12,223
		<u>71,501</u>	<u>45,831</u>
NON-CURRENT LIABILITIES:			
Long-term loans	15	6,436	4,040
Deferred tax liabilities	18	453	391
Severance pay liability	16	477	422
		<u>7,366</u>	<u>4,853</u>
<u>Total liabilities</u>		<u>78,867</u>	<u>50,684</u>
EQUITY:			
Equity attributable to the equity holders of the Company-	21		
Issued capital		2,399	2,399
Share premium		24,398	23,892
Capital reserve		(81)	(136)
Retained earnings		25,176	28,373
		<u>51,892</u>	<u>54,528</u>
Minority interests		<u>3,027</u>	<u>1,755</u>
<u>Total equity</u>		<u>54,919</u>	<u>56,283</u>
<u>Total liabilities and equity</u>		<u>133,786</u>	<u>106,967</u>

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

May 11, 2008

Date of approval of the
financial statementsRan Maimon
Former Chief Executive Officer and
DirectorAriel Rosenberg
Chairman of the Board

CONSOLIDATED INCOME STATEMENT

U.S. dollars in thousands (except shares and per share amounts)

	Note	Year ended December 31,	
		2007	2006
Revenues	24a	136,713	119,146
Cost of sales	23a	116,971	98,053
Gross profit		19,742	21,093
Research and development expenses	23b	1,991	1,108
Selling and marketing expenses	23c	775	1,049
General and administrative expenses	23d	4,661	2,045
<u>Total operating expenses</u>		7,427	4,202
Operating profit		12,315	16,891
Financial costs	23e	(3,651)	(3,321)
Financial revenue	23e	1,357	1,467
Other income		219	10
Share of losses of joint ventures including impairment loss	2a	(6,891)	(655)
Profit before tax		3,349	14,393
Income tax expense	18	4,084	412
Profit / (loss) for the year		(735)	13,981
Attributable to:			
Equity holders of the Company		(2,008)	12,959
Minority interest		1,273	1,022
		(735)	13,981
Basic and diluted earnings (loss) per share attributable to Ordinary equity holders of the Company		(0.02)	0.34
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share attributable to Ordinary equity holders of the Company		38,376,923	38,376,923

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Attributable to equity holders of the company					Total recognized income and expense			
	Share capital	Share premium	Capital reserve	Retained earnings	Total	Minority interests	Total equity	Attributable to equity holders of the company	Attributable to minority interests
Balance as of January 1, 2006	2,399	23,892	-	16,911	43,202	7,925	51,127	16,082	5,315
Deconsolidation of a subsidiary	-	-	-	-	-	(7,235)	(7,235)	-	-
Minority investment in subsidiaries	-	-	-	-	-	39	39	-	-
Foreign currency translation reserve	-	-	(136)	-	(136)	4	(132)	(136)	4
Dividend paid	-	-	-	(1,497)	(1,497)	-	(1,497)	-	-
Profit for the year	-	-	-	12,959	12,959	1,022	13,981	12,959	1,022
Balance as of December 31, 2006	2,399	23,892	(136)	28,373	54,528	1,755	56,283	28,905	6,341
Cost of share based payment	-	506	-	-	506	-	506	506	-
Net loss on cash flow hedges	-	-	(85)	-	(85)	-	(85)	(85)	-
Foreign currency translation reserve	-	-	140	-	140	-	140	140	-
Dividend paid	-	-	-	(1,189)	(1,189)	-	(1,189)	-	-
Profit / (loss) for the year	-	-	-	(2,008)	(2,008)	1,273	(735)	(2,008)	1,273
Balance as of December 31, 2007	2,399	24,398	(81)	25,176	51,892	3,027	54,919	27,458	7,614

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**U.S. dollars in thousands**

	Year ended December 31,	
	2007	2006
<u>Cash flows from operating activities:</u>		
Profit / (loss) for the year	(735)	13,981
Adjustments required to reconcile net profit to net cash provided by (used in) operating activities (a)	(9,211)	320
Net cash flow provided by (used in) operating activities	<u>(9,946)</u>	<u>14,301</u>
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(7,193)	(3,994)
Proceeds from sale of property, plant and equipment	54	39
Short-term deposits, net	-	95
Investment in joint ventures	(1,420)	(3,229)
Decrease (increase) in restricted cash	(4,663)	1,014
Deconsolidation of a subsidiary (d)	-	(5,289)
Investment in available for sale marketable securities	(9,996)	(806)
Proceeds from sales of available for sale marketable securities	10,743	-
Net cash flow provided by investing activities	<u>(12,475)</u>	<u>(12,170)</u>
<u>Cash flows from financing activities:</u>		
Dividend paid	(249)	(1,497)
Minority investment in subsidiaries	-	39
Proceeds from short and long-term loans	19,457	12,500
Repayment of short and long-term loans	(7,662)	(10,989)
Decrease (increase) in short-term bank credit, net	1,059	(687)
Net cash flow from financing activities	<u>12,605</u>	<u>(634)</u>
Increase (decrease) in cash and cash equivalents	(9,816)	1,497
Cash and cash equivalents at the beginning of the year	<u>15,755</u>	<u>14,258</u>
Cash and cash equivalents at the end of the year	<u><u>5,939</u></u>	<u><u>15,755</u></u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,	
	2007	2006
(a) <u>Adjustments required to reconcile net income to net cash provided by (used in) operating activities:</u>		
Income and expenses not involving cash flows:		
Depreciation	1,756	2,271
Amortization of deferred finance costs	151	151
Share of losses of joint ventures including impairment	6,891	655
Unrealized gains	-	(104)
Severance pay liability	55	129
Accrued interest and foreign exchange differences on short and long-term liabilities, net	(118)	442
Cost of share based payments	506	-
Deferred taxes	2,068	(787)
Other	(31)	-
	11,278	2,757
Changes in operating assets and liabilities:		
(Decrease) in related parties, net	(801)	(63)
Decrease in trade receivables, net	2,777	10,118
Decrease (increase) in other accounts receivable	(8,858)	905
(Increase) in inventory	(28,525)	(5,286)
Increase (decrease) in trade payables	11,422	(7,412)
Increase (decrease) in other accounts payable	3,496	(699)
	(20,489)	(2,437)
	(9,211)	320
(b) <u>Supplemental disclosure of cash flows activities:</u>		
Interest received	714	797
Interest paid	1,485	1,570
Income taxes paid	2,654	-
(c) <u>Non-cash activities:</u>		
Unpaid dividend	940	-
(d) <u>Deconsolidation of a subsidiary, see also Note 2a:</u>		
Assets and liabilities of the subsidiary previously consolidated at date of deconsolidation:		
Working capital (excluding cash and cash equivalent)		2,627
Property, plant and equipment		12,229
Deferred taxes		(410)
Long-term loan and current maturities		(5,789)
Minority interests		(7,236)
Investment in a joint venture		(6,710)
		(5,289)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- INVESTMENTS IN SUBSIDIARIES

	Country of incorporation	December 31	
		2007	2006
		%	
Uzmetal Technology Ltd. (a)	Uzbekistan	50	50
Shim Technology Ltd. (b)	Mongolia	70	70
Metek Metal-Tech SA (c)	Switzerland	100	100
Jar Ltd. - Inactive	Russia (Birubijan autonomous region)	100	100
Soltek Ltd. - Inactive	Israel	100	100

a. Uzmetal Technology Ltd. ("Uzmetal"):

In March 2000, the Company together with AGMK and UzKTZM (two Uzbek companies) established Uzmetal. The equity interest in Uzmetal is as follows: the Company-50%, UzKTZM-30% and AGMK-20%. In May 2000, the Company entered into an agreement with Uzmetal under which the Company undertook to obtain financing and manage the procurement, planning, construction and supply of peripheral equipment in a project for the erection of a molybdenum production plant in Uzbekistan.

The plant was completed in 2002. Since then, Uzmetal was engaged in processing all raw materials at the AGMK site and Uzmetal was obligated to sell all of its production of Molybdenum to the Company unless the Company approves otherwise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 2:- INVESTMENTS IN SUBSIDIARIES (Cont.)**

Uzmetal has relied solely on AGMK's mine for material supplies. On the date of Uzmetal's incorporation the Uzbek government issued a decree according to which, Uzmetal will have exclusivity on all Molybdenum contained materials dug from AGMK's mine. The exclusivity was also determined in the contract between Uzmetal and AGMK. In July 2006 the Uzbek government issued another decree resulting in the cancellation of the exclusivity clause in the contract between the companies. AGMK ceased supplying Uzmetal with materials, and asked Uzmetal to sign the agreement annulment. Uzmetal refused to sign. AGMK applied to the court for its approval of the annulment. As a result of the shortage in materials, Uzmetal has ceased its main operations as of July 2006.

In January 2007, the court approved the annulment of the agreement. Uzmetal appealed and lost and then Uzmetal appealed to the Uzbek Supreme Court. In August 2007, the court has made the decision and declared Uzmetal bankrupt. In October 2007, the Appellate court has rejected the Company's claims with respect to cancelling a previous ruling made and did not accept that the Company is a creditor of Uzmetal, while it did accept that the Uzbek shareholders are creditors of Uzmetal. In addition, the court has decided to start a liquidation process. As of December 31, 2007 and as of today, Uzmetal is in a liquidation process and all of its employees were terminated.

Until June 30, 2006, the Company has determined that Uzmetal is a Special Purpose Entity ("SPE") in accordance with SIC 12, "Consolidation - Special Purpose Entities", as in substance, the activities of Uzmetal were conducted on behalf of the Company according to its specific business needs so that the Company obtains benefits from the operations of Uzmetal. In addition, by setting up an "autopilot" mechanism, the Company has the decision-making powers to obtain the majority of the benefits of the activities of the SPE. Accordingly, Uzmetal was consolidated in the Company's financial statements since its incorporation.

As of July 1, 2006, the Company does not solely control Uzmetal, rather it jointly controls this joint venture. The autopilot mechanism was eliminated due to the cancellation of the exclusivity clause, the expiration of the distribution agreement and the cessation of Uzmetal's operations. The Company does not have the decision making power to obtain the majority of the benefits of the activities of Uzmetal. Accordingly, Uzmetal was consolidated in the financial statements of operation until June 30, 2006. For the period commencing July 1, 2006 and ending December 31, 2007, Uzmetal as a jointly controlled entity was accounted for in the consolidated financial statements using the equity method.

The Company periodically assesses the recoverability of the carrying amount of the investment in this joint venture and provides for any possible impairment loss based upon the difference between the carrying amount and recoverable amount of such asset in accordance with IAS 36, "Impairment of Assets". As a result of the court decisions that the Company is no longer a creditor of Uzmetal, the Company has recorded share in losses and an impairment loss in the amount of approximately \$ 7,619. As of December 31, 2007, the Company does not have any further obligations or liabilities relating to Uzmetal beyond the initial investment which was fully impaired as of December 31, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 2:- INVESTMENTS IN SUBSIDIARIES (Cont.)**

b. Shim Technology Ltd . ("Shim-Tech"):

In September 2003, the Company together with Erdenet Co. Ltd. ("Erdenet"), a Mongolian mining company, established Shim-Tech. The equity interest in Shim-Tech is as follows: the Company-70% and Erdenet -30%. In May 2004, the Company entered into an agreement with Shim-Tech under which the Company undertook to obtain financing and manage the procurement, planning, construction and supply of peripheral equipment in a project for the erection of a molybdenum production plant in Mongolia, for a total amount of \$ 23,850. The project will be financed as follows: (i) 30%- equity invested by the shareholders; (ii) 34%-Company credit; (iii) 36%-National Mongolian bank credit through a transfer from an Israeli bank secured by the Israeli Foreign Trade Risks Insurance Corporation Ltd. ("IFTRIC") for 7 years. Erdenet signed a guarantee in favor of the Israeli bank in respect of any amounts that have been secured by IFTRIC and up to an amount of \$ 10,000. This guarantee was recorded in its fair value as a deferred finance cost which will be amortized on a straight-line basis at the term of the loan.

The construction of the first production line of the plant has been completed during 2006. The construction of the second production line of the plant has not yet been completed as of December 31, 2007. Shim-Tech is engaged also in trading, commercial and intermediary activities in Molybdenum concentrate within the Group and with Erdenet. Erdenet has undertaken to supply, for 22 years starting in 2004, its molybdenum concentrates solely to Shim-Tech and Shim-Tech is obligated to sell all of its production of Molybdenum to the Company in an amount not less than 1,800 ton of Molybdenum per year.

c. Metek Metal-Tech SA. ("MTSA"):

Metek Metal-Tech SA, a Swiss corporation, was established and commenced operations in November 2004. MTSA is engaged in managing the Group's sales and marketing activities of manufactured products outside of Israel.

During 2006, MTSA established a subsidiary in Czech. MTSA holds 80% of this subsidiary. The Czech subsidiary is a pilot of a spent catalyst recycling plant.

During 2006, MTSA established a JV in the Netherland, Bit Metal BV, with a local partner for the purpose of trading other metals such as silicon metal and tin concentrate. See note 11.

MTSA owns directly a 49% interest and an additional 1% indirectly through an association they have established. The Company jointly controls this JV. The Company accounts for its interest in the JV using the equity method.

As part of the establishment agreement, MTSA provided Bit Metal B.V a subordinated loan in the amount of \$ 3,000 in order to secure a credit line from the bank. The loan amount together with interest thereon bears interest of Libor + 1% calculated as of the disbursement date of the loan until final repayment. The repayment date of the loan will be decided by both parties.

NOTE 4:- CASH AND CASH EQUIVALENT**December 31,**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

	<u>2007</u>	<u>2006</u>
Cash	5,939	7,813
Short term deposits	-	7,942
	<u>5,939</u>	<u>15,755</u>

NOTE 5:- SHORT-TERM RESTRICTED CASH

	<u>Annual interest rate</u>	<u>December 31,</u>	
	<u>%</u>	<u>2007</u>	<u>2006</u>
In U.S. dollars	4.44 - 4.70	6,561	1,898

The restrictions are released in accordance with the repayment schedule of short term bank credit and short-term loans during 2008.

NOTE 6:- AVAILABLE FOR SALE MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities:

	<u>December 31,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Estimated fair market value</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Estimated fair market value</u>
Available-for-sale:						
Debentures and securities	95	-	95	803	3	806

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 7:- TRADE RECEIVABLES

	December 31,	
	2007	2006
Foreign	10,645	10,050
In Israel	101	3,454
	10,746	13,504
Less - allowance for doubtful accounts	203	184
	<u>10,543</u>	<u>13,320</u>

As of December 31, 2007, the ageing analysis of trade receivables is as follows:

Total	Neither past due nor impaired	Past due but not impaired				
		< 30 days	30 – 60 days	60 – 90 day	90 – 120 day	>120 days
10,543	4,604	3,046	1,186	689	788	230

NOTE 8:- INVENTORIES

	December 31,	
	2007	2006
Raw materials	22,117	16,111
Work in progress	5,116	1,857
Finished goods	42,294	23,034
	<u>69,527</u>	<u>41,002</u>

The Group periodically assesses its inventory valuation in accordance with its revenues forecasts, technological obsolescence, and the market conditions. In 2007, the Group marked down inventory that is expected to be sold at a price lower than the carrying value, in an amount of approximately \$ 2,500. As for charges, see Note 20.

NOTE 9:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2007	2006
Government authorities	8,249	733
Prepaid expenses	450	68
Income receivables	67	128
Deferred finance costs	151	151
Advances to suppliers	542	35
Others	514	-
	<u>9,973</u>	<u>1,115</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Computers and peripheral equipment	Office furniture and equipment	Motor vehicles	Total
Cost:						
Balance at January 1, 2007	4,538	24,965	266	320	538	30,627
Additions during the year	499	6,096	214	207	177	7,193
Disposals during the year	-	-	-	-	(87)	(87)
Balance as of December 31, 2007	<u>5,037</u>	<u>31,061</u>	<u>480</u>	<u>527</u>	<u>628</u>	<u>37,733</u>
Accumulated depreciation :						
Balance at January 1, 2007	1,710	7,755	177	151	190	9,983
Additions during the year	168	1,431	55	27	75	1,756
Disposals during the year	-	-	-	-	(28)	(28)
Balance as of December 31, 2007	<u>1,878</u>	<u>9,186</u>	<u>232</u>	<u>178</u>	<u>237</u>	<u>11,711</u>
Depreciated cost at December 31, 2007	<u>3,159</u>	<u>21,875</u>	<u>248</u>	<u>349</u>	<u>391</u>	<u>26,022</u>
Cost:						
Balance at January 1, 2006	8,504	35,937	561	298	712	46,012
Additions during the year	393	3,384	60	61	96	3,994
Disposals during the year	-	(32)	-	-	(55)	(87)
Deconsolidation of a subsidiary	(4,359)	(14,324)	(355)	(39)	(215)	(19,292)
Balance as of December 31, 2006	<u>4,538</u>	<u>24,965</u>	<u>266</u>	<u>320</u>	<u>538</u>	<u>30,627</u>
Accumulated depreciation :						
Balance at January 1, 2006	2,131	12,052	332	134	175	14,824
Additions during the year	264	1,824	72	24	87	2,271
Disposals during the year	-	(19)	-	-	(30)	(49)
Deconsolidation of a subsidiary	(685)	(6,102)	(227)	(7)	(42)	(7,063)
Balance as of December 31, 2006	<u>1,710</u>	<u>7,755</u>	<u>177</u>	<u>151</u>	<u>190</u>	<u>9,983</u>
Depreciated cost at December 31, 2006	<u>2,828</u>	<u>17,210</u>	<u>89</u>	<u>169</u>	<u>348</u>	<u>20,644</u>
Cost:						

- (1) Depreciation expense amounted to \$ 1,756 and \$ 2,271 in 2007 and 2006, respectively.
- (2) As of December 31, 2007 and 2006, investment grants received and related accumulated depreciation amounted to \$5,191 and \$5,141 and \$4,162 and \$3,976, respectively.
- (3) Rights in real estate:

In April 1994, the Company entered into an agreement with the Israel Lands Administration (hereinafter – "the Administration") for the lease of a plot with an area of approximately 10,000 sq.m. in the Ramat-Hovav industrial zone over a period of 49 years ending in 2042. The Company paid discounted lease fees in the amount of \$ 36.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 10:- PROPERTY, PLANT AND EQUIPMENT (Cont.)**

In January 1994, the Company entered into a development agreement with the Administration, under which additional land, with an area of approximately 10,000 sq.m. was allotted to the Company. The Company paid discounted usage fees in the amount of \$ 52 for the use of the land over the lease period. In October 2000, an agreement was signed with the Administration for the use of the land over a period ending in 2042.

- (4) Plant under construction as of December 31, 2007 amounted to \$4,600 and is included primarily in machinery and equipment.
- (5) As for charges, see Note 20.

NOTE 11:- INVESTMENT IN JOINT VENTURES

The Company has a 50% interest in Uzmetal, and a 50% interest in BIT Metals. The following table summarizes financial information of the Company's investment in the joint ventures mentioned. Since Uzmetal is in a liquidation process, the Company could not obtain its financial data as of December 31, 2007. There are no implications on the Company's financial position, as the entire investment was impaired in 2007 in the amount of \$ 7,619 (including share in losses). In addition, the Company does not have any further obligations or liabilities relating to Uzmetal beyond the initial investment which was fully impaired and amounted to \$ 0 as of December 31, 2007.

The share of the assets, liabilities, income and expenses of the jointly controlled entity as of December 31, 2007 and 2006 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	December 31,	
	2007	2006
Share of the joint ventures' balance sheets:		
Current assets	12,842	7,791
Non-current assets	80	4,482
Current liabilities	(10,517)	(7,401)
Non current liabilities	(1,500)	(1,588)
Net assets	905	3,284
Share of the joint ventures' revenues, expenses and profit:		
Revenues	28,944	13,772
Expenses	(28,216)	(13,117)
Profits	728	655
Carrying amount of the investment	905	3,284
Carrying amount of loans to investees	3,278	6,043

For further details regarding the loans see note 2c

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- SHORT-TERM BANK CREDIT

	Annual interest rate	December 31,	
	%	2007	2006
NIS - unlinked	Prime+1.0-3.0	3,002	822
U.S dollars	LIBOR+0.7-2.1	8,363	7,222
Euro	LIBOR+1.5-2.0	16	2,278
		<u>11,381</u>	<u>10,322</u>

As of December 31, 2007, the Company has an unused credit line in the amount of \$ 238.

As for collateral, see Note 20.

NOTE 13:- SHORT-TERM LOANS AND CURRENT MATURITIES OF LONG-TERM LOANS

	Annual interest rate	December 31,	
	%	2007	2006
In U.S. dollars	LIBOR+		
	1.45-2.18	16,364	6,959
Current maturities of long-term loans (see Note 15)		766	702
		<u>17,130</u>	<u>7,661</u>

As for collateral, see Note 20.

NOTE 14:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2007	2006
Employees and payroll accruals	957	544
Dividend payable	940	-
Deferred revenues	1,784	-
Accrued liabilities	3,743	1,899
Accrued income taxes	8,823	9,113
Advances from customers	255	519
Other	242	148
	<u>16,744</u>	<u>12,223</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 15:- LONG-TERM LOANS**

- a. Composed as follows:

	Annual interest rate	December 31,	
	%	2007	2006
Loans from banks:			
U.S. dollar (1)	4.68-6.14	6,788	4,275
Less - current maturities		766	702
		6,022	3,663
Other long-term loans:			
NIS - unlinked (2)	-	414	377
		<u>6,436</u>	<u>4,040</u>

- (1) This loan in the original amount of \$ 8,500 was provided during 2005-2007 in connection with the construction of the plant in Mongolia. The loan is to be repaid in equal semi-annual installments for seven years commencing in 2006, see also Note 2b.
- (2) Capital notes due to the Company's shareholders bear no interest and have no maturity date.

- b. The long-term loans are repayable in the following years subsequent to the balance sheet date:

	2007	2006
First year - current maturities	766	702
Second year	1,164	681
Third year	1,304	754
Fourth year	1,447	831
Fifth year and thereafter	2,107	1,397
	<u>6,022</u>	<u>3,663</u>
	<u>6,788</u>	<u>4,275</u>

- c. As for collateral, see Note 20.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 16:- SEVERANCE PAY LIABILITY

The Company's liability for severance pay, pursuant to Israeli law, is funded through payments to pension funds and insurance policies that are designated only for severance payments.

	December 31,	
	2007	2006
Accrued severance pay	690	525
Plan assets	(213)	(103)
	<u>477</u>	<u>422</u>

- a. The amount included in the balance sheet in respect of the defined benefit plan for severance pay is as follows:

	December 31,	
	2007	2006
Net liability as of January 1,	422	293
Expense recognized in the consolidated income statement	122	165
Contribution paid	(79)	(36)
Benefits not paid from assets	12	-
Net liability as of December 31,	<u>477</u>	<u>422</u>

- b. Amounts recognized in the consolidated income statement in respect of the defined benefit plan are as follows:

	December 31,	
	2007	2006
Cost of current services	103	49
Interest	36	16
Expected return on plan assets	(12)	(1)
Net actuarial loss recognized during the year	(5)	101
Total expense included in the consolidated income statement	<u>122</u>	<u>165</u>

- c. The actuarial assumptions used are as follows:

	2007	2006
	%	%
Discount rate	3.6	3.7
Expected rate of return on funds	4.1	2.9
Future salary increase	3	3
Inflation	2.8	2.8
Rate of employee turnover, disability early retirement	see d	see d

- d. The rates of employee turnover are 13%, 8% and 5% withdrawal rates until attaining age of 40, 50 and retirement age, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 17:- DERIVATIVE FINANCIAL INSTRUMENTS**

To hedge against the risk of changes in the value of cash flows resulting from forecasted transactions of foreign currency receipts related to sales during the year, the Company has instituted a foreign currency cash flow hedging program. The Company hedges portions of its forecasted receipts denominated in Euros with forward contracts or with put and call options. These forward contracts and options are designated as cash flow hedges, as defined by IAS 39 and are all effective.

In 2007, the Company has entered into the following transactions in derivatives:

1. Thirteen forward contracts and options, each for the exchange of a range of € 380 thousand - € 700 thousand into dollars at rates of \$ 1.341-\$ 1.516, which are to be carried out at the beginning of each month during the period from January 3, 2008 to December 31, 2008.

The Company recognized losses of \$ 198 and \$ 0 during the years ended December 31, 2007 and 2006, respectively, related to the forward exchange contracts and options.

NOTE 18:- INCOME TAX EXPENSE

a. Israeli income tax:

Results for tax purposes in Israel are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 3c, the financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the net income shown in the financial statements.

Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Law"):

On April 1, 2005, an amendment to the Law came into effect (the "Amendment") and has significantly changed the provisions of the Law (the "Old Law"). Generally, investment programs of the Company that have already obtained approval for an Approved Enterprise by the Israeli Investment Center will continue to be subject to the Old Law's provisions.

Regarding the "alternative benefits" track, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies no longer require Investment Center approval in order to qualify for tax benefits. Such an enterprise is a "Beneficiary Enterprise," rather than the previous terminology of Approved Enterprise. The period of tax benefits for a new Beneficiary Enterprise commences in the "Year of Commencement." This year is the later of: (1) the year in which taxable income is first generated by the company, or (2) the Year of Election.

If a company requested the "alternative benefits" track for an Approved Enterprise under the Law, it is precluded from filing a Year of Election notice for a Beneficiary Enterprise for three years after the year in which the Approved Enterprise was activated (the "Cooling Period"). The Company has elected the status of a Beneficiary Enterprise under the Amendment for its fourth plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 18:- INCOME TAX EXPENSE (Cont.)**

According to the Old Law, the Company is entitled to investment grants (at percentages mentioned below of investment cost) and also to a tax benefit, which grants the Company a tax exemption for a period of two years and a reduced tax rate of 10%-25% (depending on the level of foreign investments in the Company) for a period of five years. According to the Amendment, the Company is entitled to tax benefits, which grants the Company a tax exemption for a period of ten years. Pursuant thereto, the income of the Company derived from the following "Approved Enterprise" and "Beneficiary Enterprise" programs will be eligible for these benefits for periods stated below:

1. Benefit period for the first program commenced in 1989 and expired in 2002. The investment grants received for this program were 38% of investment cost.
2. Benefit period for the second program commenced in 1999 and is to expire in 2012. The investment grants received for this program were 24% of investment cost.
3. Benefit period for the third program commenced in 1994 and is to expire in 2007. The investment grants received for this program were 36% of investment cost.
4. Benefit period for the fourth program commenced in 2006 and is to expire in 2015. This plan is tax exempt for a period of ten years.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the letters of approval for the specific investments in "Approved Enterprises" and "Beneficiary Enterprise". 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.

As of December 31, 2007, management believes that the Company is meeting all of the aforementioned conditions.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production or the year of election, or 14 years from receiving the approval, whichever is earlier.

Since the Company is operating under more than one program and since part of its taxable income is not entitled to tax benefits under the abovementioned law and is taxed at the regular tax rate, its effective tax rate is the result of a weighted combination of the various applicable tax rates.

By virtue of this law, the Company is entitled to claim accelerated depreciation on equipment used by the "Approved Enterprise" during five tax years.

If tax-exempt profits are distributed to shareholders they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently 25% for an "Approved Enterprise" and for "Beneficiary Enterprise".

Income from sources other than the "Approved Enterprise" or "Beneficiary Enterprise" during the benefit period will be subject to tax at the regular rate prevailing at that time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18:- INCOME TAX EXPENSE (Cont.)

Out of the Company's retained earnings as of December 31, 2007, an amount of \$4,538 is tax-exempt and attributable to its Approved Enterprise programs. If such tax-exempt income is distributed in a manner other than upon complete liquidation of the Company, it would be taxed at the reduced corporate tax rate applicable to such profits (currently 25%) and an income tax liability of up to \$1,135 would be incurred as of December 31, 2007.

In addition, as a result of the amendment, tax-exempt income attributed to the Beneficiary Enterprise, will subject the Company to taxes upon any distribution manner including complete liquidation. As of December 31, 2007, the Company had \$ 3,538 in tax-exempt income attributed to its Beneficiary Enterprise plan. In case of distribution or complete liquidation of the Company, it would be taxed at the reduced corporate tax rate of 25% and an income tax liability of up to \$ 885 would be incurred as of December 31, 2007.

b. Corporate tax structure:

Taxable income of Israeli companies is subject to tax at the rate of 31% in 2006, 29% in 2007, 27% in 2008, 26% in 2009 and 25% in 2010 and thereafter.

c. The Company is an "industrial company" under the Law for the Encouragement of Industry (Taxation), 1969 and as such is entitled to certain tax benefits, including a deduction of the purchase or certain intangible property rights at the rate of 12.5% per year beginning with the first year the Company used such intangible property rights and the deduction of its public offering expenses over three years.

d. Non-Israeli subsidiaries are taxed according to the applicable laws in their countries of residence. In Mongolia, the current applicable tax rate is graded at the rate of 10% (2006: 15%) up to taxable income of MNT 3,000 million (\$ 2,564) and 25% (2006: 30%) for taxable income in excess of MNT 3,000 million (\$2,564). In Switzerland, the Company entered into a special tax program according to which its effective tax rate for the income derived from foreign sources will be 9.6%.

e. The difference between income taxes computed at regular tax rate of the Company and income tax expense in the consolidated income statement is explained as follows:

	Year ended December 31,	
	2007	2006
Profit before tax	3,349	14,393
Tax calculated at statutory tax rate (2007 - 29%; 2006 - 31%)	971	4,462
Increase (decrease) due to:		
"Approved Enterprise" benefit	-	(1,764)
Different income tax rates of other countries	(1,189)	(1,836)
Temporary differences for which deferred taxes were not recorded	3,500	(397)
Non-deductible expenses	209	145
Other	593	(198)
Income tax expense	4,084	412
Effective tax rate	122%	3%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 18:- INCOME TAX EXPENSE (Cont.)**

- f. Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31,	
	2007	2006
Deferred tax assets:		
Employee	262	145
Unrealized intercompany gains	1,824	2,033
Deferred research and development expenses	291	-
Other	388	243
	<u>2,765</u>	<u>2,421</u>
Total deferred tax assets	<u>2,765</u>	<u>2,421</u>
Deferred tax liabilities:		
Property, plant and equipment	1,135	283
Inventory	573	89
Other	-	19
	<u>1,708</u>	<u>391</u>
Total deferred tax liabilities	<u>1,708</u>	<u>391</u>
Total deferred tax assets, net	<u>415</u>	<u>2,421</u>
Total deferred tax liabilities, net	<u>453</u>	<u>391</u>

Deferred tax assets in the amount of \$ 1,095 were not recorded as it is not probable they can be utilized in the foreseeable future. In addition, the Company has offset \$ 1,255 in deferred tax assets from the deferred tax liability since it has the legally enforceable right to offset and the deferred income taxes relate to the same taxable entity and the same taxation authority.

As of December 31, 2007, deferred taxes associated with carryforward tax losses and carryforward capital tax losses which have not been recognized amounted to \$ 2,817.

As of December 31, 2007, deferred taxes associated with investments in subsidiaries and joint ventures which have not been recognized amounted to \$ 831.

- g. Income tax expense consist of the following:

	Year ended	
	December 31,	
	2007	2006
Current	2,016	1,169
Deferred	2,068	(757)
	<u>4,084</u>	<u>412</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 19:- RELATED PARTIES

- a. Transactions with related parties:

	Year ended December 31,	
	2007	2006
Salaries to officers and directors	1,333	815
Bonuses (1)	-	(350)
	<u>1,333</u>	<u>465</u>

- b. Balances with related parties:

	December 31,	
	2007	2006
Other liability (2)	<u>202</u>	<u>1,003</u>
Loans to joint ventures (3) (4)	<u>3,278</u>	<u>6,043</u>

(1) The bonus is calculated in accordance with the employment agreements with the CEO and the Chairman of the Board of Directors; both of whom are shareholders, according to which each is entitled to a bonus equal to 5% of the annual increase in the net profit of the Group subject to a maximum bonus cap of £ 450 each equal to three times their gross basic salary. In 2006, the Chairman of the Board of Directors has waived his right to receive the accrued bonus.

(2) Amounts owed to shareholders on a current account basis, bears no interest and have no maturity date.

(3) In 2006, amounts owed by Uzmetal amounted to \$ 2,953 and are on a current account basis, bears no interest and have no maturity date. In 2007, the amount has been included in the impairment loss.

(4) Amounts owed by BIT amounted to \$ 3,278 bearing interest of LIBOR+1% and with no maturity date. The loan was provided to BIT in order to secure a credit line from the bank.

- c. Compensation of key management personnel:

	Year ended December 31,	
	2007	2006
Short-term employee benefits	1,097	721
Post-employment benefits	127	52
Share based payments	<u>328</u>	<u>-</u>
Total compensation paid to key management personnel	<u>1,552</u>	<u>773</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 20:- COMMITMENTS AND CONTINGENT LIABILITIES**

- a. In accordance with the provisions of the Law for the Encouragement of Capital Investments, 1959, the Company and its subsidiaries in Israel received grants from the State of Israel in respect of investments in their plants (see Note 10). The conditions in the letters of approval extending the grants from the State of Israel primarily include the requirements that the investments be made according to the approved plan and that at least 30% of the investments be financed by outstanding share capital. Non-fulfillment of these conditions would require the refund of the grants linked to the Consumer Price Index in Israel from the date of receipt plus interest. To guarantee fulfillment of the conditions for receiving the grants, the Company and its subsidiaries have recorded floating charges on all of their assets in favor of the State of Israel. In the opinion of management, as of December 31, 2007, the Company and its subsidiaries are meeting the required conditions.

- b. Charges:

As collateral for the Company's liabilities, fixed charges have been placed on motor vehicles and inventory.

Certain bank loans are collateralized by a floating charge (a continuing charge on the Company's present and future assets but permitting the Company to dispose of such assets in the ordinary course of business) on all of the assets of the Company and its subsidiaries.

- c. Royalty commitments:

Royalties to the Office of the Chief Scientist ("OCS"):

Under the research and development agreement of the Company with the OCS and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the OCS research and development grants received, linked to the U.S. dollar plus interest on the outstanding amount received based on the 12-month LIBOR rate at the date of grants received. The Company is obligated to repay the Israeli Government for the grants received only to the extent that there are sales of the funded products.

The Company did not accrue any royalties for each of the three years in the period ended December 31, 2007 as no revenues were recorded.

As of December 31, 2007, the Company had a contingent obligation to pay royalties in the amount of approximately \$ 1,020. This obligation will be recorded when payment becomes probable.

- d. Regarding the bonus to CEO and Chairman of the Board of Directors, see Note 19b.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 20:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

- e. In July 2006, the Uzbek government issued a regulation resulting in cancellation of the exclusivity clause in the contract between Uzmetal and AGMK, its main supplier. AGMK ceased supplying Uzmetal with materials, and asked Uzmetal to sign the annulment agreement, which Uzmetal refused to do. AGMK applied to a court of law for its approval of the annulment. The court approved the annulment of the agreement. Uzmetal appealed and lost. During 2007, Uzmetal appealed to the Uzbek Supreme Court. In August 2007, the court reached a decision and declared Uzmetal bankrupt. In October 2007, the Appellate court has rejected the Company's claims with respect to cancelling a previous ruling made and not accepted that the Company is a creditor of Uzmetal while it accepted that the Uzbek shareholders are creditors of Uzmetal. In addition, the court has decided to start a liquidation process. The Company, on the advice of its legal counsel is considering its actions.
- f. MTSA is committed to pay marketing and operating commissions to certain advisors at a rate of 0.7% and 3% of the total amount of purchases of the Mongolian subsidiary from its main supplier of Molybdenum raw material, which is the minority shareholder of the Mongolian subsidiary. Commission expenses recorded in the selling and marketing expenses were \$ 986, and \$ 345 for the years ended December 31, 2007 and 2006, respectively. Commission expenses recorded in the cost of sales were \$ 2,532 and \$ 1,666 for the years ended December 31, 2007 and 2006, respectively.
- g. Open purchase orders and capital commitments:

As of December 31, 2007, commitments for the purchase of property and equipment and inventory total approximately \$ 8,641

NOTE 21:- EQUITY

- a. Issuance of shares:

In May 2005, the Company completed an Initial Public Offering ("IPO") in which the Company issued 8,076,923 Ordinary shares to institutional and other investors at a price of 130 pence (\$ 2.39) per share, raising approximately \$ 19,300 before issuance expenses of approximately \$ 2,425. Concurrently, the Company's Ordinary shares were admitted for trading on the London Stock Exchange Alternative Investment Market ("AIM"), under the symbol "MTT".

- b. The share capital is composed as follows:

	Authorized	Issued and outstanding
	December 31, 2007 and 2006	
Ordinary shares of NIS 0.2 par value each	<u>100,000,000</u>	<u>38,376,923</u>

- c. Dividends:

In accordance with resolutions approved by the shareholders in the meeting held in April 2006, the Company declared dividends in the amount of \$ 1,497 (\$ 0.039 per share) which has been paid on July 24, 2006. In accordance with resolutions approved by the shareholders in meetings held in May 2007,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 21:- EQUITY (Cont.)**

out of which \$249 has been paid on July 24, 2007. The remaining amount is still outstanding.

d. Share-based payments plans:

The expense recognized for employee services received during the year is shown in the following table:

	<u>2007</u>	<u>2006</u>
Expense arising from equity-settled share-based payment transactions recorded in:		
Cost of goods sold	102	-
Research and development expenses	-	-
Selling and marketing expenses	-	-
General and administrative expenses	404	-
	<u>506</u>	<u>-</u>
Total expense arising from share-based payment transactions	<u>506</u>	<u>-</u>

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2007.

2007 Israeli option Plan

In 2007, the Company adopted the 2007 Israeli Option Plan (the "2007 Plan"), which complies with the Israeli tax reforms. Qualified options and shares are held in trust until the later of 24 months from the date of grant of the options, or the vesting of the options based on a vesting schedule determined by a committee appointed by the Company's Board of Directors. 1,918,846 ordinary shares were reserved for issuance as of December 31, 2007 under this plan. As of December 31, 2007, 613,301 ordinary shares remain available for grant under the 2007 Plan. The 2007 Plan expires in June 2017.

Options under the 2007 Plan are exercisable over a 36-month period beginning 24 months after issuance, or as determined by the Board of Directors. Options under the 2007 Plan expire up to ten years after the date of grant.

Movements in the year:

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

	<u>2007</u>	
	<u>No.</u>	<u>WAEP</u>
Outstanding as of January 1	-	£ -
Granted during the year	1,305,545	£ 1.3
Forfeited during the year	-	£ -
	<u>1,305,545</u>	
Outstanding as of December 31	<u>1,305,545</u>	
Exercisable as of December 31	<u>-</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 21:- EQUITY (Cont.)**

The weighted average remaining contractual life for the share options outstanding as of December 31, 2007 is 9.5 years.

The weighted average fair value of options granted during the year was £ 0.748 (\$ 1.5).

All options were granted with an exercise price in the amount of £ 1.3 (\$ 2.6026).

The following table lists the inputs to the models used for the three plans for the years ended December 31, 2007:

	<u>2007</u>
Dividend yield (%)	1.29
Expected volatility (%)	34.31-62.24
Risk –free interest rate (%)	4.46-5.79
Post vest cancellation rate (%)	6.45
Suboptimal factor	2.75
Weighed average share price (€)	1.48
Model used	Binomial

The assumptions used are based on historical data of comparable companies as it is the first time the Company grants options 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.

The options granted are equity-settled plans and the fair value is measured at the grant date.

NOTE 22:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise of bank credit, bank loans and trade payables. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various financial assets such as trade receivables and cash, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency and options contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout 2007 and 2006, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company's management reviews and agrees on policies for managing each of these risks which are summarized below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 22:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)**Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates. As of December 31, 2007, approximately 20% of the Group's borrowings are at a fixed rate of interest. Due to the fact that the Group's long term borrowing bears a fixed rate of interest, no major exposure exists. The following is a sensitivity to a reasonably possible charge in interest rates with all other variables held constant, a change of 1% in the interest rate will cause a difference to the Company's financial position of approximately \$ 270 per year.

Foreign currency risk:

As of December 31, 2007, approximately 7% of the Group's financial assets and 8% of the Group's financial liabilities were at different currencies than the Group's functional currency. As such, movement of foreign currencies should have a limited impact on the Group's balance sheet. The Group has not presented a sensitivity analysis to a reasonably possible change in the Euro or the NIS due to immateriality.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the Company's functional currency. Approximately 12% of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst almost 90% of costs are denominated in the unit's functional currency. See Note 17 for further details on derivatives financial instruments.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

Credit risk:

The Group trades mostly with recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 7. There are no significant concentrations of credit risk within the Group.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, restricted cash and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk:

The Group monitors its risk to a shortage of funds. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

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 value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 23:- SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED INCOME STATEMENT

a. Cost of sales:

	Year ended December 31,	
	2007	2006
Materials	105,237	87,143
Salaries and related benefits	3,733	2,963
Depreciation	1,591	2,221
Maintenance and repairs	1,934	1,314
Electricity, water and gas	1,588	1,230
Packaging, transportation and shipping	1,677	1,122
Others	1,211	2,060
	<u>116,971</u>	<u>98,053</u>

b. Research and development expenses:

Subcontractors	1,103	593
Salaries and related benefits	869	401
Supplies and materials	73	54
Others	98	60
	<u>2,407</u>	<u>1,108</u>
Less – research and development grants	<u>(152)</u>	<u>-</u>
	<u>1,991</u>	<u>1,108</u>

c. Selling and marketing expenses:

Commissions	435	551
Travel	44	198
Salaries and related benefits	204	86
Others	92	214
	<u>775</u>	<u>1,049</u>

d. General and administrative expenses:

Salaries and related benefits	2,323	635
Professional fees	1,024	879
Communications	165	136
Others	1,149	395
	<u>4,661</u>	<u>2,045</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

**NOTE 23:- SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED INCOME STATEMENT
(Cont.)**

- e. Financial costs and financial revenue:

	Year ended December 31,	
	2007	2006
Financial costs:		
Interest in respect of loans	(1,736)	(1,569)
Bank commissions and other expenses	(177)	(369)
Loss from forward contract	(198)	-
Foreign exchange differences	(1,389)	(1,232)
Deferred finance costs	(151)	(151)
	<u>(3,651)</u>	<u>(3,321)</u>
Financial revenue:		
Interest in respect of deposits	763	707
Foreign exchange differences	389	671
Interest in respect of loan to a joint venture	205	90
	<u>1,357</u>	<u>1,468</u>
	<u>(2,294)</u>	<u>(1,853)</u>

NOTE 24:- REVENUES BY GEOGRAPHIC AREAS AND MAJOR CUSTOMERS

The Group manages its business on a basis of one reportable segment.

- a. Revenues classified by geographical destinations based on the customer location:

	Year ended December 31,	
	2007	2006
United States	\$ 32,595	\$ 24,691
China	13,700	17,768
Japan	10,434	21,215
Korea	42,089	23,317
Europe	29,388	18,082
Israel	937	8,576
Others	7,570	5,497
	<u>136,713</u>	<u>119,146</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 24:- REVENUES BY GEOGRAPHIC AREAS AND MAJOR CUSTOMERS (Cont.)**

- b. Information about major customers (in percentages):

	Year ended December 31,	
	2007	2006
Customer A	0%	10%
Customer B	8%	18%
Customer C	18%	9%

- c. The Company's long-lived assets by geographic area are as follows:

	December 31,	
	2007	2006
Israel	7,252	6,447
Mongolia	18,542	14,070
Switzerland	14	127
Czech	214	-
	26,022	20,644