26 March 2007

Amiad Filtration Systems Ltd.
(“Amiad” or “the Company”)

Results for the Twelve Months to 31 December 2006

Amiad, a producer and global supplier of water filters and filtration systems for the industrial & municipal and the irrigation markets, announces its full year results to 31 December 2006.

Financial Highlights

- Turnover rose 4% in line with market expectations to \$44.1m (2005: \$42.4m)
- Operating income was \$4.6m (2005: \$4.9m) reflecting increased investment in sales and marketing after the IPO
- Profit before tax was \$3.7m (2005: \$4.1m)
- Net Profit \$3.0m (2005: \$2.9m)
- Cash from operations amounted to \$1.3m (2005: loss of \$0.3m)
- Gross margins were maintained at the 50% level
- Basic and fully diluted earnings per share were 15 cents
- A final dividend for 2006 of 4.47 cents (USD) per share

Operational Highlights

- Excellent progress made in China and Australia
- Selected as prime contractor for sewage treatment project in Israel, one of the largest systems of its type in Israel
- First water treatment project delivered in Russia and initiated sales into India
- Highest ever introduction of line modifications and new products
- Continued weakness in the US Dollar and the higher cost of materials has put pressure on margins and expenses

Commenting on the results, Yossi Katz, Chief Executive of Amiad, said: “In 2006, the Company continued to build on its solid foundations for future growth and the strong finish to the year has carried on into 2007. Order levels have been strong since the beginning of 2007, leading to a higher current order backlog compared to the corresponding period last year.

“With the introduction of a record number of line modifications and new products in response to our customers’ demands and our penetration into high-growth territories such as China and India gives the Company confidence in delivering further gradual sales growth in 2007.”

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Operational Review

The Board of Amiad is pleased to report a year of growth, albeit a modest one. Revenues for the full year 2006 were $44.1m compared to $42.4m in 2005. The results reflect laying of solid foundations after the Company's admission on AIM in December 2005 and positioning the Company for the future.

Amiad is a producer and global supplier of water filters and filtration systems for the industrial & municipal markets and the irrigation markets. The early part of 2006 was impacted by a slowdown in the irrigation use associated with farming patterns mainly in Spain, USA and Africa. In Israel, the Company was selected as a prime contractor for the treatment of sewage for the Municipality of Ra'anana. This contract was Amiad's biggest project of its kind, enabling sewage to be turned into a resource for irrigation, thereby reducing consumption of clean water.

At the time of its IPO, the Company stated that some of the proceeds from the associated fundraising would be used to increase sales and marketing activities and penetrate high growth territories. During the year Amiad strengthened its product portfolio with the introduction of a range of new products, such as an Automatic Disk Filters for irrigation market and Micro-Fiber Filters aimed at general water treatment. In addition the Company continued to expand its global presence in key markets including Australia, China, Japan, Singapore and the USA. The benefits of a broader product range and greater expansion into new territories was felt during the latter part of the year resulting in a strong finish to 2006.

In China, the Company achieved double-digit growth in 2006, including the successful supply of the first phase of a project worth approximately $400,000 for sewage treatment for the "Olympic Village" in Beijing. In the second phase, additional orders of similar magnitude and purpose have also recently been received and are expected to be supplied during 2007.

The Company also delivered its first water treatment project in Russia and initiated sales into India during the second half of the year through the supply of water-treatment systems to remove iron from drinking water.

Sales from Amiad's new thread filter product increased during 2006 and have continued to attract interest from customers globally. Additionally, Amiad has seen a significant interest in its filters for the pre-filtration of membrane systems, including for desalination projects.

In South America, the Company has seen good growth in products supplied to the oil and gas industries in Brazil and it currently has orders for three different new projects there.

The Company also strengthened its senior management with the appointment of a new Vice President of Business Development who will be focusing on new areas of business development and mergers & acquisitions.

Amiad currently sells its products worldwide to over 70 countries across the Americas, Africa, Europe, Asia and Australasia.

Financial review

The Company increased its revenues by 4% to $44.1 million (2005: $42.4m), profit before tax was $3.7 million (2005: $4.1m) and net profit $3.0m (2005: $2.9m). Basic and fully diluted earnings per share was 15 cents.

The gross margin was maintained at 50%, approximately the same as in 2005. Operating income was down slightly to $4.6m (2005: $4.9m) reflecting the increased investment in sales and marketing to help build for the future.

Net cash and cash equivalents balance as of 31 December 2006 amounted to $6.1m. Cash from operations for the full year improved to $1.3m compared with a $0.3m loss in 2005.

R&D

In 2006, Amiad introduced a record number of line modifications and new products including the introduction of Micro-Fiber Technology at Japan's City Water Exhibition. The Company also introduced a new automatic disc-filter mainly for the irrigation market and a new electric dosing-pump.

Dividend

The Directors are recommending a final dividend for 2006 of 4.47 cents (USD) per share which will be paid on 18 May 2007 to members on the register on 18 April 2007. Shares will be marked ex-dividend on 18 April 2007.

This is in addition to the interim dividend paid of 2.385 cents (USD) making the total for the year 6.855 cents (USD).

Outlook

In 2006, the Company continued to build on its solid foundations for future growth and the strong finish to the year has carried on into 2007. Order levels have been strong since the beginning of 2007, leading to a higher current order backlog compared to the corresponding period last year. Demand for the Company's innovative automatic thread filter technology continues to gain acceptance in key markets and look set to achieve significant growth in the current year albeit from a small base.

The continued weakness in the US Dollar and the higher cost of materials has put pressure on margins and expenses.

With the introduction of a record number of line modifications and new products in response to our customers' demands and our penetration into high-growth territories such as China and India gives the Company confidence in delivering further gradual sales growth in 2007.

AMIAD FILTRATION SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

	31 December	
	2006	**2005**
	$ in thousands	
A s s e t s		
CURRENT ASSETS:		
Cash and cash equivalents	4,217	7,692
Financial assets at fair value through profit and loss	1,869	4
Accounts receivable and accruals:		
Trade	16,871	14,467
Other	1,009	1,250
Inventories	10,470	8,210
Income Tax assets	431	-
T o t a l current assets	34,867	31,623
NON-CURRENT ASSETS:		
Loan to a related party	685	411
Severance pay assets	1,872	2,157
Long-term receivables	105	94
Property and equipment	2,973	2,613
Intangible assets	2,403	2,618
Deferred income tax assets	1,225	1,128
T o t a l non-current assets	9,263	9,021
T o t a l assets	44,130	40,644

	31 December	
	2006	2005
	$ in thousands	
Liabilities and shareholders' equity		
CURRENT LIABILITIES:		
Short-term credit and loans from bank and other	7,532	6,348
Accounts payable and provisions:		
Trade	7,862	5,833
Other	3,111	2,579
Income tax liability	488	870
T o t a l current liabilities	18,993	15,630
NON-CURRENT LIABILITIES:		
Loans from banks and other (net of current maturities)	2,786	3,601
Severance pay obligations	1,909	2,118
Deferred income tax liabilities	542	629
T o t a l non-current liabilities	5,237	6,348
T o t a l liabilities	24,230	21,978
SHAREHOLDERS' EQUITY		
Capital and reserves attributable to equity holders of the Company:		
Share capital	2,291	2,291
Capital reserves	12,797	12,797
Currency translation reserve	164	123
Retained earnings	4,303	3,190
	19,555	18,401
MINORITY INTEREST	345	265
T o t a l shareholders' equity	19,900	18,666
T o t a l liabilities and shareholders' equity	44,130	40,644

AMIAD FILTRATION SYSTEMS LTD.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December	
	2006	**2005**
	$ in thousands except per share data	
Revenue	44,076	42,406
Cost of sales	22,097	21,139
Gross profit	21,979	21,267
Selling and marketing costs	11,455	10,571
Administrative and general expenses	5,590	5,471
Amortization of other assets	339	340
Other losses	4	1
Operating profit	4,591	4,884
Finance costs	864	822
Profit before income taxes	3,727	4,062
Income tax expenses	736	1,151
Profit for the year	2,991	2,911
Attributable to:		
Equity holders of the Company	2,875	2,943
Minority interest	116	(32)
	2,991	2,911
	$	
Earnings per share attributable to the equity holders of the Company during the period (See note 18):		
Basic	0.152	0.200
Diluted	0.150	0.200

AMIAD FILTRATION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to equity holders of the Company							
	Share capital	**Capital reserve**	**Perpetual debenture**	**Currency translation reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total shareholders' equity**
	$ in thousands							
BALANCE AT 1 JANUARY 2005	1,497	1,020	2,871	39	2,872	8,299	238	8,537
CHANGES DURING THE YEAR ENDED 31 DECEMBER 2005:								
Currency translation differences	-	-	-	84	-	84	-	84
Profit for the year	-	-	-	-	2,943	2,943	(32)	2,911
Total recognised profit for 2005	-	-	-	84	2,943	3,027	(32)	2,995
Net proceeds from issuance of shares in IPO	545	8,730	-	-	-	9,275	-	9,275
Deferred taxes in respect of IPO costs	-	621	-	-	-	621	-	621
Interest on perpetual debenture	-	-	-	-	(81)	(81)	-	(81)
Exchange differences on perpetual debenture	-	-	(196)	-	196	-	-	-
Conversion of perpetual debenture	-	2,675	(2,675)	-	-	-	-	-
Dividend ($0.2 per share)	-	-	-	-	(2,804)	(2,804)	-	(2,804)
Dividend to minority	-	-	-	-	-	-	(36)	(36)
Changes in minority interest upon the sales of Investment in a company	-	-	-	-	-	-	95	95
Issuance of bonus shares	249	(249)	-	-	-	-	-	-
Share-based payment - Value of employee services	-	-	-	-	64	64	-	64
BALANCE AT 31 DECEMBER 2005	2,291	12,797	-	123	3,190	18,401	265	18,666
CHANGES DURING THE YEAR ENDED 31 DECEMBER 2006:								
Currency translation differences	-	-	-	41	-	41	-	41
Profit for the year	-	-	-	-	2,875	2,875	116	2,991
Total recognised profit for 2006	-	-	-	41	2,875	2,916	116	3,032
Dividend ($0.1 per share)	-	-	-	-	(1,905)	(1,905)	-	(1,905)
Dividend to minority	-	-	-	-	-	-	(36)	(36)
Share-based payment - Value of employee services	-	-	-	-	143	143	-	143
BALANCE AT 31 DECEMBER 2006	2,291	12,797	-	164	4,303	19,555	345	19,900

AMIAD FILTRATION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December	
		2006	**2005**
		$ in thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from (used in) operations	19	3,805	2,157
Interest paid		(633)	(823)
Income taxes paid		(1,833)	(1,643)
Net cash generated from (used in) operating activities		1,339	(309)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(1,080)	(1,041)
Purchase of intangible assets		(124)	(44)
Investment grants received		79	113
Disposal of (investment in) marketable securities, net		(1,853)	300
Acquisition of company included according to the proportionate consolidation method		-	(517)
Increase in cash resulting from transition to full consolidation of a company previously included according to the proportionate consolidation method		-	8
Proceeds from sale of property and equipment		62	41
Proceeds from the sale of a subsidiary		-	50
Long-term loan granted to a related party and others		(328)	(284)
Collection of long-term loan granted to a related party		85	268
Net cash used in investing activities		(3,159)	(1,106)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of shares in IPO		-	9,275
Dividends paid to the minority interest		(36)	(36)
Dividends paid to equity holders of the parent		(1,905)	(2,804)
Interest on perpetual debenture		-	(135)
Receipt of long-term loans and other liabilities		1,075	1,964
Repayments of long term loans		(1,872)	(1,928)
Short-term credit from banks, net		1,092	840
Net cash generated from (used in) financing activities		(1,646)	7,176
Effect of exchange rate changes on cash and cash equivalents		(9)	(73)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(3,475)	5,688
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		7,692	2,004
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		4,217	7,692

NOTE 1 – GENERAL INFORMATION:

a. The Company was incorporated in Israel in June 1997. On 5 December, 2005, the company's shares were admitted to trading on the AIM, a market operated by the London Stock Exchange. Concurrently, the Company completed an initial public offering (IPO) of its shares. The principal shareholders of the Company are Kibbutz Amiad ("the Kibbutz"), through a company controlled by the Kibbutz, A.M.S.I. Investments Ltd. ("AMSI") which owns 52.68% of the Company's outstanding shares, and the Atoka group which owns 14.1% of the Company's outstanding shares.

b. The Group is a producer and global supplier of water filters and filtration systems used in the industrial & municipal market and the irrigation market.

c. On 30 June, 1998, the Company entered into an agreement with the Kibbutz and with the limited partnership, Amiad Filtration Systems ("the partnership") in which the Kibbutz is the general partner ("the purchase agreement") whereby all of the partnership's business activities, assets, including goodwill and intellectual property, but excluding property rights (lease rights and/or ownership to land and buildings) were transferred to the Company in effect as from 1 January, 1998 ("the transfer date"). All of the partnership's liabilities were also transferred to the Company as of the transfer date, except for certain guarantees and charges that remained in the partnership.

The transfer of the above assets and liabilities was carried out at no consideration in accordance with the regulations of the Israeli Economy Settlements Regulations (Legislation Amendments) Tax Reliefs Relating to Assistance Arrangements with Farmers, 1990. According to these regulations, for income tax purposes, the cost of transferred assets, the respective accumulated depreciation and their purchase date shall be as in the transferring partnership.

d. Definitions:

The Company – Amiad Filtration Systems Ltd.

The Group – The Company and its subsidiaries.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of these consolidated financial statement, are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).
The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of severance pay assets.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**:**

1. Amendments to published standards effective in 2006:

    - IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.
    - IAS 21 (Amendment), Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires exchange differences arising on all monetary items that form part of an entity's net investment in a foreign operation to be recognized initially in a separate component of equity in the consolidated financial statements. This amendment has no significant impact on the Group's financial statements.

2. Standards, amendments and interpretations effective in 2006 but not relevant

    The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

    - IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
    - IAS 39 (Amendment), The Fair Value Option;
    - IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
    - IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
    - IFRS 6, Exploration for and Evaluation of Mineral Resources;
    - IFRIC 4, Determining whether an Arrangement contains a Lease;
    - IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
    - IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**:**

3. Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments.
- IFRS 8 Operating Segments (effective from 1 January 2009) sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.
  The IFRS requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
  IFRS 8 replaces IAS 14, Segment Reporting, achieving convergence with SFAS 131, Disclosures About Segments of an Enterprise and related Information, except for minor differences.
  Management is currently assessing the impact of IFRS 8 on the Group's segment disclosure.
- IFRIC 9, Reassessment of embedded derivatives (effective from 1 January 2007). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.
- IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 January 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of this standard does not expected to have material impact on the Group's accounts.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**:**

4. Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

   The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

   - IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 January 2007).
   - IFRIC 11, IFRS 2 – Group and treasury share transactions (effective from 1 January 2008).
   - IFRIC 12, Service concession arrangements (effective from 1 January 2008).

b. Functional currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's audit's subsidiaries functional currency (except in Australia, China and France – see c below) is the U.S. dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

c. Group companies

The functional currency of the subsidiary in Australia is the Australian dollar ("AUD").
The functional currency of the subsidiary in France is the EURO.
The functional currency of the jointly controlled entity in China is the Chinese RMB.

The results and financial position of those Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1) Assets and liabilities for each balance sheet presented are translated at the closing rate at that balance sheet date;

2) Income and expenses for each income statement are translated at average exchange rates; and

3) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to shareholders' equity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Principles of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which they are incorporated and they will be deconsolidated from the date that control ceases.

Intercompany balances and transactions between Group companies included in consolidation have been eliminated. All intercompany transactions between the Group companies are conducted at cost.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

e. Proportionately consolidated companies

There is a contractual agreements for joint control of the company Yixing Taixing Environtec Co.Ltd, held 50%, with the other venturers. Accordingly, it is accounted for by the proportionate consolidation method. Under this method, the company combines its share of the assets, liabilities, revenues, and expenses of the jointly controlled entity with similar line items in the consolidated financial statements.

f. Financial assets at fair value through profit and loss

Marketable securities held for trading are stated at quoted market prices at balance sheet date. Changes in their value are included in other gain (losses), net in the statement of income.

g. Property and equipment:

1) All property and equipment (including leasehold improvements) are stated at historical cost, less accumulated depreciation, impairment and investment grants. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

   Repairs and maintenance are charged to the income statement during the period in which they are incurred.

2) The assets are depreciated using the straight-line method over their estimated useful lives.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Annual rates of depreciation are as follows:

	%
Machinery and equipment	6 – 20 (mainly 10%)
Office furniture and equipment, computers and peripheral equipment	7 – 33 (mainly 33%)
Motor vehicles	15 – 20 (mainly15%)
Leasehold improvements	Over the term of the lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(i)).
Leasehold improvements (fixtures) in buildings under operating leases are depreciated using the straight-line method over the term of the lease, which is shorter than the estimated useful lives of the improvements.

3) Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

h. Intangible assets

Other assets comprise know-how, customer relationships and goodwill. Most of these assets were acquired in connection with the acquisition of Filtration Ltd. In a business combination in 2000. The fair value of these assets (other than goodwill) was based on an independent valuation. Following initial recognition, the cost model is applied to these assets.
The periods of amortization of these assets are as follows:

Know-how – amortized over a period of 10 years, using the straight-line method.

Customer relationships – amortized over the estimated lives of the customer relationship (10 years), taking into account the scope of sales to acquired customers.

Goodwill is presented in the consolidated balance sheets, and represents the excess of the cost of acquisition of an investment in a subsidiary over the company's share in the fair value of the subsidiary's identifiable assets (including intangible assets), net of the fair value of its identifiable liabilities (net of related taxes), at the date of acquisition.

Goodwill on acquisition is measured at cost being the excess of the cost of the business combination over the fair value of net assets acquired. Goodwill is not amortized commencing from 1 January, 2002, and is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

j. Inventories

Inventories – are stated at the lower of cost and net realizable value. Cost is determined as follows:

Raw materials, auxiliary materials and packing materials – on the "first-in first-out" basis.

Work in progress – on the basis of average cost including materials, labour and other direct and indirect manufacturing costs.

Finished products – on the basis of average cost including materials, labour and other direct and indirect manufacturing costs.

Purchased products – on the "first-in, first-out" basis.

k. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost and where applicable, with exchange differences, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.
Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.
Impaired account is principally determined in respect of specific debts whose collection, in the opinion of the Company's management, is uncollectible. The amount of the provision is recognised in the income statement within 'administrative and general expenses'.
Subsequent recoveries of amounts previously written off are credited against administrative and general costs in the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

L. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

m. Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit.

Upon distribution of dividends from tax-exempt income of "approved enterprises", the amount distributed will be subject to tax at the rate that would have been applicable had the company not been exempted from payment thereof. The amount of the related tax is charged as an expense in the income statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax on temporary differences arising on investments in subsidiaries and in the event the distribution of earnings by investees as dividends are not provided, since the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset only if they relate to the same taxable entity and that entity has a legally enforceable right to offset those assets against the liabilities.

n. Employee benefits:

1. Severance pay obligations

   Labour laws and agreements in Israel and abroad require companies in the Group to pay a certain multiple of monthly pay as severance benefits to employees who are dismissed, resign or retire from their employment. The severance pay obligation is accounted for as a defined benefit plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The liability recognised in the balance sheet in respect of severance pay is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses. The obligation is measured annually by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related severance pay obligations.

The Group purchases insurance policies and contributes to severance pay funds to manage its exposure to the severance pay obligation. The rights to reimbursement under insurance policies are recognised as severance pay assets when it is virtually certain that the insurance company will reimburse some or all of the expenditure required to settle the severance pay obligation. The severance pay assets from severance pay funds are stated at fair value through the income statements.

2) Vacation and recreation pay

Under Israeli law, each employee is entitled to vacation days and recreation pay, both computed on an annual basis. The entitlement is based on the length of the employment period. The Group recognises a liability and an expense for vacation and recreation pay, based on the entitlement of each employee.

3) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

4) Share-based payment transactions

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

The cost of equity-settled transactions is measured by reference to the fair value at the grant date using an option-pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the vesting period. The cumulative expense, recognized 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. No expense is recognized for amounts that do not ultimately vest.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Revenue recognition policy

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

1. Sales of goods

   Sales of goods are recognised when a group entity has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

2. Contract work performed

   When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

p. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

q. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

r. Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

t. Basic and diluted earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of the issued and outstanding ordinary shares during the year with the addition of issuable shares resulting from the employee share purchase plans.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares issued and outstanding to assume conversion of all dilutive potential ordinary shares, being employee share options under the 2005 plan. For employee share options, a calculation is made of the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

u. Government grants

Royalty-bearing grants from the Government of Israel for funding approved research projects and for participation in export marketing expenses are recognised at the time the Company is entitled to such grants. Such grants are recorded as a liability when repayment is probable.

Non-royalty-bearing grants from the Government of Israel for purchases of fixed assets, in accordance with the Law for the Encouragement of Capital Investments, 1959 were deducted from the respective purchased assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

v. Exchange rates and linkage basis

Monetary assets and liabilities, denominated in currencies other then U.S. dollar, are translated using exchange rates in effect at balance sheet date.
Monetary assets and liabilities linked to the Israeli consumer price index ("CPI") are presented according to the relevant index for each linked asset or liability.

Below are Data regarding the exchange rates of certain currencies in relation to the U.S. dollar and data regarding the CPI:

	Exchange rate of one Euro	**Exchange rate of one Australian Dollar**	**Exchange rate of one NIS**	**CPI***
At end of year:				
2006	0.759	1.265	0.237	109.90
2005	0.845	1.363	0.217	110.00
2004	0.733	1.283	0.232	107.44
Increase (decrease) during the year:				
2006	(10.18%)	(7.19%)	9.22%	(0.01%)
2005	15.28%	6.24%	(6.47%)	2.38%

* Based on the index for the month ending on each balance sheet date, on the basis of 2000 average = 100.

w. Derivatives financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into. The derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement within finance costs – net.

NOTE 18 - EARNINGS PER SHARE:

Data regarding the earning per share:

	Year ended 31 December	
	2006	**2005**
	$ in thousands	
Weighted average number of Ordinary shares outstanding (in thousands)		
Basic:		
Number of shares in the beginning of the period	18,873	5,743
Effect of split and bonus shares	-	8,084
Effect of issuance of shares in IPO	-	420
Number of shares used for calculation of earnings per share –basic	18,873	14,247
Diluted:		
Number of shares used for calculation of earnings per share –basic	18,873	14,247
Adjustments for share options	309	-
Number of shares used for calculation of earnings per share –diluted	19,182	14,247
Net income attributable to equity holders of the parent	2,875	2,943
Less - interest on perpetual debenture	-	(81)
	2,875	2,862
Basic earnings per share (in U.S. dollars)	0.152	0.200
Diluted earnings per share (in U.S. dollars)	0.150	0.200

NOTE 19 – CASH FLOWS FROM OPERATING ACTIVITIES:

	Year ended 31 December	
	2006	**2005**
	$ in thousands	
Profit for the year from continuing operations	2,991	2,911
(a) Adjustments to reconcile net income to net cash Used in operating activities:		
Depreciation	941	980
Interest paid	633	823
Income taxes paid	1,833	1,643
Share based payment	143	64
Deferred income taxes, net	(184)	107
Accrued severance pay, net	76	(72)
Exchange rate differences on liabilities to banks and other long-term liabilities	69	61
Gain from marketable securities	(12)	-
Loss on sale of fixed assets and others	14	66
Exchange rate differences on loans to related party and others	(48)	22
	6,456	6,605
Changes in working capital:		
Increase in accounts receivable:		
Trade	(2,261)	(3,068)
Other	(187)	(59)
Increase (Decrease) in accounts payable:		
Trade	1,802	(392)
Other	131	(1,096)
Decrease (increase) in inventories	(2,136)	167
	(2,651)	(4,448)
Cash generated from operations	3,805	2,157
(b) Acquisition of company included according to the proportionate consolidation method		
Working capital (excluding cash and cash equivalents)		(321)
Intangible assets		(42)
Fixed assets, net		(229)
Long-term receivables		75
Cash out flow		(517)
(c) proceeds from the sale of a subsidiary		
Working capital (excluding cash and cash equivalents)		(476)
Fixed assets, net		526
Cash in flow		50
(d) Increase in cash resulting from transition to full consolidation of a company previously included according to the proportionate consolidation method		
Working capital (excluding cash and cash equivalents)		121
Fixed assets, net		(113)
Cash in flow		8
Non-cash transaction - grant receivables regarding the purchase of Fixed assets	64	81