Placing and Admission to AIM
November 2005

amiad®

PANMURE GORDON & CO
Nominated Adviser and Broker

Clear Solutions to Water filtration

AMIAD FILTRATION SYSTEMS LTD.

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Application has been made for all the ordinary shares of Amiad Filtration Systems Ltd., in issue and to be issued pursuant to the Placing, to be admitted to trading on AIM, a market operated by the London Stock Exchange plc. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 5 December 2005. The Ordinary Shares are not dealt in or on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UKLA. Neither the UKLA nor the London Stock Exchange plc has examined or approved the contents of this document.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent adviser. The whole of the text of this document should be read and your attention is drawn to the section entitled "Risk Factors" in Part II of this document.

The Directors, whose names appear on page 4, accept responsibility for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information.

Amiad Filtration Systems Ltd.

(Incorporated and registered in the State of Israel under the Companies Ordinance (new version) 1983 with registered number 512497694)

Placing of

5,045,965 Ordinary Shares of NIS0.5 at a price of 129 pence per share

and Admission to trading on AIM

Nominated Adviser and Broker to the Company

PANMURE GORDON & CO

Share Capital Immediately Following Admission

Authorised		*Issued and fully paid*	
Number	*Amount*	*Number*	*Amount*
20,000,000 Ordinary Shares of NIS 0.5	NIS10,000,000	18,872,723 Ordinary Shares of NIS 0.5	NIS 9,436,362

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Other than in accordance with the Company's obligations under the AIM Rules or as otherwise required by law, the Company undertakes no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company, to its directors or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this document. Information or other statements presented in this document regarding market growth, market size, development of the market and other industry data pertaining to the Group's business consists of estimates based on data and reports compiled by industry professionals or organisations and analysts and the Company's knowledge of its sales and markets. The information on the Company's website does not form part of this document.

The new Ordinary Shares to be issued pursuant to the Placing will, upon Admission, rank pari passu in all respects with the existing Ordinary Shares, including the right to receive all dividends or other distributions declared, made or paid after Admission. The new Ordinary Shares are not being made generally available to the public in conjunction with the Placing.

Copies of this document will be available to the public free of charge at the offices of Panmure Gordon at Moorgate Hall, 155 Moorgate, London EC2M 6XB during normal business hours on any day excluding Saturdays, Sundays and public holidays from the date of this document until one month immediately following Admission.

Contents

Key Information

The following information is extracted from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole of this document, including the risk factors set out in Part II, and not rely on the following summarised information.

Business Overview

- The Group is a producer and global supplier of water filters and filtration systems.
- The Group's two key markets are the industrial & municipal market and the irrigation market.
- Amiad specialises in automatic, self-cleaning filters that require low maintenance and can be adapted to provide bespoke solutions to a wide range of applications.
- Amiad's products are used in the following industries: steel, power, oil and gas, and pulp and paper.
- Clean water is a scarce resource that is facing increasing demand due primarily to growth in the global population, which is estimated to increase from 6.5 billion in 2004 to 8 billion by 2025.
- While the world population has doubled since 1950, water consumption has increased six-fold over that period.
- The Group sells, principally through distributors, to a wide range of established customers, including Air Liquide, Aluminum Norf, Avebe, Bayer, Dayen Environmental, Folkstone and Dover Water Services, Ha'Dan Ha'Mizrahi, Infineon Technologies, Membratec, Meyer Werft, Novelis, OMEX, ONI, PB Techniek, South East Water, Stereau and StoraEnso.
- The Company sells its products worldwide to over 60 countries.
- The Company's core filtration technology is designed to have a small footprint, low maintenance requirement for the end users, reliability, scalability and low energy consumption.
- The Directors believe that Amiad is at the forefront of innovation in the design of automatic self cleaning water filtration equipment.
- In the year ended 31 December 2004, the Group generated revenues of approximately $37 million and profit after tax of approximately $3 million[1]. In the nine month period ended 30 September 2005, based in each case on the unaudited financial information the Group generated revenues of approximately $33 million and profit after tax of approximately $2.8 million[1].
- The Company intends to grow sales and profitability by focusing on high growth territories, expanding the product offering, targeting new high growth markets driven by factors such as regulation and developing and supplying complete water treatment systems.

Note

1. The figure for profit after tax has been determined by excluding from the Company's consolidated statements of income for that year (as set out in Part III of this document) non-recurring expenses, management fees payable to the shareholders which will terminate on Admission, and amortisation of non-tangible assets.

Directors, Secretary, Registered Office and Advisers

Directors

Abraham Heifetz (Non-executive Chairman)
Yosef Katz (Chief Executive Officer)
Itamar Dov Eder (Chief Financial Officer)
Joseph Rokah (Non-executive Director)
Mordechai Dabi (Non-executive Director)
Michael Rosenberg OBE (Non-executive Director)
Nathalie Schwarz (Non-executive Director)

Company Secretary

Itamar Dov Eder

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Registrar

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Expected Timetable of Principal Events

	2005
Publication of this document	29 November
Admission effective and dealings commence in the Ordinary Shares on AIM	5 December
CREST accounts credited with depositary interests (where applicable)	5 December
Definitive share certificates expected to be dispatched in respect of the Ordinary Shares (where applicable)	19 December

Placing Statistics

Placing Price	129 pence
Number of Ordinary Shares in issue at the date of this document(i)	14,445,450
Number of new Ordinary Shares being placed on behalf of the Company	5,045,965
Number of Ordinary Shares being placed on behalf of the Selling Shareholders	1,164,454
Number of Ordinary Shares in issue immediately following Admission(i)	19,491,415
Estimated net cash proceeds receivable by the Company pursuant to the Placing(ii)	£5,500,000
Approximate market capitalisation of all issued Ordinary Shares at the Placing(i) Price immediately following Admission	£25,108,020
Approximate percentage of enlarged issued share capital on Admission represented by the Placing Shares	25.9
AIM EPIC code	AFS

(i) *On a fully diluted basis.*

(ii) *Stated after deducting the estimated total expenses of the Placing and other related costs and fees payable by the Company and the Selling Shareholder of approximately £1,000,000 (including VAT).*

Financial Information in Part III

The financial information in Part III of this document was extracted from the Company's audited financial statements for the three years ended 31 December 2004 and for the six month period ended 30 June 2005 and the unaudited financial information for the six month period ended 30 June 2004.

Part I — Information on the Group

1 Introduction

Amiad is a producer and global supplier of water filters and filtration systems used in two key markets, namely the industrial & municipal market and the irrigation market. The Company specialises in automatic self-cleaning filters that require low maintenance and that can be adapted to provide bespoke solutions to a wide range of application in industries including, inter alia, steel, power, oil and gas, pulp and paper, in addition to a wide variety of other applications in the irrigation market.

Amiad currently sells its products worldwide to over 60 countries across the Americas, Africa, Europe, Asia and Australasia. In the year ended 31 December 2004, Amiad generated revenues of approximately $37 million and profit after tax of approximately $3 million[1]. The corresponding profit after tax for the years ended 31 December 2002, 31 December 2003 and for the six month period ended 30 June 2005 were approximately $2.0 million, $2.1 million and $1.9, respectively.[1] In the nine month period ended 30 September 2005, based in each case on unaudited financial information, revenues were approximately $33 million and profit after tax was approximately $2.8 million[1]. The Group sells principally through distributors to a wide range of customers, including Air Liquide, Aluminum Norf, Avebe, Bayer, Dayen Environmental, Folkstone and Dover Water Services, Ha'Dan Ha'Mizrahi, Infineon Technologies, Membratec, Meyer Werft, Novelis, OMEX, ONI, PB Techniek, South East Water, Stereau and StoraEnso.

Clean water is a scarce resource that is facing increasing demand due primarily to the growth in the global population, which is estimated to increase from 6.5 billion in 2004 to 8 billion by 2025. While the world population has doubled since 1950, water consumption has increased six-fold over that period.

Approximately 40 per cent. of the global population, across 80 countries, currently suffers from water shortages, and 1.1 billion people do not have access to safe water. Asia alone accounts for two-thirds of the people worldwide whose drinking water comes from unsafe sources like rivers and ponds.

Further, industrialisation, increased environmental awareness and tighter regulations are driving the need for water purification and recycling systems. Accordingly, there is a growing demand for solutions that facilitate the provision of clean water for drinking, manufacturing and irrigation, sewage treatment and the safe disposal of industrial wastewater.

Amiad's filtration products serve a key role in fulfilling these needs. The Company's products are used for a wide range of purposes, from improving the quality of drinking water to recycling water used by car manufacturers to wash vehicle chassis before the application of paint.

The Company's core filtration technology is designed to have a small footprint, low maintenance requirement for end users, reliability, scalability and low energy consumption. The Directors believe that Amiad is at the forefront of innovation in the design of automatic self cleaning filtration equipment.

The Company is modifying its technology so as to be able to expand its business into a number of high growth market segments, including ballast water for shipping, off-shore oil and gas, prefiltration of drinking and process water, naval filtration equipment and high-flow rate filters for wastewater features.

2 Background and History

Amiad was incorporated as an Israeli company in June 1997. In January 1998, Amiad acquired a filtration and irrigation business from a partnership owned and controlled by Kibbutz Amiad. Kibbutz Amiad established the business in the early sixties as a manufacturer of high efficiency irrigation products. During the 1970s, in response to a growing demand for filtered water in irrigation systems, the business began to specialise in the production of water filtration equipment for irrigation.

As an arid country with a growing population, Israel has a critical need for agricultural irrigation and clean drinking water. Israel has evolved into a natural base for major innovative players in the global filtration and irrigation markets. Three of the four largest global low volume irrigation companies are based in Israel.

In October 2000, Amiad acquired Filtration Ltd ("Filtration"), an Israeli company engaged in the development, production and marketing of water filtration systems. The acquisition enabled the Company to broaden its product range, enhance its marketing channels and expand its market share in filtration systems.

Note

1. The figures for profit after tax have been determined by excluding from the Company's consolidated statements of income for the relevant years (as set out in Part III) non-recurring expenses, management fees payable to the shareholders, which will terminate on Admission, and amortisation of non-tangible assets.

The Company operates from its headquarters located in Israel. In addition, the Group has offices in Singapore, Australia, China, France, North America, Germany and Uruguay. The Group also has representatives in Holland and third party distributors around the world. The Group's workforce as of 30 June 2005 totalled 260 persons (not including 45 persons employed in China), of whom 190 were employees of the Group and 70 were personnel provided pursuant to the Manpower Agreement, further details of which are set out in paragraph 12 of Part IV of this document.

3 The Business Overview

The Group is a producer and global supplier of water filters and filtration systems used in two key markets, namely the industrial & municipal market and the irrigation market. The Group supplies the irrigation market directly to large irrigation companies and also through local distributors. Key selling channels include leading worldwide irrigation companies such as Civil Agro, Mondragon and Agrosystems. The Group supplies the industrial & municipal market through its network of distributors as well as through local sales offices. Established customers include Air Liquide, Aluminum Norf, Avebe, Bayer, Dayen Environmental, Folkstone and Dover Water Services, Ha'Dan Ha'Mizrahi, Infineon Technologies, Membratec, Meyer Werft, Novelis, OMEX, ONI, PB Techniek, South East Water, Stereau and StoraEnso.

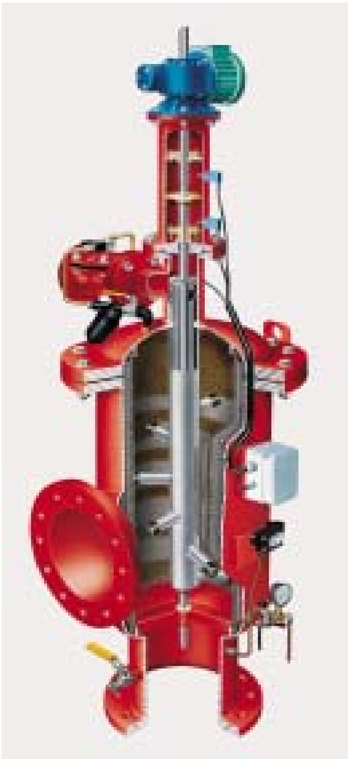
Those markets which the Group supplies can be broken down as shown in Table 1.

Table 1: Market breakdown

Market	Application	Example of Application
Industrial & Municipal	Intake water	Filtration of water at source (e.g. well, river, lake)
	Cooling water	Filtration and recycling to remove particles from cooling water
	Process water	Filtration and recycling within a specific process
	Service water	Filtration for cleaning, fire extinguishing and other services
	Wastewater	Recycling and filtration of discharge wastewater
Irrigation	Agriculture	Removal of particles for irrigation systems
	Aquaculture	Recycling and filtration of pond and tank water
	Golf	Filtration of wastewater for golf course irrigation
	Greenhouses	Water recycling and removal of particles
	Turf and landscapes	Removal of particles for irrigation systems

The products produced by the Company are summarised as follows:

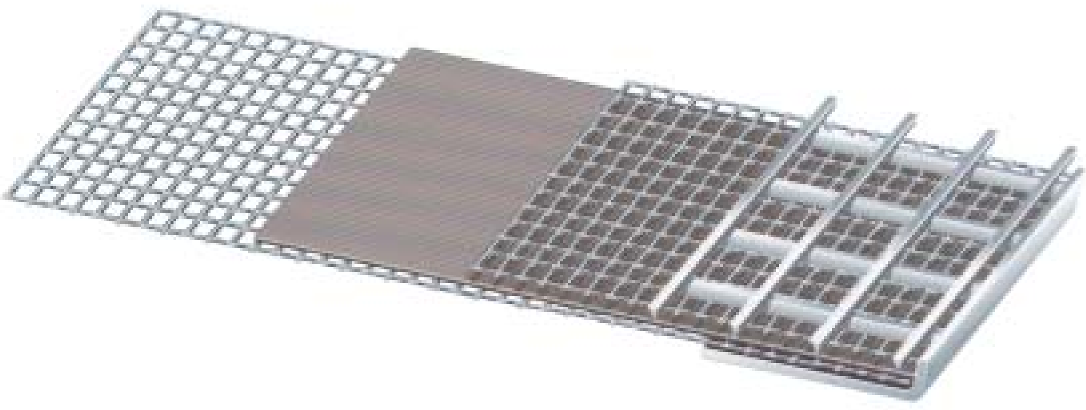
Filtration equipment



Automatic self-cleaning filters

Amiad's main focus is on high-end automatic filters which are self-cleaning. These filters are available in sizes ranging from 2 inches to 24 inches in diameter and in filtration degrees ranging from as much as 800 microns to as fine as 3 microns, which the Directors believe is an improvement on most competing products. Amiad's automatic filters are primarily sold under the "Amiad" and "Filtomat" brand names.

Amiad's self-cleaning filters have a modular structure that allows multiple units to work together and handle significant flow rates. Based on the Company's experience, the development of automatic self cleaning filters has led to the rapid replacement of the more traditional sand filters in many industrial & municipal applications.



Screen technology filters – The Group's core screen technology uses a four layer filter element system which increases the strength and efficiency of the filter element. The automatic system uses suction forces to remove waste material that builds up on filter surfaces and uses less than 1 per cent. of the total water flow for backwash during the filter cleaning process. The Company has developed technology that enables its automatic filters to operate at a pressure as low as 1 bar, which the Directors believe is considerably below competing products. The key advantage of an automatic self-cleaning filter is that excessive build up of waste material on the filter surface is avoided and, as a result, the filter is able to operate at a lower pressure which, in turn, requires less energy input.

Disc technology filters – Amiad has recently signed an agreement with a Spanish manufacturer to supply automatic self-cleaning disc filters, primarily to be used in the irrigation sector. Such filters can operate in a modular system ranging from 2 inches to 14 inches with an operation pressure ranging from 2 to 10 bar.

Thread technology filters – Thread filters use a filtration medium constructed of fine threads wound in layers around a grooved plastic spool cassette. This technology achieves a filtration degree down to 3 microns and the Company is working on the development of a finer micron rating. Thread filter technology is well-suited to drinking water treatment.

Atkins Fulford Limited (part of WS Atkins), one of the Company's distributors, also received an approval from the UK's Drinking Water Inspectorate relating to an application of this thread filtration technology. The Directors believe that thread filters could have a significant potential in the prefiltration of the desalination of sea water and for tertiary treatment and polishing of sewage waste water.

Sand filters for irrigation – The Company produces sand and gravel filters for irrigation. The irrigation products supplied are between 16 inches and 48 inches in diameter, handling all ranges of flow rates.

Manual steel filters

Amiad offers a broad range of manual steel filters ranging from 2 inches to 14 inches in diameter. Their principal application is in irrigation systems. These products have a large filter area, thereby enabling long intervals between cleaning, and can incorporate cleaning auxiliaries for semi-automatic cleaning.

Manual plastic filters

Amiad produces manual plastic filters ranging from ¾ inches to 3 inches in diameter. Their principal application is in irrigation systems, but they have interchangeable filter elements to suit specific needs. The

Group offers filtration degrees ranging from as large as 3,500 microns to as small as 22 microns. All plastic filter elements are extractable for cleaning and are simple to maintain as they combine a plastic injection moulded frame with a nylon or stainless steel mesh which improves reliability and efficiency. They are designed to operate at a maximum pressure of 10 bar.

Amiad's plastic filters are available with various engineering plastics to suit different requirements and markets. The Company recently introduced a new line of polypropylene filters to target the commodity irrigation and turf markets. They are designed to operate at a maximum pressure of 8 bar.

Water treatment systems

The Company designs and supplies multi-layer media (sand and gravel) filters for water treatment systems which include the prefiltration, flocculation, fine filtration and disinfection. Amiad supplies tertiary wastewater treatment systems whereby effluent water can be reclaimed for irrigation purposes. The Company supplies drinking water treatment systems mainly to countries which lack infrastructure and to remote regions and disaster areas.

Fertiliser injectors

Additionally, the Company sells fertiliser injectors. "Fertigation" (from the words "fertiliser" and "irrigation") is an effective method of applying chemicals and fertilisers to crops via the existing irrigation system. The fertiliser and chemical injector units require no external power supply as their motor is powered by the hydraulic pressure of the irrigation system itself. Amiad also recently bought the right to produce electronic fertiliser injectors.

Sales channels

The Group sells its products primarily through distributors as well as directly to end users and through water treatment system integrators and irrigation companies.

Distributors

The Group sells the majority of its products to distributors who then sell on these products to end customers. These distributors are located around the world and, when combined with the Company's subsidiaries and representative offices, give the Company global reach. Distributors are highlighted in Table 2 below. Amiad retains a team of trained sales personnel who sell the Company's products to local distributors or, in some cases, directly to the end customer.

Table 2: International distributors

Region	Distributors
North America (through Amiad USA)	A US designer and manufacturer of pumping systems. A separation and purification company. A developer, manufacturer and marketer of water treatment systems
Europe	Apic Filter (Germany), Atkins Fulford Limited (UK), Contec (Germany), Gefa (Germany), KS Filterchnik (Germany), Mondragon (Spain), Renoplast (Germany) and Revaho (Holland)
Asia Pacific	A1 Filtration (Australia), Altech (Japan), MAC Pumps (Australia), TWS (Australia)
South America	Agrosystems (Chile), Civil Agro (Chile)
Africa	Agriplas (South Africa), Micoland (Egypt)
Israel	Metzerplas, Fertilizers & Chemicals Ltd.

Financials

The following financial information has been extracted without material adjustment from Part III "Financial Information of Amiad Filtration Systems Ltd."

Amiad's sales have grown as follows:

Table 3: "Group sales"

Years ended 31 December: (US$'000s)	2002	2003	*Per cent. change*	2004	*Per cent. change*	6 months ended June 30 2005	*Unaudited* 9 months ended September 30 2005
Revenues from sales	33,732	34,420	*2.0*	36,934	*7.3*	21,768	33,029

Over the same periods, the Group's net income has grown as follows:

Table 4: "Net income"

Years ended 31 December: (US$'000s)	2002	2003	2004	6 months ended June 30 2005	*Unaudited* 9 months ended September 30 2005
Net Income	1,168	1,205	1,721	1,483	2,286

Group sales by product and territory are shown below in Charts 1 and 2:

Chart 1: 2004 sales by product

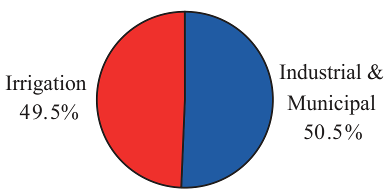
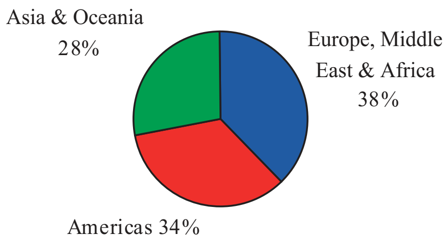


Chart 2: 2004 sales by territory



4 The Market

The global water treatment market, including water treatment systems as well as filtration equipment and products, is estimated to be more that US$50 billion. Of this, filtration equipment and products are estimated to account for US$15 billion, of which micro filters are estimated to account for US$3 billion. Amiad currently addresses the $3 billion micro filtration products market. Within this market, Amiad produces filtration products down to the 1 micron particulate size and its core business is in the 3 to 200 micron range, principally screen and thread filters. Amiad's position in the filtration spectrum can be summarised as shown in Table 5.

Table 5: Amiad's position in the filtration spectrum

	Particulate Size (micron)	Amiad's Involvement
Reverse osmosis	0.001	No
Nano-filtration	0.001 – 0.01	No
Ultra-filtration	0.01 – 0.1	No
Micro-filtration (thread filters and automatic/steel filters)	0.1 – 5	Yes
Screen filters (automatic/steel filters and plastic filters)	5 – 800	Yes
Other filters (manual/steel filters, plastic filters and sand filters)	25 – 1,000	Yes

Amiad supplies products for irrigation and industrial & municipal markets. These markets are fragmented with competition from several different sized sector specialists based in the US, Europe and Israel.

The Directors believe that the global filtration market is expanding rapidly in areas such as those listed below:

- **Offshore oil and gas:** as a result of rising demand for oil and gas, producers are seeking more efficient extraction processes. One such process is high pressure water injection, for which Amiad provides filtration equipment. During the oil and gas extraction process, water is injected at high pressures into oil and gas reservoirs in order to maintain the reservoir pressure, thereby allowing a more efficient extraction process. The water injected into reservoirs needs to be filtered to prevent damage to the reservoirs from particles, contaminants, biological agents and aeration.

- **Ballast water:** the International Maritime Organisation (IMO) has recently announced the introduction of regulations governing the filtration of ballast water that is discharged by ships. Such regulations will begin to become operational in 2007 and are designed to minimise the impact of invasive aquatic species transferred by ships in ballast water. Amiad is participating in several consortia that develop and test integrated treatment and filtration systems which will need to be approved by the IMO. Amiad has recently sold a commercial system to a German shipyard. One of the requirements of the IMO is for a 50 micron mechanical filtration process which Amiad is ideally suited to provide. New ships are being constructed each year and each of these will need to satisfy the new IMO regulations once they come into force. Depending on the size of a ship, the rate of ballast water discharge ranges from 50-500 m^3 per hour.
- **Water treatment systems:** involve the removal of particles and dissolved materials from water.
- **Prefiltration:** is needed to treat water before it enters a very fine filtration process. Such finely filtered water is required for drinking water and for process water in the petrochemical, power, pharmaceutical and food industries. Demand is driven by increasing regulations relating to the cleanliness of water where automatic screen filters are replacing less efficient media filters and cartridges.
- **Final filtration:** involves the removal of small particles from wastewater at the final point of discharge. Such process involves the fine filtering of sewage particles and is also driven by increasingly stringent regulatory requirements, primarily in Europe.

5 Strategy

The Directors intend to build upon the Company's established technical and marketing expertise by focusing on 4 key areas of development:

Focus on high growth territories

The Group intends to strengthen its presence in high growth territories, including China, India, Mexico and Africa. In July 2005, through its subsidiary Filtration Control Systems PTE Ltd, the Company increased to 50 per cent. its stake in Yixing Taixing Environtec Co. Ltd, a Chinese affiliate, which the Directors believe will allow it to accelerate sales in the rapidly growing Chinese market and lower the cost of manufacturing of steel manual and automatic filters. The market for water treatment and filtration systems in China is currently estimated to be worth approximately \$865 million per annum and is expected to grow to be worth approximately \$1.1 billion per annum by 2007.

Expand product offering focusing on new innovative products

Amiad will refine and improve existing products and develop new ones (such as the ability to filter down to smaller particles), including tailor made systems which will enable the Company to penetrate new markets such as drinking water and cartridge replacement. The Company intends to focus on the industrial & municipal market such as ballast water and prefiltration.

Targeting new high growth markets driven by factors such as regulation

The Company has identified a number of key market segments that are expected to experience strong market growth due to increasing demand for clean water or higher environmental standards. These markets include ballast water for shipping and oil and gas.

Developing and supplying complete water treatment systems

The Company intends to increase substantially its presence in the provision of small to medium sized complete drinking water treatment systems by leveraging its market position and aims to achieve this through corporate activity, such as mergers and acquisitions. This market is currently estimated to be worth approximately US\$1 billion per annum.

6 Research and Development

The Directors believe that one of the Company's key strengths is its ability to develop new products and modify its existing technology in order to address application areas in high growth markets. The Company is currently focusing on the development of its technology to address the following areas:

- Off-shore oil and gas industry

  Amiad is modifying some of its existing filter products to satisfy this market's standards, including special coatings (anti corrosive) and materials for off-shore use, high pressure injection and explosion proof components.

- Naval desalination equipment

  Naval vessels need to desalinate significant quantities of sea water to provide drinking water. To date, desalination filters have taken the form of a large number of cartridges that need regular replacement and take up a large amount of storage space. The Company has modified its technology to provide an automatic self-cleaning screen filter that is expected to replace the first stage cartridges in the desalination systems of naval vessels. The Company has received the approval of the US Navy and Northrop Grumman for the installation of its automatic screen filters on board a US naval vessel.

- High flow filters

  Amiad is developing larger automatic filters that can be used in industries that require a large flow-through of water in a single unit, such as steel mills and other applications that require high flow and have space restrictions.

- Ballast water

  Amiad is modifying some of its existing automatic filters in response to the maritime industry's demand for the high flow-through of water in a short time at low pressure. Modifications include the application of special anti corrosive coatings and heavy duty components for maritime use.

7 Amiad's Competitors

The Directors believe that the Company's high quality design and engineering of its product its proven track records, its existing range of installed equipment and its product innovation and brand names are competitive advantages. The market for filtration systems is fragmented and the Company mainly faces competition in its current key markets of irrigation and industrial & municipal from the companies as shown in Table 6.

Table 6: Amiad's competitors

Competition	Characteristics	Companies
Industry & Municipal	Specific range of products Technical orientation Large and medium sized companies Traditional media filters	Arkal (Isr.) Bernoulli (Sweden) Boll & Kirch (Ger.) Fluid End. (USA) Hayward Filtration (USA) Hydac (Ger) Odis (Isr.) Plenty Filtration (UK) Ronningen – Petter (USA) RP Adams (USA) Taprogge (Ger.)
Irrigation	Small sized local companies Medium sized global companies	Arkal (Isr.) Odis (Isr.) Tekleen (USA)

Competition in the industrial & municipal market is driven by product design and bespoke filtration solutions. Competition in the irrigation market is driven by standardised products, long term relationships and after sales service provision.

8 Manufacturing, Marketing and Distribution

The Company manufactures plastic filters, plastic components, certain metal components and filtration screens principally at its plant at Kibbutz Amiad, Israel. Certain components such as the larger metal fabrication and castings and control system components that are used in Amiad's end products are manufactured by sub-contractors. Amiad undertakes design, engineering, assembly, testing and quality control in-house and markets its products through its subsidiaries, sales offices and worldwide distribution networks. As a result, the Group is able to produce tailored products for various end-customer needs and is able to satisfy demand at short notice, which is a common characteristic of the market.

Amiad's policy is to maintain small quantities of finished products in Israel. Most of the finished products are transported outside Israel and held by its international subsidiaries in order to be near the local end markets. The Directors believe that this enables the Company to meet requirements for short supply times and to bridge the time it would otherwise take to transport products from Israel to destination countries.

Amiad's sales and marketing team is headed by Arie Dayan who is based at the Company's headquarters in Israel. The Company's subsidiaries, located in Singapore, Australia, France, North America and China, take responsibility for the sales and marketing of Amiad's products in their specific geographic areas and, in addition, the Group has representative offices in Germany, Holland and Uruguay. The Dutch office also takes responsibility for the development of the Company's oil and gas related business across Europe. Amiad's subsidiaries and representative offices supply the Company's products to third party distributors in their respective geographic areas. The Group's distributors are set out in paragraph 3 of this Part I.

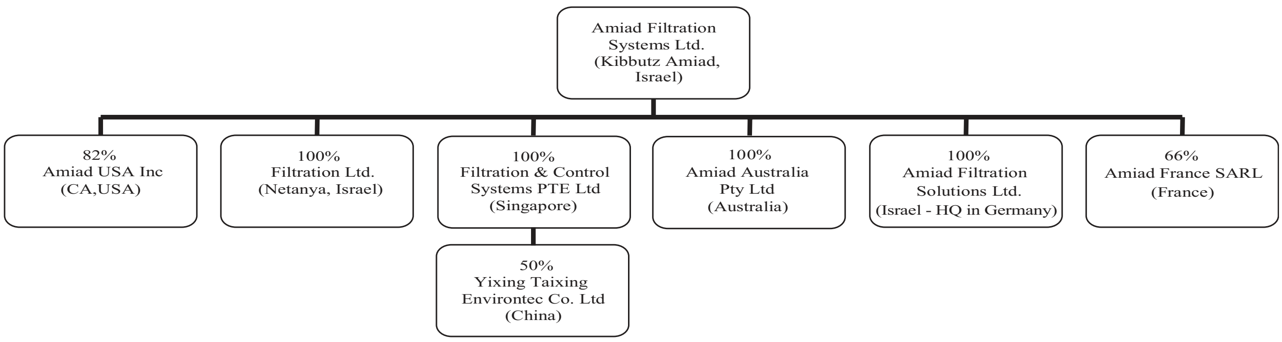
9 Current Trading and Prospects

Trading in the 9 month period to 30 September 2005 developed favourably and was in line with management expectations. Due to the strong start to the year and the underlying strength in the business, the Directors are confident about the Group's prospects for the current financial year and beyond.

10 The Group

The Group's corporate structure is set out below in Chart 3.

Chart 3: Group structure



The Company's headquarters and principal manufacturing facility are located at its 17,595 square metre site, which is leased from and is based at Kibbutz Amiad in Israel. The site includes 9,971 square metres of manufacturing and office building space.

Each of the subsidiaries in Chart 3 above takes responsibility for the sales and marketing of Amiad's products in a specific territory. These responsibilities are allocated as shown in Table 7.

Table 7: Sales and marketing responsibilities

Entity	Territory
Amiad Filtration Systems Ltd.	Israel & International
Amiad U.S.A. Inc.	North America
Filtration Ltd.	Israel & International
Filtration & Control Systems (S)Pte Ltd	Asia (except China) & Pacific Rim
Amiad Australia Pty Ltd	Australia & New Zealand
Amiad France	France & Switzerland
Amiad Filtration Solutions (2004) Ltd.	Germany & Holland
Yixing Taixing Environtec Co. Ltd.	China

Amiad U.S.A. Inc.'s ("Amiad USA") shares are held as to 82 per cent. by Amiad and the remaining shares, 18 per cent., are held by Issac Orlans, a former employee of Amiad and current executive manager of Amiad USA. Amiad USA is engaged in marketing and distributing the Company's products to the US, Canadian and Mexican (irrigation only) markets.

Amiad Australia Pty Ltd. ("Amiad Australia") is engaged in the marketing and distribution of filtering and water treatment products to the industrial and municipal markets in Australia and the surrounding areas. The Group's corporate presence in Australia began in 1984.

Amiad France ("Amiad France") is engaged in the marketing and distribution of the Company's products mainly in the French market. The majority of its shares are held by Amiad (65.8 per cent.) with the remaining 34.2 per cent. divided as follows: Bruno Jauneaud, Amiad France's executive manager, holds 0.2 per cent., Yosef Katz holds 0.2 per cent., Jean-Yves Gautaret, Amiad France's vice president of marketing and sales, holds 11 per cent. and Palinodie holds 22.8 per cent.

Yixing Taixing Environtec Co. Ltd. shares are divided between Amiad Singapore, which holds 50 per cent., and the following individuals: Mr. Xu Bolong, Mr. Yang Yongzhou, who are both directors of Yixing Taixing Environtec Co. Ltd., and Great Victory International Ltd. who hold 36.12 per cent., 6.94 per cent. and 6.94 per cent., respectively.

11 Board of Directors, Senior Management and Employees

Board of Directors

Abraham Heifetz, *Non-executive Chairman – aged 68*

Mr Heifetz was appointed Non-executive Chairman in February 2005. Prior to joining, Amiad he held key positions in several Israeli banking, industrial and governmental companies including Paz Oil Co and the Union Bank of Israel. He has over 40 years of experience in managing companies and was managing director of Israel's Ministry of Economic & Planning offices. Mr Heifetz holds an MBA from Tel Aviv University and a BA in economics from Bar Ilan University.

Yosef Katz, *Chief Executive Officer – aged 57*

Mr Katz has been managing the Company since 1998 and joined the Board in December 2000. Prior to Amiad he was managing director of Habonim Industrial Valves for 10 years. He was a director and the chief of the Internal Auditing Committee of the Israeli Institute of Standards from 1990 to 1999. Mr Katz holds a BSc in mechanical engineering from the Technion Israel Institute of Technology in Hiafa.

Itamar Dov Eder, *Chief Financial Officer – aged 44*

Mr Eder joined the Company as chief financial officer in October 2004 and was appointed to the Board in November 2005. Mr Eder has sixteen years of experience in finance and operations including his position as chief financial officer of Intelligent Information Systems Ltd., a NASDAQ quoted Israeli company, and Surf Communications Solutions Ltd., where he led a $24 million private fundraising. Mr Eder holds an MBA from the Hebrew University of Jerusalem and a BA in economics and management from Ruppin Academic Centre.

Joseph Rokah, *Non-executive Director – aged 53*

Mr Rokah joined the Board in April 2003 and is a senior business initiative adviser in the industrial and commercial sectors including to Israel's Police Force and prison authorities. He is the active chairman of

3 kibbutzim, and ex-chairman of PasGon, a company that specializes in manufacturing and marketing fibreglass based products. He has an extensive background in agricultural economics, management and banking. He holds an MBA and a BSc in agricultural economics and management.

Mordechai Dabi, *Non-executive Director – aged 68*

Mr Dabi joined the Board in January 2002. Mr Dabi is president and chief executive officer of Gaon Agro, part of the B. Gaon Holdings group of companies, which is a substantial shareholder in Amiad. Mr Dabi is also chairman of the Middle East Tube Company and previously held the position of chairman of Hamashbir Holdings (1999) Ltd and Telrad Communication Holdings Ltd.

Michael Rosenberg OBE, *Non-executive Director – aged 66*

Mr Rosenberg joined the Board in November 2005. Mr Rosenberg spent the first 17 years of his career with the merchant bank Samuel Montagu & Co Ltd and became director of corporate finance in 1972. In 1974 he left to join Allied Investments Ltd, a UK supplier of hospital management services in the Middle East and developing countries. In 1988 he was a director of Raphael Zorn Hemsley Holdings Ltd (now Numis Corporation plc) and subsequently became chairman with specific responsibility for corporate finance. He left in 1999 to pursue private interests and is currently on the board of a number of listed and private companies including Pilat Media Global plc, Catalyst Media Group Plc and Dori Media Group Ltd. He is also director of the David Paradine Group of companies founded by Sir David Frost and was a co founder of TV-AM the first commercial breakfast TV channel in the UK. He is a member of the China Britain Business Council and was chairman of the Hong Kong Advisory Committee of the DTI.

Nathalie Schwarz, *Non-executive Director – aged 35*

Ms Schwarz joined the Board in November 2005. Ms Schwarz qualified as a lawyer in 1995 at leading global law firm Clifford Chance where she specialised in corporate finance, international mergers and acquisitions, corporate structurings and private equity. In 1998, Ms Schwarz joined Capital Radio plc as Company Secretary and General Counsel. She was appointed as Executive Director of Strategy and Business Development. Whilst at Capital Radio, Ms Schwarz led the group's acquisition of Border Television, including the Century radio stations, the sale of the Border television business to Granada Media plc, the acquisitions of Beat FM in Scotland, Choice FM in London and Big AM in Manchester. She also participated in the digital radio market, licence applications, interactive development, consumer insight, commercial development, licensing and content exploitation.

Senior Management

Arik Dayan, *V.P. Sales & Marketing – aged 40*

Mr Dayan first joined the Company in 1997 as the general manager of Amiad Singapore. In September 2003, Mr Dayan rejoined the Company as an international business development executive and in March 2004 he became the Company's vice president for sales & marketing. Mr Dayan was previously the Managing Director of SunGard Business Integration Asia Pacific, a software company specialising in the financial markets. Mr Dayan holds a BA in Economics and Business Administration from Ruppin Academic Centre.

Oded Rosen, *Vice President Production Operations – aged 62*

Oded Rosen has served in the position of vice president of production operations for the past ten years. Under his supervision are the production departments, warehouses and the acquisitions department. Prior to this, Mr Rosen held the position of production manager at Amiad for 8 years during which major departments were rebuilt and enhanced. Mr Rosen's experience includes over 5 years managing Galil Elyon – Citrus Packaging Plant. Mr Rosen studied Agricultural Engineering at Tel Hai College, Israel.

Ruben Shtekelmacher, *Chief Technology Officer – aged 63*

Mr Schtekelmacher has been at Amiad for the past 13 years, initially as the development engineer and later as chief engineer, Mr Schtekelmacher was appointed CTO in 2003. He manages the research and development department and all technical development at Amiad. Prior to joining Amiad, Mr Schtekelmacher managed Diuk Hydraulica, a factory that supplied services to special automated hydraulic systems. He holds a technical engineering certificate from Ruppin Academic Center and Tel Hai College, in addition to a teaching certification from Oranim – Teacher's Seminary.

Employees

As at 30 June 2005, the Group had a workforce of 260 people worldwide (not including 45 persons employed in China), of whom 70 were provided pursuant to the Manpower Agreement. As at that date, the workforce was divided into the following areas of activity:

- Production – 87 persons
- Marketing – 77 persons
- Engineering – 26 persons
- Logistics and support – 33 persons
- Finance and management – 18 persons
- Other – 19 persons

12 Placing and Use of Proceeds

By way of the Placing, the Company is proposing to raise approximately £6.5 million, before expenses, through the issue of 5,045,965 new Ordinary Shares to be issued pursuant to the Placing, representing approximately 25.9 per cent. of the issued share capital of the Company immediately following Admission, on a fully diluted basis.

In addition, Gaon Agro is proposing to sell 1,164,454 Ordinary Shares for a consideration of approximately £1.5 million before expenses. Information relating to the Selling Shareholder is set out in paragraph 17 of this Part I of this document.

The net proceeds of the Placing available to the Company will be used principally:

- to develop sales and marketing capabilities with a focus on high growth territories such as:
  - China – including further development of the joint venture company, Yixing Taixing Environtec Co. Ltd.
  - India
  - Mexico
  - Africa
  - Eastern Europe
- to develop new products to:
  - to expand the Group's product offering into new innovative products;
  - to target new high growth markets driven by factors such as regulation (e.g. ballast water, prefiltration and oil and gas sectors);
- to strengthen Amiad's position in complete water treatment systems through selective acquisitions and/or the establishment of capabilities in this area;
- to repay up to £1.5 million of loans due to AMS (Kibbutz Amiad) and Gaon Agro; and
- to strengthen the Company's balance sheet and provide working capital for general, Group-wide applications.

Pursuant to the Placing, the Placing Shares have been placed, conditional on Admission, with institutional investors in the United Kingdom at the Placing Price. The 5,045,965 new Ordinary Shares to be issued pursuant to the Placing will be issued as fully paid and will, on issue, rank *pari passu* in all respects with the existing Ordinary Shares already in issue at Admission.

Application has been made for the Placing Shares to be admitted to AIM.

13 Dividend Policy

The Company has historically paid a dividend. Subject to the future performance of the Company and its funding requirements, the Directors expect that the Company will be able to continue to do so, and that the Company may pay dividends of up to 50 per cent. of the Company's net profits in the relevant calendar year. The Company expects to pay a dividend in April 2006 for the year ending 31 December 2005 and a dividend in September 2006 as an interim dividend for the year ending 31 December 2006.

Under the Israeli Act, dividends may only be paid out of the Company's retained earnings accrued over the last two years or the Company's aggregate retained earnings, whichever is higher, based on the Company's last financial statements (audited or reviewed), provided that such statements relate to a period not earlier than six months before the proposed distribution. Under the Israeli Act, the Board is authorised to declare dividends, provided that there is no reasonable concern that the dividend will prevent the Company from satisfying its existing and foreseeable obligations as and when they become due. The Board intends to ensure that any future dividend will be funded from taxable company income, not income derived from tax exempt "Approved Enterprise" status. Further information on the Company's "Approved Enterprise" status is set out in note 24a of Part III of this document and paragraph 11.1 of Part IV of this document.

On 9 November 2005 and 23 November 2005, the Company distributed to its shareholders a dividend of NIS10 million and NIS760,000 respectively from the Company's accrued net profits as at 31 December 2004. Upon making such distribution, each of the shareholders loaned to the Company an amount equal to the dividend it received. The loans will be repaid by the Company following Admission.

A summary of the taxation of dividends is set out in paragraph 11 of Part IV of this document.

14 Financial Reporting

The Company's accounting reference date is 31 December and, in accordance with the AIM Rules, it is the Directors' intention that the Company will report its full year results each year within 6 months of the relevant year end and its half year results within 3 months of the end of the relevant half year. In addition, for so long as Gaon Agro remains a substantial shareholder in Amiad and, under applicable Israeli securities rules, for so long as Gaon Agro is required to annex the Company's financial statements to its financial statements, it is envisaged that the Company will also issue quarterly results. As and when Gaon Agro ceases to be a substantial shareholder in Amiad or is otherwise no longer required to include financial information on Amiad in its financial statements, the Directors will reconsider the need for ongoing quarterly reporting. Further details of the information agreement between the Company and Gaon Agro which governs the provision of information from the Company to Gaon Agro are set out in paragraph 12.7 of Part IV of this document.

15 Corporate Governance

The Directors recognise the importance of sound corporate governance and intend that the Company will comply with the main provisions of the Combined Code and the QCA Guidelines insofar as they are appropriate given the Company's size and stage of development and insofar as is permitted by the Israeli Act. The Company also intends to comply with the applicable corporate governance requirements under Israeli law. Further details of these are set out below.

Board

The Board includes five non-executive Directors, Abraham Heifetz, Joseph Rokah, Mordechai Dabi, Nathalie Schwarz and Michael Rosenberg, of whom Ms Schwarz and Mr Rosenberg are independent. In addition, the roles of chairman and chief executive have been separated and clearly defined. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The Company intends to hold board meetings at least four times each financial year and at other times as and when necessary.

Committee and Internal Auditor

Under the Israeli Act, the board of directors of a public company must appoint an audit committee from among its members, which must include at least three directors. The number of members of the audit committee must be no fewer than three directors, including the two "external directors" which every Israeli public company is required to have. The Company has established an audit committee of the Board with formally delegated duties and responsibilities.

The audit committee will have primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It will receive and review reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The audit committee will meet not less than three times in each financial year and will have unrestricted access to the Company's auditors. Under the Israeli Act, the audit committee's roles also include the review and approval of certain related party transactions and the remuneration of directors.

The audit committee will review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The audit committee will also consider and approve the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time.

The audit committee will meet as and when necessary to assess the suitability of candidates proposed for appointment to the Board. In exercising this role, the members of the audit committee will have regard to the recommendations put forward in the Combined Code.

The audit committee consists of three non-executive directors as required by the Israeli Act, namely Nathalie Schwarz, Michael Rosenberg and Mordechai Dabi, with Mordechai Dabi acting as chairman of the committee. It should be noted that Mordechai Dabi is not independent under the terms of the Combined Code and that, accordingly, the composition of the audit committee does not comply with either the Combined Code or the QCA Guidelines.

Under the Israeli Act, the board of directors of a public company must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine whether such public company's actions comply with the law, integrity and orderly business procedure. The internal auditor must not be an interested party or office holder, or a relative of any interested party or office holder, or a member or representative of the Company's external auditors. The Israeli Act defines the term "interested party" for such purposes so as to include a person who holds five per cent. or more of the Company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager or any person who serves as a director or as the general manager. The internal auditor will be appointed by the Directors following Admission pursuant to the recommendation of the audit committee.

Pursuant to the provisions of the Israeli Act, the functions of the remuneration and nomination committees are carried out by the audit committee and, therefore, the Company will not have separate remuneration and nomination committees as provided for by the Combined Code. However, it is intended that the functions of a typical remuneration and nomination committees established pursuant to the provisions of the Combined Code will, insofar as possible under the Israeli Act, be carried out by the audit committee of the Board.

Share Dealings

The Company has adopted, with effect from Admission, a model code for directors and employee share dealings which, taking account of the fact that the Company is incorporated in Israel, is appropriate for a company whose securities are traded on AIM and is in accordance with Rule 21 of the AIM Rules.

External Directors

The Israeli Act requires public companies to elect at least two members who qualify as "external" directors under the Israeli Act. At least one of the external directors must have a "financial and accounting speciality", and the other of the external director(s) must have a "professional qualification". The conditions and criteria for a director qualifying as having a financial and accounting speciality or a professional qualification (as the case may be) are to be set out in regulations to be adopted under the Israeli Act. The board of directors must, within 90 days of the promulgation of such regulations, determine the minimum number of directors (if any) who must have financial and accounting speciality in addition to the external director.

Each external director must meet certain standards of independence at the time of his or her appointment and during the two year period prior to such appointment. Pursuant to such standards, an external director may not have, at the time of his or her appointment and during the period of two years prior to his or her appointment, any affiliation with the Company, its controlling persons or any entity which was controlled by the Company or any of its controlling persons at the time of his or her appointment or at any time during the two year period immediately prior to his or her appointment. Affiliation includes employment relationships, business and professional relationships on a regular basis, control relationships and service as an office holder. The term "affiliation" does not include an affiliation resulting from such person being appointed to serve as a director of the company during the period that the company's shares are about to be offered for the first time to the public. In addition, a person may not be appointed as an external director if his/her other activities or position create or are likely to create a conflict of interest with his/her service as a director.

Under the Israeli Act, an external director must be appointed at a general meeting of shareholders of the Company within three months following Admission. An extraordinary general meeting of shareholders of the Company will therefore be convened within three months of Admission in order to propose the appointment of two external directors for the purposes of the Israeli Act.

The resolution to appoint external directors must be adopted by a simple majority of the votes cast at the general meeting, provided that either at least one-third of the shares of those persons who qualify as "non-controlling shareholders" of the Company present at the meeting (excluding the votes of any shareholders who abstain) are voted in favour of such appointment, or the total shares voted against such appointment constitute less than one per cent. of the Company's total voting power. Subject to the provisions of the Israeli Act, a statutory external director may only be removed from office (so that his directorship shall expire):

(a) by a competent court which, upon request of a director or shareholder of the Company, determines that the director no longer complies with any of the statutory qualifications for being appointed as an external director or that the director has breached his or her fiduciary duty to the Company; or

(b) by a shareholders' resolution passed by the same majority required for the appointment of a statutory external director provided that the Board has determined that either (i) he/she no longer complies with the conditions set out in the Israeli Act for the appointment of such a director or (ii) he/she has breached his/her fiduciary duty to the Company.

Each of the statutory external directors must be eligible to be appointed as a director. If, at the time of the appointment of a statutory external director, all of the members of the board of directors are of one gender, the statutory external director who is appointed must be of the other gender. Each statutory external director is appointed for a term of three years, which may be extended for one additional three year term.

An external statutory director is entitled to compensation solely as provided by regulations made under the Israeli Act and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with his or her service as an external director.

16 Controlling Shareholder

On Admission, Kibbutz Amiad will hold, directly or indirectly, 10,200,000 Ordinary Shares which, immediately following Admission, will represent approximately 52.3 per cent. of the issued share capital of the Company, on a fully diluted basis. As such, Kibbutz Amiad will be a controlling shareholder of Amiad. Pursuant to the Share Option Plan, Kibbutz Amiad is a beneficiary of options exercisable over 77,336 Ordinary Shares, which will represent approximately 0.4 per cent. of the issued share capital of the Company, on a fully diluted basis, immediately following Admission.

At the date of this document, Kibbutz Amiad and Gaon Agro are parties to a number of agreements relating to their interests in shares in, and the management of, Amiad. Upon Admission, all of these agreements will be terminated and replaced with a letter of undertaking between Kibbutz Amiad and AMS (a company controlled by Kibbutz Amiad) in favour of Gaon Agro, pursuant to which Kibbutz Amiad), for so long as Gaon Agro holds Ordinary Shares representing not less than 10 per cent. of the Company's issued share capital, will:

(i) covenant to vote its Ordinary Shares in favour of the appointment of at least one director to the Board designated by Gaon Agro;

(ii) undertake to allow Gaon Agro to participate on a pro rata basis in any material sale of Kibbutz Amiad's Ordinary Shares; and

(iii) not vote in favour of a resolution brought before a general meeting of the Shareholders in respect of the liquidation of the Company, its merger with or acquisition of another company, the entry by the Company into material agreements and the engagement or dismissal of the Company's chief executive officer, provided that Gaon Agro notifies Kibbutz Amiad in writing that the proposed resolution conflicts with the Company's best interests. If such notice is given, Kibbutz Amiad may refer the matter for final determination by the Company's solicitors (or a person designated by such solicitor) if the kibbutz considers Gaon Agro to be conflicted.

The letter of undertaking will expire upon a change of control of Gaon Agro. The letter of undertaking is non-assignable. However, Gaon Agro, as part of a sale of its Ordinary Shares, may assign its right to appoint a director to the Board to any third party who holds at least 15 per cent. of the issued share capital of the Company.

17 The Selling Shareholder and lock-in arrangements

The Selling Shareholder is proposing to sell, 1,164,454 Ordinary Shares pursuant to the Placing, representing 32.1 per cent. of the number of Ordinary Shares held by them upon Admission.

Immediately following Admission, Gaon Agro will hold 2,462,304 Ordinary Shares, representing 12.6 per cent. of the issued share capital of the Company, on a fully diluted basis.

Under the terms of the Placing Agreement, the Directors and Gaon Agro have each agreed, amongst other things, not to dispose (and to procure that none of their connected persons will dispose) of any of their Ordinary Shares in the period of 12 months from Admission and, for a further period of 12 months thereafter, only to dispose of their Ordinary Shares through Panmure Gordon (for so long as Panmure Gordon continues to act as nominated adviser and broker to the Company), subject to certain specified exceptions. In addition, a lock-in agreement has been entered into by Kibbutz Amiad and AMS in favour of the Company and Panmure Gordon. The terms of the Lock-in Agreement correspond to the lock-in arrangements accepted by Gaon Agro in the Placing Agreement.

Further details of the Placing Agreement and of the Lock-in Agreement are set out in paragraphs 10 and 12.1 of Part IV of this document.

18 Details of Share Options

The Company has established a share option plan in order to assist in the retention and motivation of its Directors and senior employees. Further details of the Share Option Plan are set out in paragraph 5 of Part IV of this document.

19 Admission, Settlement and Dealings

Application has been made to the London Stock Exchange for the entire issued and to be issued share capital of the Company to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Ordinary Shares will commence on 5 December 2005.

Securities of non-UK incorporated companies, such as the Company, cannot be held or transferred in CREST, a computerised paperless share transfer and settlement system which allows shares and other securities to be held in electronic, rather than paper, form. However, to enable investors to settle such securities through CREST, a depositary or custodian can hold the relevant securities and issue dematerialised DIs representing the underlying securities, which are held on trust for the holders of the DIs. The Articles, permit the Company to issue DIs in uncertificated form.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. The Ordinary Shares will not themselves be admitted to CREST. Instead, Capita IRG Trustees Limited, acting as depository, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through CREST. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing.

Application has been made by Capita IRG Trustees Limited for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Further details on the arrangements in respect of DIs are set out in paragraph 16 of Part IV of this document.

20 Additional Information

The attention of prospective investors is drawn to the information contained in Parts II to IV of this document which provides additional information on the Group. In particular, prospective investors are advised to consider carefully Part II of this document, entitled “Risk Factors”.

PART II — Risk factors

An investment in the Ordinary Shares involves a high degree of risk. Accordingly, prospective investors should carefully consider the specific risk factors set out below in addition to the other information contained in this document before investing in the Ordinary Shares. In addition to the other information contained in this document, the Board considers the following risks to be the most significant for potential investors in the Company and should be considered carefully in evaluating whether to make an investment in the Company, but the risks listed below do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority.

If any of the following risks actually occurs, the Group's business, financial condition, capital resources, results and/or future operations could be materially adversely affected. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment. Additional risks and uncertainties not currently known to the Board may also have an adverse effect on the Group's business and the information set out below does not purport to be an exhaustive summary of the risks affecting the Group.

An investment in the Ordinary Shares described in this document is speculative. Potential investors are accordingly advised to consult a person authorised for the purposes of FSMA who specialises in advising on investments of this kind before making any investment decisions. A prospective investor should consider carefully whether an investment in the Company is suitable in light of his or her personal circumstances and the financial resources available to him or her.

Considerations relating to the Group's business and financial condition

The Company's results have fluctuated in the past and sustained revenue and profit growth may not be achievable.

The results of the Company's operations may fluctuate, as has occurred in the past. In addition, the Company will, at least initially, report on a quarterly basis (see paragraph 14 of Part I of this document) which may reflect short term seasonal fluctuations in revenues and profitability. The Company may not be able to achieve sustained revenue growth and profitability in the future as its results are influenced by a number of factors, many of which are beyond the Company's control. Ultimately, if the Company does not realise sufficient revenue levels to sustain profitability, it may require additional financing, which may or may not be available.

If the Company is unable to retain its current personnel and to hire and retain additional appropriately qualified personnel, its ability to successfully develop and market its products could be harmed.

The future success of the Company depends to a significant extent on its ability to hire and retain key development, sales, operational and financial personnel. Although the Company has entered into contracts with certain of its current key personnel, there can be no assurance that the Company will be able to continue to retain and attract qualified personnel for the development of the Company's products and business.

The Company's future operating results will be highly dependent upon how well it manages its growth.

The Company has experienced, and may continue to experience, periods of sustained growth and expansion of its business. This growth and expansion could place a significant strain on the Company's limited financial, management and other resources, particularly if such growth and/or expansion occurs rapidly.

Amiad's international operations expose it to further risks that it would not otherwise face.

Due to the fact that the Company sells the majority of its products outside Israel, it is subject to additional risks relating to operating in foreign countries. These risks include: difficulties in managing and administering a globally-dispersed business and financial interests; applicable foreign regulations; difficulty in enforcing or adequately protecting intellectual property; and economic weakness or political instability in particular foreign economies and markets.

The Company may be unable to prevent copying of its products and adequately protect its intellectual property.

The Directors believe that certain characteristics of some of the Company's products may have been replicated by other industry participants in the past, and that this practice may continue. In the past, the Company determined that the costs of applying and prosecuting registration of the Company's intellectual property, or otherwise protecting and ensuring against such replication, outweighed the benefit to the Group. Whilst there can be no guarantee that replication will not occur again in the future, the Directors are of the opinion that any such replication will not have a material impact on the Company's ability to generate revenues and that such replicas are not likely to exhibit the same design and build quality or after-sales service as Amiad's own products.

Even where the Company may choose to apply for protection its intellectual property, the nature of the Company's products and the industry in which it competes often make it difficult to identify infringement of intellectual property rights by other participants. This, together with the protracted and costly nature of litigation, may make it difficult to take swift or decisive action to prevent infringement of the Company's rights.

No assurance is given that the Group will develop intellectual property and products which are capable of being protected or that the Company will seek protection for such intellectual property or products or that any protection gained will be sufficiently broad in its scope to protect the Group's intellectual property rights and exclude competitors from developing similar competing products or technologies. The commercial success of the Group will also depend, in part, on its current and future products not infringing intellectual property owned by third parties. Competitors may have filed applications to protect their intellectual property, or may have been granted protection for their intellectual property rights which may relate to products which compete with those of the Group and of which the Group is not aware.

Fluctuations in raw material prices.

Raw materials, including metal and plastic components, make up a large proportion of the Company's cost of sales. The Company has no control over changes in the prices of such components and as a result, its margins and profitability may be affected.

The Company's ability successfully to innovate and develop new products, markets and territories.

Whilst the Directors believe that the Company is innovative and that it has identified new application areas, there can be no guarantee that the Company will successfully develop and penetrate new markets, application areas or territories. There is no assurance that the Company will be able to succeed in penetrating the segments and applications it has already identified: ballast water, prefiltration, off shore oil and gas and water treatment systems.

Considerations relating to the Company's industry

Amiad faces competition and may not be able to compete effectively.

The market in which Amiad operates is highly competitive and is characterised by technological change, evolving standards in water quality and the ever increasing demand from consumers and corporations for water. The Company faces increased competition from large multinational and medium-sized companies, as well as smaller regional companies, in many of the markets in which it operates. Certain of the Company's competitors have greater financial and technological resources, larger sales and marketing organisations and greater name recognition than the Company, and may therefore be better able to adapt to changes and trends in the industry. The Company is unable to assure investors that future competitors will not emerge, develop and/or introduce new products which will compete with those of Amiad on grounds of superior technology, lower price or otherwise.

Amiad may face competition from manufacturers in emerging economies.

Amiad operates in an industry where pricing is an important factor in influencing customers' purchasing decisions. Amiad may not be able to compete on the basis of product price with competing products manufactured in emerging economies, such as China and India, where input prices of labour and raw materials can often be lower than those of Israel.

Industry growth rate may be affected by pace of regulatory charge.

The growth of the water filtration and treatment industry within which Amiad operates has benefited in the past from the introduction of regulations and standards relating to the quality and cleanliness of drinking water, sewage and input/output water for industrial processes. There can be no guarantee that the price of regulatory charge will continue and, as a result, the principal drivers of growth in the industry may not continue in the future.

New technologies may be developed that usurp the Company's current products.

Although the Directors are not currently aware of any such new technologies, there is a risk that new non-mechanical technologies for filtering particles from water could be developed which may adversely affect the Company's ability to generate revenues.

Part II — Risk factors

Risks related to the Company's operations in Israel

The Company is exposed to exchange rate fluctuations as a result of its international operations.

As a consequence of the international nature of the Company's business, Amiad is exposed to risks associated with changes in foreign currency exchange rates. The Company receives revenues in a wide range of currencies, but its costs are primarily in NIS. The Company is therefore exposed to foreign currency risk due to fluctuations in exchange rates. This may result in gains or losses with respect to movements in exchange rates which may be material and may also cause fluctuations in reported financial information that are not necessarily related to the Company's operating results.

Potential political, economic and military instability in Israel may harm the Company's results or operations.

The Company's principal offices are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect the Company's operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and her Arab neighbours. A state of hostility, varying in degree and intensity, has led to security and economic problems in Israel. The future of peace efforts between Israel and her Arab neighbours remains uncertain. Any future armed conflicts or political instability in the region could negatively affect business conditions and harm the Company's operations. In addition, several countries still restrict business with Israel and Israeli companies. These restrictive laws and policies may adversely affect the Company. Similarly, sanctions or boycotts against Israel, Israel-related companies and/or products could materially adversely affect the Group's operations and financial performance.

The Company's operations may be adversely affected by the obligation on the Company's personnel to perform military service.

Some of the Company's executive officers and employees in Israel are obliged to perform annual military reserve duty. In addition, in the event of a military conflict or war, these persons could be required to serve in the military for extended periods of time. The Company's operations could be disrupted by the absence for a significant period of one or more of the Company's executive officers or key employees due to military service. Any disruption to the Company's personnel may adversely affect the Company.

The City Code on Takeovers and Mergers.

Amiad is incorporated in Israel and its head office and place of central management is in Israel. Accordingly, transactions in Ordinary Shares are not subject to the provisions of the UK City Code on Takeovers and Mergers (the "City Code"). Under the Israeli Act, a potential bidder for the Company's shares, who would as a result of a purchase of Ordinary Shares hold either (i) 25 per cent. or more of the voting rights in the Company where no other Shareholder holds 25 per cent. or more of the voting rights or (ii) 45 per cent. or more of the voting rights in the Company where no other Shareholder holds 50 per cent. or more of the voting rights, would be required to make a special purchase offer (tender offer) as set out in the provisions of the Israeli Act.

The Israeli Act requires a special purchase offer to be submitted to shareholders. A majority acceptance is required to accept the offer. An offeror who is regarded as a "controlling shareholder" under the Israeli Act will be disregarded. A special purchase offer may not be accepted unless shares that carry at least five per cent. of the voting rights in the target company are acquired.

Israeli law.

Amiad is incorporated under Israeli law. The rights and responsibilities of Shareholders will be governed by the Articles and by Israeli law and these differ in some respects from the rights and responsibilities of shareholders under English law. In particular, a shareholder of an Israeli company has the duty to act in good faith towards the company and other shareholders and to refrain from abusing his power in the company, including, amongst other things, in voting at the general meeting of shareholders on certain matters.

Additionally, as the Company is incorporated in Israel, the vast majority of its executive officers and Directors are non-residents of the UK, and a substantial portion of its assets and the assets of those persons are located outside the UK. Therefore, it may be difficult to enforce a judgment obtained in the UK against the Company or any of these persons. It may also be difficult to enforce civil liabilities under UK securities laws in actions instituted in Israel.

Tax benefits available to the Company require it to meet several conditions and may be terminated or reduced in the future which could increase its tax liability.

The Company's qualification as an "Approved Enterprise" under Israeli tax law entitles it to certain tax benefits with respect to certain of its activities in Israel. To maintain its qualification as an "Approved

Enterprise", the Company must continue to meet conditions set forth under Israeli law and the approvals received from the Investment Centre under such law. If the Company fails to comply with these conditions, the benefits it receives could be cancelled or reduced and the Company could be required to pay increased taxes or refund the amounts of the tax benefits it has already received, together with interest. The termination or reduction of these tax benefits, or the Company's inability to get approvals for expanded or new programmes, could increase its tax liability, thereby reducing profits.

Other considerations relating to an investment in Ordinary Shares

Substantial future sales of Ordinary Shares could impact the market price of Ordinary Shares. There has been no prior public market in the Ordinary Shares before and an active trading market may not develop or be sustained in the future.

Existing Shareholders will continue to have substantial control over the Company after completion of the Placing, so potential investors may not be able to influence the outcome of some of the Company's important decisions.

The Company is seeking to be admitted to trading on AIM, and as such, there is a liquidity risk for Shareholders. It may be more difficult for an investor to realise his or her investment in a small AIM traded company than in an Official List company. AIM has been in existence since June 1995, but its future success and liquidity as a market for the Ordinary Shares cannot be guaranteed. The share price of publicly traded emerging companies can be highly volatile. The price at which the Ordinary Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect quoted companies generally. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up, and investors may, therefore, not recover their original investment especially as the market in the Ordinary Shares may have limited liquidity.

Forward-looking statements in this Admission Document are no guarantee of future performance and only reflect the views and assumptions as of the date of this document and are subject to risks, uncertainties, market conditions and other factors, some of which are beyond the control of the Company and are difficult to predict.

Part III — Financial Information of Amiad Filtration Systems Ltd.

ERNST & YOUNG

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November 29, 2005

The Directors
Amiad Filtration Systems Ltd.
Kibbutz Amiad
Israel

Dear Sirs,

Amiad Filtration Systems Ltd.

We report on the financial information set out on pages 26 to 48 as at 31 December 2002, 2003 and 2004 and as at 30 June 2005 and of profits, cash flows and changes in equity for the periods then ended but excluding the unaudited financial information for the period ended 30 June 2004 set out on those pages ("The financial information"). The financial information has been prepared for inclusion in the AIM admission document dated 29 November, 2005, of Amiad Filtration Systems Ltd. on the basis of the accounting policies set out in Note 2. This report is required by Schedule Two the AIM rules and is given for the purpose of complying with that schedule and for no other purpose.

Responsibilities

The Directors of Amiad Filtration Systems Ltd. are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the AIM admission document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM admission document dated November 29, 2005, a true and fair view of the state of affairs of Amiad Filtration Systems Ltd. as at 31 December 2002, 2003 and 2004 and as at 30 June 2005 and of its profits, cash flows and recognised gains for the periods then ended in accordance with the basis of preparation set out in Note 2.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

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

Consolidated Balance Sheets

	Note	June 30, 2005	2004	December 31, 2003	2002
				U.S. dollars in thousands	
Assets					
Current assets:					
Cash and cash equivalents	3	2,900	2,004	1,787	1,762
Marketable securities		77	307	39	—
Trade receivables	4	14,601	11,055	9,920	8,943
Other accounts receivable	5	1,159	1,078	1,008	1,142
Inventories	6	8,797	8,483	5,573	6,151
Total current assets		27,534	22,927	18,327	17,998
Non-Current assets:					
Loan to a jointly controlled entity	7	241	256	246	—
Loans to a related party	8	398	400	359	306
Severance pay fund	16	532	538	420	278
Long-term receivables	9	112	228	141	104
Fixed assets, net	10	2,783	2,544	2,028	2,077
Other assets, net	11	2,703	2,872	3,283	4,099
Deferred taxes	24d	891	696	546	486
Total non-current assets		7,660	7,534	7,023	7,350
Total assets		35,194	30,461	25,350	25,348
Liabilities and equity					
Current liabilities:					
Credit from banks and others	12	8,620	5,866	6,962	7,184
Trade payables	13	6,839	6,002	4,205	4,105
Other accounts payable	14	4,078	4,454	2,850	3,000
Total current liabilities		19,537	16,322	14,017	14,289
Non-current liabilities:					
Liabilities to banks and others	15	4,879	4,319	2,725	3,609
Accrued severance pay	16	558	571	536	437
Deferred taxes	24d	700	712	768	808
Total non-current liabilities		6,137	5,602	4,029	4,854
Total liabilities		25,674	21,924	18,046	19,143
Charges, contingent liabilities and commitments	17				
Equity					
Equity attributable to equity holders of the parent	18	9,365	8,299	7,116	6,196
Minority interest		155	238	188	9
Total equity		9,520	8,537	7,304	6,205
Total liabilities and equity		35,194	30,461	25,350	25,348

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

November 29, 2005			
Date of approval of the financial statements	Avi Hefetz Chairman of the Board of Directors	Yossef Katz CEO and Director	Itamar Eder Chief Financial Officer

Consolidated Statements of Income

	Note	Six months ended June 30, 2005	Six months ended June 30, 2004	Year ended December 31, 2004	2003	2002
			U.S. dollars in thousands (except per share data)			
		Audited	Unaudited	Audited	Audited	Audited
Revenues from sales	19	21,768	18,919	36,934	34,420	33,732
Cost of sales	20	10,483	9,531	18,376	17,028	16,543
Gross profit		11,285	9,388	18,558	17,392	17,189
Selling and marketing expenses	21	5,291	4,546	9,774	8,470	8,823
General and administrative expenses	22	2,761	2,629	5,562	5,421	5,488
Amortization of other assets	11	169	206	411	625	597
		8,221	7,381	15,747	14,516	14,908
Operating income		3,064	2,007	2,811	2,876	2,281
Financial expenses, net	23	623	448	249	1,012	278
Other income (expenses), net		(375)	(16)	23	(10)	(3)
Income before taxes on income		2,066	1,543	2,585	1,854	2,000
Taxes on income	24e	583	683	864	649	832
Net income		1,483	860	1,721	1,205	1,168
Attributable to:						
Equity holders of the parent		1,530	876	1,671	1,247	1,145
Minority interest		(47)	(16)	50	(42)	23
		1,483	860	1,721	1,205	1,168
Basic and diluted earnings per share (in U.S. dollars)	25	0.26	0.14	0.27	0.20	0.18

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

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the parent								
	Share capital	Capital reserves	Perpetual debenture *)	Foreign currency translation reserve	Retained earnings (accumulated deficit)	Total	Minority interest	Total equity	Total recognized income (expense) **)
	U.S. dollars in thousands								
Balance at January 1, 2002	1,497	1,020	2,801	—	(154)	5,164	(14)	5,150	—
Interest on perpetual debenture *)	—	—	—	—	(113)	(113)	—	(113)	—
Exchange differences on perpetual debenture	—	—	(190)	—	190	—	—	—	—
Net income	—	—	—	—	1,145	1,145	23	1,168	1,145
Balance at December 31, 2002	1,497	1,020	2,611	—	1,068	6,196	9	6,205	1,145
Transition to proportionate consolidation	—	—	—	—	—	—	221	221	—
Interest on perpetual debenture *)	—	—	—	—	(113)	(113)	—	(113)	—
Exchange differences on perpetual debenture	—	—	213	—	(213)	—	—	—	—
Currency translation differences	—	—	—	41	—	41	—	41	41
Dividend	—	—	—	—	(255)	(255)	—	(255)	—
Net income	—	—	—	—	1,247	1,247	(42)	1,205	1,247
Balance at December 31, 2003	1,497	1,020	2,824	41	1,734	7,116	188	7,304	1,288
Interest on perpetual debenture *)	—	—	—	—	(113)	(113)	—	(113)	—
Exchange differences on perpetual debenture	—	—	47	—	(47)	—	—	—	—
Currency translation differences	—	—	—	(2)	—	(2)	—	(2)	(2)
Dividend	—	—	—	—	(373)	(373)	—	(373)	—
Net income	—	—	—	—	1,671	1,671	50	1,721	1,671
Balance at December 31, 2004	1,497	1,020	2,871	39	2,872	8,299	238	8,537	1,669
Interest on perpetual debenture *)	—	—	—	—	(54)	(54)	—	(54)	—
Exchange differences on perpetual debenture	—	—	(167)	—	167	—	—	—	—
Currency translation differences	—	—	—	60	—	60	—	60	60
Dividend	—	—	—	—	(470)	(470)	(36)	(506)	—
Net income	—	—	—	—	1,530	1,530	(47)	1,483	1,530
Balance at June 30, 2005	1,497	1,020	2,704	99	4,045	9,365	155	9,520	1,590

*) See Note 18b.

**) Attributable to equity holders of the parent.

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

Consolidated Statements of Cash Flows

	Six months ended June 30, 2005	Six months ended June 30, 2004	Year ended December 31, 2004	2003	2002
			U.S. dollars in thousands		
	Audited	Unaudited	Audited	Audited	Audited
Cash flows from operating activities:					
Net income	1,483	860	1,721	1,205	1,168
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(3,577)	(38)	92	(140)	1,498
Net cash provided by (used in) operating activities	(2,094)	822	1,813	1,065	2,666
Cash flows from investing activities:					
Purchase of fixed assets	(679)	(418)	(1,151)	(856)	(528)
Investment grants received	53	40	128	132	63
Disposal of (investment in) marketable securities	225	(13)	(261)	(39)	—
Transition to proportionate consolidation (b)	—	—	—	(2)	—
Proceeds from sale of fixed assets	16	—	46	51	710
Refund of portion of consideration for acquisition of subsidiary	—	—	—	191	—
Withdrawal of (investment in) deposits in purchasing cooperatives	—	—	—	299	(299)
Long-term loan granted to a related party and others	(56)	(56)	(154)	(121)	(309)
Collection of long-term loan granted to a related party	34	—	57	59	77
Net cash used in investing activities	(407)	(447)	(1,335)	(286)	(286)
Cash flows from financing activities:					
Dividends paid to the minority interest	(36)	—	—	—	—
Dividends paid to equity holders of the parent	—	(356)	(373)	(255)	—
Interest on perpetual debenture	(81)	(54)	(109)	(110)	(55)
Receipt of long-term loans and other liabilities	1,636	1,642	2,911	645	1,888
Repayment of long-term loans	(855)	(909)	(1,662)	(1,493)	(1,364)
Repayment of loan from sellers of subsidiary	—	—	—	—	(1,652)
Receipt of loans from others	—	233	233	—	—
Short-term credit from banks, net	2,640	(603)	(1,280)	418	(267)
Net cash provided by (used in) financing activities	3,304	(47)	(280)	(795)	(1,450)
Effect of exchange rate changes on cash and cash equivalents	93	6	19	41	—
Increase in cash and cash equivalents	896	334	217	25	930
Cash and cash equivalents at the beginning of the period	2,004	1,787	1,787	1,762	832
Cash and cash equivalents at the end of the period	2,900	2,121	2,004	1,787	1,762
Interest paid	326	275	490	615	464
Income taxes paid	804	196	530	407	327

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

Consolidated Statements of Cash Flows

	Six months ended June 30, 2005	Six months ended June 30, 2004	2004	Year ended December 31, 2003	2002
				U.S. dollars in thousands	
	Audited	Unaudited	Audited	Audited	Audited
(a) Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Income and expenses not involving operating cash flows:					
Depreciation and amortization	468	400	902	1,155	1,067
Deferred taxes, net	(207)	(156)	(206)	(100)	36
Accrued severance pay, net	(7)	32	(83)	(43)	(107)
Exchange rate differences on liabilities to banks and other long-term liabilities	(3)	88	235	(145)	163
Loss (gain) on sale of fixed assets	1	15	15	10	(63)
Exchange rate differences on loans to related party and others	53	(1)	(19)	(43)	60
	305	378	844	834	1,156
Changes in operating assets and liabilities:					
Increase in trade receivables	(3,566)	(3,393)	(1,099)	(2,053)	(286)
Decrease (increase) in other accounts receivable	(51)	(406)	(77)	(173)	413
Increase in inventories	(344)	(965)	(2,860)	(492)	(444)
Increase (decrease) in trade payables	882	3,292	1,707	1,700	(500)
Increase (decrease) in other accounts payable	(803)	1,056	1,577	44	1,159
	(3,882)	(416)	(752)	(974)	342
	(3,577)	(38)	92	(140)	1,498
(b) Transition to proportionate consolidation:					
Working capital (excluding cash and cash equivalents)				(120)	
Fixed assets, net				185	
Long-term receivables				220	
Long-term liabilities				(287)	
Cash outflow				(2)	

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

Notes to Financial Information

Note 1: General

a. The Company was incorporated in June 1997 and is 73.77% owned and controlled by Kibbutz Amiad ("the Kibbutz"), through a company controlled by the Kibbutz, A.M.S.I. Investments (1997) Ltd., and is 26.23% owned by Gaon Agro Industries Ltd. ("Gaon Agro").

b. The Company and its subsidiaries are principally engaged in the development, production and marketing of water filters and water filtration systems for industry and agriculture, and fertilization systems integrated in irrigation systems. These systems are mainly marketed overseas, directly and through subsidiaries. The Company, through its subsidiaries, is also engaged in the overseas sales of irrigation products of other Israeli companies.

c. On June 30, 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 January 1, 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 without 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:

   In these financial statements:

The Company	—	Amiad Filtration Systems Ltd.
The Group	—	The Company and its subsidiaries.
Subsidiaries	—	companies over which the Company exercises control and whose accounts are consolidated with those of the Company.
Jointly controlled entity	—	a company owned by various entities that has a contractual arrangement for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
NIS	—	New Israeli Shekels

Note 2: Significant Accounting Policies

a. Basis of preparation:

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

b. Accounting policies:

   The accounting policies adopted by the Group for all periods presented are in compliance with the IFRSs that are effective at June 30, 2005.

c. Financial statements in U.S. dollars – the functional and presentation currency:

   The functional and presentation currency of the Company and its subsidiaries (except in Australia-see below), is the U.S. dollar. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

   The functional currency of the jointly controlled company in Australia is the Australian dollar ("AUD"). As at the reporting date, the assets and liabilities of this company are translated into U.S.

dollars at the rate of exchange prevailing at the balance sheet date, and income and expenses are translated at weighted average exchange rates. The exchange rate differences arising on the retranslation are taken directly to a separate component of equity ("foreign currency translation reserve").

d. Principles of consolidation:

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

Intercompany balances and transactions, including profits from inter-company transactions not yet realized outside the Group, have been eliminated upon consolidation.

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

The financial statements were consolidated with those of the following subsidiaries:

— Filtration Ltd., wholly-owned and controlled by the Company, is registered in Israel and engaged in the manufacture and marketing of automatic water filters ("Filtration").

— Amiad U.S.A. Inc., an 82%-owned subsidiary, is registered in the State of California, U.S.A. and is engaged in the sale of the Company's products and other irrigation products in the U.S., Canada and Mexico.

— Filtration and Control Systems Pte Ltd., wholly-owned and controlled by the Company, is registered in Singapore and is engaged in the marketing and distribution of the Company's products in East Asia.

— Amiad France S.A.R.L., a 66%-owned subsidiary, is registered in France and engaged in the marketing and distribution of the Company's products in France.

— Amiad Filtration Solutions Ltd., wholly-owned and controlled by the Company, is registered in Israel from January 2005 and operates a sales office in Germany.

Jointly controlled entity:

— Amiad Australia Pty Ltd. ("Amiad Australia") - jointly controlled (50%). Prior to October 1, 2003, Amiad Australia's financial statements were fully consolidated in the financial statements. Subsequent to that date, upon the entry of Plastro Irrigation Ltd. as a 50% shareholder, this company is consolidated by the proportionate consolidation method. The Company is engaged in the marketing and distribution of filtration and irrigation products to the agricultural, industrial and municipal markets in the Australian region.

In June 2004, Amiad Australia and unrelated parties active in the Australian irrigation market established a jointly controlled company (50%), Plastro Asia Pacific Pty Ltd. ("PAP"), which is engaged in the manufacture and marketing of agricultural irrigation products.

The agreement between Amiad Australia and the other shareholders provides Amiad Australia with potential voting rights that are currently exercisable. Based on that assessment of these potential voting rights, together with its existing voting power, Amiad has determined in accordance with IAS 27, "Consolidated and Separate Financial Statements," that it controls PAP and accordingly the accounts of PAP are consolidated in these financial statements.

e. Cash equivalents:

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

f. Short-term marketable securities:

Marketable securities held for trading are stated at quoted market prices at balance sheet date. Changes in their value are included in financial expenses, net in the statement of income.

g. Trade receivables:Trade receivables:

Trade receivables are recognized and carried at original invoice amount, less an allowance for doubtful accounts. The allowance for doubtful accounts is principally determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful.

h. 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 – using the "first-in, first-out" method.

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 – using the "first-in, first-out" method.

i. Fixed assets:

Fixed assets are stated at cost net of accumulated depreciation and investment grants. Expenditures for improvements and upgrading are added to cost. The Company evaluates in each reporting period the necessity to record an impairment loss (see k. below).

Depreciation is calculated by the straight-line method over the estimated useful lives, as follows:

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

j. Other assets:

Other assets comprise know-how, customer relationships, non-competition agreements and goodwill. 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.

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

Non-competition agreements – amortized over a period of 2-4 years.

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 January 1, 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.

k. Recoverable amount of non-current assets:

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount is the higher of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

l. Deferred income taxes:

The Company provides for deferred income taxes using the liability method of accounting. Under the liability method, deferred taxes are recognized for temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are measured based on enacted tax rates that will be in effect in the year in which the differences are expected to reverse. Deferred tax assets in respect of carryforward losses and other temporary deductible differences are recognized to the extent that it is probable that they will be utilized.

Taxes that would apply in the event of the distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, when the distribution of dividend does not involve an additional tax liability or when the Company is able to control the distribution of dividends that will cause an additional tax liability.

m. Revenue recognition:

Revenues from product sales are recognized upon delivery to the customer and, in certain circumstances, after customer acceptance.

n. Exchange rates and linkage basis:

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

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 about the exchange rates of different foreign currencies:

	1 Euro	1 AUD	1 NIS
As of		US$	
June 30, 2005	0.828	1.315	0.219
December 31, 2004	0.733	1.283	0.232
December 31, 2003	0.791	1.330	0.228
December 31, 2002	0.953	1.770	0.211
December 31, 2001	1.130	1.960	0.226

o. Basic and diluted earnings per share:

Basic and diluted earnings per share have been computed by dividing net income attributable to ordinary equity holders of the parent (after deducting interest on perpetual debenture) by the weighted average number of Ordinary shares outstanding during the period.

p. Estimates in connection with preparing the consolidated financial statements:

The preparation of financial statements in accordance with IFRS requires estimates and assumptions by the management that offset the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

q. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, trade receivables and other accounts receivable, credit from banks, trade and other accounts payables approximate their fair value due to the short-term maturity of such instruments.

r. 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 3:- Cash and Cash Equivalents

	June 30, 2005	December 31, 2004	2003	2002
	U.S. dollars in thousands			
U.S. dollars	1,589	1,825	1,571	1,542
Other	1,311	179	216	220
	2,900	2,004	1,787	1,762

Note 4:- Trade Receivables

Open accounts	14,427	10,796	9,441	9,105
Checks receivable	496	531	803	176
	14,923	11,327	10,244	9,281
Less — allowance for doubtful accounts	(322)	(272)	(324)	(338)
	14,601	11,055	9,920	8,943

Note 5:- Other Accounts Receivable

Government authorities	251	435	328	347
Prepaid expenses	409	131	181	168
Advances to suppliers	113	115	65	91
Investment grants receivable	127	82	121	80
Current maturities of long-term loan to related party (see Note 8)	56	59	50	42
Employees	30	45	26	—
Deposits in purchasing cooperatives	—	—	—	299
Other	173	211	237	115
	1,159	1,078	1,008	1,142

Note 6:- Inventories

Raw materials, auxiliary materials and packing materials	2,586	2,480	1,357	1,207
Work in progress	2,543	2,578	1,649	1,460
Finished products	2,790	2,731	1,447	2,043
Purchased products	878	694	1,120	1,441
	8,797	8,483	5,573	6,151

Note 7:- Interest in Jointly Controlled Entity

a. The Company has a 50% interest in Amiad Australia, since October 1, 2003.

The share of the assets, liabilities, revenues and expenses of Amiad Australia, which are included in the consolidated financial statements, are as follows:

	2005 (2)	2004	2003 (1)
		U.S. dollars in thousands	
Current assets	3,253	2,913	3,565
Non-current assets	609	685	843
	3,862	3,598	4,408
Current liabilities	(3,504)	(2,815)	(2,833)
Non-current liabilities	(724)	(780)	(545)
	(4,228)	(3,595)	(3,378)
Revenues	2,237	4,879	1,952
Cost of revenues	(1,519)	(2,599)	(882)
General and administrative expenses	(1,276)	(2,418)	(791)
Financial expenses, net	(53)	(37)	(72)
Other income (expenses), net	23	(105)	65
Income (loss) before taxes on income	(588)	(280)	272
Taxes on income — deferred taxes	75	85	(20)
Net income (loss)	(513)	(195)	252

(1) Revenues and expenses are for the three months ended December 31, 2003.

(2) Revenues and expenses are for the six months ended June 30, 2005.

b. Loan to a jointly controlled entity

The loan in the amount of AUD 329 thousand ($ 241 thousand as of June 30, 2005) bears annual interest at the rate of 3% and does not mature before July 1, 2006.

Note 8:- Loans to a Related Party

	June 30, 2005	2004	December 31, 2003	2002
			U.S. dollars in thousands	
Balance	454	459	409	348
Less — current maturities	56	59	50	42
	398	400	359	306

The loans to Amiad Filtration Systems – Limited Partnership (“the partnership”), in which the Kibbutz is the general partner, are linked to the Israeli CPI and bear annual interest at the rate of 5.5%. The maturity dates and the current maturities of the loans are determined from time to time between the Company and the partnership, according to the loan agreement.

Note 9:- Long-Term Receivables

	June 30, 2005	2004	December 31, 2003	2002
			U.S. dollars in thousands	
Loan to foreign customer (1)	75	75	75	75
Customer in Israel (2)	37	49	66	—
Prepaid expenses	—	42	—	—
Loans to others	—	62	—	29
	112	228	141	104

(1) A loan of $ 75 thousand given by the Company in September 2000 to a company in China which is a customer of the Company – see also Note 28(a).

(2) The receivable is due over a period ending in 2008.

Note 10:- Fixed Assets

	Machinery and equipment	Computers and peripheral equipment	Office furniture and equipment	Motor vehicles	Leasehold improvements	Total
					U.S. dollars in thousands	
Cost: (1)						
Balance as of January 1, 2002	8,734	822	1,705	683	1,192	13,136
Additions during the year	224	22	115	42	63	466
Disposals during the year	—	(2)	(9)	(205)	(1,138)	(1,354)
Balance as of December 31, 2002	8,958	842	1,811	520	117	12,248
Additions during the year	423	34	107	154	6	724
Disposals during the year	(17)	(3)	(11)	(90)	—	(121)
Transition to proportionate consolidation	(223)	—	(32)	(200)	(9)	(464)
Balance as of December 31, 2003	9,141	873	1,875	384	114	12,387
Additions during the year	613	91	115	227	23	1,069
Disposals during the year	(104)	—	—	(26)	—	(130)
Balance as of December 31, 2004	9,650	964	1,990	585	137	13,326
Accumulated depreciation:						
Balance as of January 1, 2002	7,420	760	1,206	444	521	10,351
Additions during the year	250	31	92	57	40	470
Disposals during the year	—	—	(8)	(144)	(498)	(650)
Balance as of December 31, 2002	7,670	791	1,290	357	63	10,171
Additions during the year	284	42	121	42	41	530
Disposals during the year	(1)	(3)	(4)	(54)	—	(62)
Transition to proportionate consolidation	(134)	—	(20)	(120)	(6)	(280)
Balance as of December 31, 2003	7,819	830	1,387	225	98	10,359
Additions during the year	285	34	118	49	5	491
Disposals during the year	(54)	—	—	(14)	—	(68)
Balance as of December 31, 2004	8,050	864	1,505	260	103	10,782
Depreciated cost as of December 31, 2004	1,600	100	485	325	34	2,544
Depreciated cost as of December 31, 2003	1,322	43	488	159	16	2,028
Depreciated cost as of December 31, 2002	1,288	51	521	163	54	2,077
Balance as of January 1, 2005	9,650	964	1,990	585	137	13,326
Additions during the period	279	56	39	178	2	554
Disposals during the period	(5)	—	—	(64)	—	(69)
Balance as of June 30, 2005	9,924	1,020	2,029	699	139	13,811
Accumulated depreciation:						
Balance as of January 1, 2005	8,050	864	1,505	260	103	10,782
Additions during the period	168	24	52	50	5	299
Disposals during the period	(5)	—	—	(48)	—	(53)
Balance as of June 30, 2005	8,213	888	1,557	262	108	11,028
Depreciated cost as of June 30, 2005	1,711	132	472	437	31	2,783

(1) Net of investment grants amounting to $ 3,645 thousand (2004 – $ 3,592 thousand, 2003 – $ 3,448 thousand) which the Company and a subsidiary received by virtue of the Law for the Encouragement of Capital Investments, 1959 – see Note 17b.

(2) As for charges, see Note 17a.

Note 11:- Other Assets, Net

	Know-how	Customer relationships	Non-competition	Goodwill	Total
				U.S. dollars in thousands	
Balance as of January 1, 2002	2,441	981	398	876	4,696
Amortization during the year	(254)	(54)	(289)	—	(597)
Amortized cost as of December 31, 2002	2,187	927	109	876	4,099
Receipt of refund of cost of acquisition of subsidiary	—	—	—	(191)	(191)
Amortization during the year	(254)	(305)	(66)	—	(625)
Amortized cost as of December 31, 2003	1,933	622	43	685	3,283
Amortization during the year	(254)	(114)	(43)	—	(411)
Amortized cost as of December 31, 2004	1,679	508	—	685	2,872
Amortization during the period	(127)	(42)	—	—	(169)
Amortized cost as of June30, 2005	1,552	466	—	685	2,703

Note 12:- Short-Term Credit from Banks and Others

a. Composition:

	Weighted interest rate *)	June 30,	December 31,		
		2005	2004	2003	2002
	%		U.S. dollars in thousands		
U.S. dollar	5.5	3,646	2,887	3,522	3,193
NIS	6.2	1,380	1,043	860	604
Australian dollar	7.6	1,183	275	758	1,526
Euro	4.0	652	—	344	318
		6,861	4,205	5,484	5,641
Current maturities of long-term loans from banks and others		1,759	1,661	1,478	1,543
		8,620	5,866	6,962	7,184

*) The interest is at variable rates and the interest rates are as of June 30, 2005.

b. As for charges, see Note 17a.

Note 13:- Trade Payables

	June 30,	December 31,		
	2005	2004	2003	2002
		U.S. dollars in thousands		
Open accounts	6,339	5,848	3,607	3,300
Notes payable	500	154	598	805
	6,839	6,002	4,205	4,105

Note 14:- Other Accounts Payable

Income taxes payable	980	1,509	878	684
Liabilities to employees and other liabilities for wages and salaries *)	768	852	729	667
Commissions and other accrued expenses	803	507	218	542
Accrual for settlements of claims	121	411	156	—
Liabilities to related parties	434	589	375	577
Customer advances	46	149	—	11
Dividend payable	470	—	—	—
Other	456	437	494	519
	4,078	4,454	2,850	3,000
*) Including provision for vacation	409	359	300	287

Note 15:- Liabilities to Banks and Others

a. Composition:

	Weighted average interest rate *) %	June 30, 2005	2004	December 31, 2003	2002
				U.S. dollars in thousands	
In U.S. dollars	5.4	4,987	4,727	3,978	4,924
Denominated in Euro	4.1	495	634	—	—
Denominated in Australian dollars	6.4	504	558	148	133
Denominated in NIS, linked to the Israeli CPI	5.1	652	61	77	95
		6,638	5,980	4,203	5,152
Less – current maturities		1,759	1,661	1,478	1,543
		4,879	4,319	2,725	3,609

*) The interest is at variable rates and the interest rates are as of June 30, 2005.

b. Maturities subsequent to the balance sheet date:

	June 30, 2005 U.S. dollars in thousands
First year – current maturities	1,759
Second year	1,632
Third year	1,259
Fourth year	922
Fifth year and thereafter	1,066
	6,638

c. Financial covenants:

According to loan agreements with banks, the balance of which as of June 30, 2005 amounted to approximately $ 8,911 thousand, the Company undertook to meet certain financial covenants, relating principally to a minimum shareholders' equity with the addition of shareholders' equity, including shareholders loans, of not less than $ 6.4 million. Further, if the Company incurs a loss from operations from the beginning of the year up to the end of a certain quarter or if the amount of its equity is below $ 6.4 million, the Company shall defer the payment to related parties (the Kibbutz and Gaon Agro) in respect of that quarter. As of June 30, 2005, the Company is complying with the financial covenants.

Filtration received loans from banks, whose balance as of June 30, 2005, amounted to approximately $ 2,312 thousand. According to the loan agreements, Filtration undertook to maintain certain financial covenants relating to a minimum shareholders' equity of $ 930 thousand, linked to the Israeli CPI, and to receive the banks' consent for effecting any procedures toward a merger. As of June 30, 2005, Filtration is complying with the financial covenants.

d. As for charges, see Note 17a.

Note 16:- Accrued Severance Pay, Net

a. Composition:

	June 30, 2005	2004	December 31, 2003	2002
			U.S. dollars in thousands	
Accrued severance pay	558	571	536	437
Less – severance pay fund	532	538	420	278
Total net liability	26	33	116	159

b. The liabilities for severance pay shown in the financial statements reflect the Group's entire liabilities to supplement compensation to hired employees while maintaining the continuity of their rights from the date of commencement of work at the partnership's plant (see Note 1c), in excess of amounts deposited in their respect in insurance companies and pension funds. The liability was computed in accordance with the Severance Pay Law and labour agreements on the basis of the employees' most recent salary. The amounts accumulated in insurance companies and pension funds are not under the control and management of the Company and, therefore, those amounts and the respective liabilities for which they have been deposited are not reflected in the balance sheet.

   Amounts deposited with severance pay fund include accrued profits and it may be withdrawn only after fulfillment of the obligations under the labour agreements and Severance Pay Law.

c. There are no liabilities for severance pay obligations with respect to members of Kibbutz Amiad or to candidates for membership employed at the Company's plant. This is based on a legal opinion which the Company has received according to which an employee-employer relationship does not exist between the Company and members of Kibbutz Amiad or candidates to membership employed at the Company's plant.

Note 17:- Charges, Contingent Liabilities and Commitments

a. Charges:

   1. As collateral for liabilities to banks, a fixed charge was recorded on all of the machinery, equipment, share capital and goodwill of the Group's companies and a floating charge was recorded on all of the Group's assets.

      The balances of secured liabilities to banks as of June 30, 2005 are as follows:

	U.S. dollars in thousands
Current liabilities	6,861
Long-term liabilities (including current maturities)	6,393
Performance guarantees	122
	13,376

   2. As for charges with respect of grants received under the Law for the Encouragement of Capital Investments, 1959, see b(1) below.

b. Contingent liabilities:

   1. According to the purchase agreement (see Note 1c), the Company agreed to indemnify the partnership and the Kibbutz for any claim filed against them in connection with the transferred activity up to the date of transfer. This liability does not pertain to tax liabilities that may apply to the Kibbutz in respect of the partnership's operation, including the transfer of its assets to the Company and in respect of payments claimed from the Kibbutz due to claims as to the existence of employee-employer relationships between the Company and the Kibbutz members employed at the Company.

      Further, the Company has undertaken to assume all of the liabilities in connection with investment grants that the partnership received from the State of Israel up to the date of transfer under the Law for the Encouragement of Capital Investments, 1959.

      The receipt of grants by the partnership, as above, and the receipt of other grants by the Company, is conditional upon the fulfilment of the conditions of the letters of approval. In the event of failure to comply with the conditions of the approval, the amount of the grants may be required to be refunded, including interest and linkage differences from the date of receipt. As collateral for the fulfillment of the conditions relating to the receipt of investment grants, the Company recorded floating charges on all of its assets in favour of the State of Israel. The Company's management believes that as of the date of the approval of the financial statements, the Company is meeting the conditions of the letters of approval.

2. According to an agreement dated July 22, 1999, between B. Gaon Holdings Ltd. and the Company and the Kibbutz, the Kibbutz, A.M.S. I. Investments (1997) Ltd. and the Company have undertaken, jointly and severally, to indemnify B. Gaon Holdings for any damage that it may suffer if it is established that any presentation or any declaration given in the above agreement were inaccurate or if the Company or its subsidiaries are subject to any monetary liability whose cause preceded the record date of the transaction and which was not reflected in the Company's financial statements. The above agreement was assigned in 2002 to Gaon Agro.

3. Banks provided performance guarantees in the amount of $ 122 thousand at June 30, 2005 in favour of the Company and subsidiaries.

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

   The Company and the subsidiary are obligated to pay royalties to the OCS amounting to 2% of the sales of the products and other related revenues generated from such projects, up to an amount equal to 100% of grants received, linked to the exchange rate of the U.S. dollar.

   The Israeli Government awarded a subsidiary grants for participation in foreign marketing expenses, for which the subsidiary is obligated to pay royalties at the rate of 3% of the increase in export sales in relation to the base year, up to the amount of the grants received, linked to the U.S. dollar.

   As of June 30, 2005, the Company and the subsidiary had recorded a liability for grants received in the amount of $ 300 thousand. The Company and the subsidiary have an outstanding contingent obligation to pay royalties in the amount of $ 204 thousand, in respect of projects for which there is a reasonable assurance that part or all of the grants received will not be repaid. The Company and the subsidiary will record this obligation as a liability if facts and circumstances would require the Company and the subsidiary to revise upwards their estimates of future sales.

c. Commitments:

1. The Company and Filtration have lease agreements in respect of motor vehicles which terminate between 2005 and 2007. The annual lease fees are $ 208 thousand and $ 65 thousand, respectively.

2. According to lease agreement between the Company and the Kibbutz, the Company pays the Kibbutz $ 32,477 per month. The rent is reviewed every three years. As for other commitments with Kibbutz Amiad and Gaon Agro, see Note 26a.

Note 18:- Shareholders' Equity

a. Composition of share capital:

	June 30, 2005 and December 31, 2004, 2003 and 2002	
	Authorized	Issued and outstanding
	Number of shares	
Ordinary shares of NIS 1 par value each	10,000,000	5,743,527

b. Perpetual debenture:

The perpetual debenture, is denominated in NIS in the amount of NIS 12,370 thousand ($ 2,704 thousand as of June 30, 2005) and bears annual interest at the rate of 4% payable on a quarterly basis. The debenture may be converted into the Company's equity at any time without being issued additional shares. However, the debenture will be converted into equity immediately before an initial public offering of the Company's securities or in the event of sale of all or substantially all of the Company's assets or all of its issued capital.

The debenture is redeemable only in the event of the Company's liquidation and, in such event it will have the status of a subordinated debt, that is payable after the disbursement of all of the Company's debts and before the distribution of the Company's surplus to its shareholders. In the third quarter of 2002, the share and the debenture were assigned to Gaon Agro (which is controlled by B. Gaon Holdings).

c. Stock options:

The Company and Gaon Holdings have mutually agreed that the Company will grant stock options exercisable into Ordinary shares in an amount of up to 4% of the Company's issued and outstanding share capital to the Company executives who are neither Kibbutz employees nor Kibbutz members, subject to the approval of the Company's Board of Directors. As of the balance sheet date, no options were granted. (The agreement was assigned to Gaon Argro (which is controlled by B. Gaon Holdings Ltd.)). As for events subsequent to the balance sheet date, see Note 28c.

d. Dividends:

According to an agreement dated July 22, 1999 between Gaon Holdings and the Kibbutz, which was assigned in 2002 to Gaon Agro, it was determined that the Company's shareholders would use their best efforts to bring about the Company's adopting and implementing a dividend policy, pursuant to which the Company would distribute to its shareholders annual dividends of at least 60% of the net distributable income. (The agreement was assigned to Gaon Argro (which is controlled by B. Gaon Holdings Ltd.)).

e. as for subsequent event see note 28

Note 19:- Revenues from Sales

a. Sales by customer location:

	Six months ended June 30, 2005	2004	Year ended December 31, 2003	2002
			U.S. dollars in thousands	
North America	5,686	9,775	9,011	9,563
Europe	5,522	8,279	6,867	7,841
Australia	3,356	5,153	7,861	6,806
East Asia	2,264	5,336	4,118	3,617
Israel	2,581	4,604	4,188	3,768
South America	1,608	2,701	979	1,245
Africa	751	1,086	1,396	892
Total	21,768	36,934	34,420	33,732

Note 20:- Cost of Sales

	June 30, 2005	2004	December 31, 2003	2002
			U.S. dollars in thousands	
Materials consumed	4,099	7,618	5,504	5,736
Subcontractors	1,870	3,832	2,664	2,723
Salary and related benefits	1,634	3,352	2,721	2,360
Manpower services provided by Kibbutz Amiad	597	1,114	1,056	1,093
Depreciation and amortization	147	300	286	340
Rent and maintenance	142	622	643	761
Other manufacturing expenses	683	1,301	1,074	907
Total manufacturing expenses	9,172	18,139	13,948	13,920
Decrease (increase) in inventories of work in progress	35	(929)	(189)	(267)
Decrease (increase) in inventories of finished products	(59)	(1,284)	26	(12)
Total changes in inventories	(24)	(2,213)	(163)	(279)
Cost of purchased products	1,335	2,450	3,243	2,902
Total	10,483	18,376	17,028	16,543

Note 21:- Selling and Marketing Expenses

Salary and related benefits	1,525	2,621	2,633	3,035
Distribution, commissions and maintenance of sales offices	883	2,122	1,800	1,880
Delivery, packing, release, and insurance	682	1,207	1,227	1,083
Advertising	705	1,008	665	687
Travel abroad	490	867	646	774
Motor vehicle maintenance	248	470	622	541
Manpower services by Kibbutz Amiad	224	419	418	431
Other	534	1,060	459	392
	5,291	9,774	8,470	8,823

Note 22:- General and Administrative Expenses

	June 30, 2005	2004	December 31, 2003	2002
			U.S. dollars in thousands	
Salary and related benefits	1,208	2,494	2,170	2,148
Manpower services provided by Kibbutz Amiad	106	187	186	202
Management fees to Kibbutz Amiad	235	427	426	436
Professional fees	199	436	474	438
Office expenses	142	261	260	287
Doubtful accounts and bad debts	80	119	188	419
Telephone and communication	116	224	195	249
Depreciation and amortization	167	226	222	204
Rent	156	282	346	341
Other	352	906	954	764
	2,761	5,562	5,421	5,488

Note 23:- Financial Expenses, Net

Interest expense	344	490	606	457
Other (mostly exchange rate differences)	279	(241)	406	(179)
	623	249	1,012	278

Note 24:- Taxes on Income

a. Tax laws applicable to the Group companies:

1. Companies in Israel:

   Income Tax (Inflationary Adjustments) Law, 1985:

   According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI. The Company is taxed under this law.

   The Law for the Encouragement of Capital Investments, 1959:

   In the context of the purchase agreement (as discussed in Note 1c), the partnership transferred to the Company all of the rights and obligations relating to two investment plans of the partnership which have been granted status as an "approved enterprise" under the Law for the Encouragement of Capital Investments, 1959 and which are entitled to grants and tax benefits. By virtue of this status, the Company is entitled to tax reductions on taxable income derived from the approved enterprises. The main benefit which relates to income derived from the approved enterprises is a tax exemption during the first two years and a reduced tax rate of 25%, instead of the statutory tax rate, during the following five years. The benefit period begins in the year in which taxable income is first earned, and is limited to 12 years from the year that the approved enterprise began operations, or 14 years from the year in which the approval was granted, whichever is earlier. The Company is also eligible for accelerated deprecation on assets used by the approved enterprises.

In the event of distributions of dividends out of income deriving from an approved enterprise, which was tax exempt, the Company shall be liable to pay tax at the rate of 25% on the distributed earnings.

Dividend distributions derived from an approved enterprise are subject to 15% withholding tax.

The benefit period for the first program ended in 2002. The benefit period for the second program will end in 2009. The Company has an additional approved program for which it commenced to make its investments.

The above benefits are conditional upon the fulfillment of the conditions stipulated by the law, regulations published thereunder and the letters of approval for the specific investments in the approved enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled and the amounts of the benefits refunded, including interest. Management believes that the Company is meeting the aforementioned conditions.

The Law for the Encouragement of Industry (Taxation), 1969:

The Company is an "industrial company" as defined by this law. According to this status and by virtue of regulations published, the Company is entitled to a deduction for accelerated depreciation on equipment used in industrial activity, as determined in the regulations effective under the Inflationary Law.

2. Foreign subsidiaries:

Subsidiaries which were incorporated outside Israel are taxed according to the tax laws in their countries of residence.

b. Tax rates applicable to the income of the companies:

1. Companies in Israel:

Until December 31, 2003, the regular tax rate applicable to income of companies (which are not entitled to benefits due to "approved enterprise", as described above) was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament), which determines, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 – 35%, 2005 – 34%, 2006 – 32% and 2007 and thereafter – 30%.

For changes in tax rates subsequent to balance sheet date – see Note 28d.

2. Foreign subsidiaries:

U.S.	37%
Australia	30%
Singapore	20%

c. Tax assessments:

The Company received final tax assessments through 2003 and Filtration through 2001. The foreign subsidiaries have not received final tax assessments since their incorporation.

d. Deferred tax assets (liabilities):

	June 30, 2005	December 31, 2004	2003	2002
	U.S. dollars in thousands			
Depreciable assets	(700)	(712)	(768)	(808)
Temporary differences in accounting for income and expenses	434	275	191	187
Unrealized gains on inventories	457	421	355	299
	191	(16)	(222)	(322)

1. Deferred tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to reverse and are presented in the balance sheet as follows:

	June 30, 2005	December 31, 2004	2003	2002
	U.S. dollars in thousands			
Assets	891	696	546	486
Liabilities	(700)	(712)	(768)	(808)
	191	(16)	(222)	(322)

2. The change in deferred taxes, net:

	June 30, 2005	December 31, 2004	2003	2002
	U.S. dollars in thousands			
Balance at the beginning of the period	(16)	(222)	(322)	(286)
Amounts carried to the statement of income	207	206	100	(36)
Balance at the end of the period	191	(16)	(222)	(322)

e. Taxes on income included in the statements of income:

	Six months ended June 30, 2005	Year ended December 31, 2004	2003	2002
	U.S. dollars in thousands			
Current taxes	1,060	1,126	872	836
Deferred taxes	(207)	(206)	(100)	36
Taxes in respect of previous years	(270)	(56)	(123)	(40)
	583	864	649	832

f. Effective tax:

The difference between the tax on income computed at the statutory tax rate and the tax expense recorded in the statements of income is explained as follows:

	Six months ended June 30, 2005	Year ended December 31, 2004	2003	2002
	U.S. dollars in thousands			
Income before taxes on income	2,066	2,585	1,854	2,000
Israeli statutory tax rate	34%	35%	36%	36%
	702	905	667	720
Increase (decrease) in taxes on income due to:				
Reduced tax rates on approved enterprises	(35)	(89)	(37)	(20)
Losses and benefits for tax purposes for which deferred taxes were not provided	(83)	—	—	33
Utilization of losses and benefits from previous years for which deferred taxes were not provided in the past	—	—	—	(78)
Differences in tax rates and measurement basis for subsidiaries	131	(18)	18	13
Taxes in respect of previous years	(270)	(56)	(123)	(40)
Non-deductible expenses and other differences	138	122	124	204
	583	864	649	832

Note 25:- Earnings per Share

	Six months ended June 30, 2005	Year ended December 31, 2004	2003	2002
Weighted average number of outstanding Ordinary shares (in thousands)	5,743	5,743	5,743	5,743
Net income, attributable to shareholders of the parent according to the statement of income (U.S. dollars in thousands)	1,530	1,671	1,247	1,145
Less – interest on perpetual debenture (U.S. dollars in thousands)	(54)	(113)	(113)	(113)
	1,476	1,558	1,134	1,032

Note 26:- Transactions and Balance with Related Parties

a. Transactions with related parties:

	Six months ended June 30, 2005	Year ended December 31, 2004	2003	2002
		U.S. dollars in thousands		
Expenses (income):				
Manpower services – Kibbutz members	927	1,720	1,660	1,726
Management fees to the Kibbutz	235	427	426	436
Lease fees to the Kibbutz	191	324	308	262
Maintenance fees to the Kibbutz	93	191	166	144
Financial income from the Kibbutz	(12)	(26)	(19)	(18)
Financial income from jointly-controlled entity	(8)	(15)	(4)	—
Consulting fees to Gaon Agro	27	56	55	51

Pursuant to various agreements, the Kibbutz provides the Company with manpower and management services, use of land and buildings, utilities and maintenance services. In addition, Gaon Agro provides the Company with various consulting services. The services provided are charged according to fees and rates as determined in the agreements. These agreements are in effect for periods of up to 10 years with automatic renewal. These agreements are subject to cancellation or renewal upon the initial public offering of the Company's securities – see Note 28e.

b. Balances with related parties:

	June 30, 2005	December 31, 2004	2003	2002
		U.S. dollars in thousands		
Long-term investments and receivables:				
Loan to a jointly-controlled entity	241	256	246	—
Long-term loan to a related party (including current maturities)	454	459	409	348
Current liabilities:				
Loans from others	245	249	—	—
Accrued expenses – related parties	434	589	375	577

Note 27:- Financial Instruments

Credit risks:

Cash and cash equivalents are deposited with recognized high quality banks and, therefore, the Company's management believes the related credit risk is negligible.

The Group's revenues are derived from a large number of diversified customers located in the U.S., Australia, South America, East Asia, countries of the European Union, Israel and other countries throughout the world.

The Group performs ongoing credit evaluations of its customers and includes specific allowances for doubtful accounts which, in management's estimate, adequately reflects the underlying loss of debts whose collection is doubtful.

Note 28:- Events Subsequent to Balance Sheet Date

a. In July 2005, subsequent to balance sheet date, the Company, through its subsidiary in Singapore, purchased 50% of a company in China for a total consideration of $ 1.4 million (a loan previously granted to the company in China, was included as part of the cost of shares).

b. On September 1, 2005, the Company signed an agreement with Plastro Irrigation Ltd. ("Plastro"), which held until the said date 50% of the shares of Amiad Australia Pty Ltd. ("Amiad Australia"). According to the agreement, Amiad Australia will transfer to Plastro all of its shares in PAP and, in consideration, Plastro will transfer to the Company all of its shares in Amiad Australia. After implementation of the agreement, the Company will hold 100% of the shares of Amiad Australia.

   In addition, the parties agreed that the securities and guarantees that the Company extended to PAP, and the securities and guarantees that Plastro extended to Amiad Australia will be cancelled by no later than February 2006 .Each of the parties agreed to indemnify the other party in respect to claims that are based on the holdings of the other party in the shares that were sold in the framework of the transaction.

c. On August 12, 2005, the Company granted to three senior employees, the chairman and to Kibbutz Amiad options to purchase 386,682, 154,674 and 77,336 Ordinary Shares (adjusted to the share split and bonus share-see note 28(f)). The options to the senior employees were granted in the framework of the Company's option plan that was submitted to the Israeli Tax Authorities, in accordance with the provisions of Section 102 to the Israeli Income Tax Ordinance and the remaining option were granted under the provision of section 3(i) of the Israeli Tax Authorities. The options vest over a period of four years (except in the case of the CEO where the period is two years) and have an exercise price of $ 1.53 per share. The options will be held during the vesting period by a trustee and will be released in accordance with the terms of option plan. Unexercised options expire 10 years after date of grant.

   The accounting treatment in respect of the options will be in accordance with the provisions of IFRS 2, according to which the fair value of the options on the sale of the grant is recorded as compensation expense over the vesting period with a corresponding increase in capital reserves in shareholders' equity.

d. On July 25, 2005 the Knesset enacted the Law for Amendment of the Income Tax Ordinance (Amendment No. 147), 2005 ("the Law"). The Law determines, inter alia, that the corporate tax rate will be reduced gradually as follows: 2006 – 31%; 2007 – 29%; 2008 – 27%; 2009 – 26%; 2010 and onward – 25%.

   According to management of the Company, the effect of the Law, on the balances of deferred taxes as of June 30, 2005 is not expected to be material.

e. On November 9 and November 23, 2005, the Company distributed a dividend to its shareholders in the amounts of NIS 10 million and NIS 760 thousand, respectively.

   These amounts were immediately extended as shareholders loans to the Company, and will be repaid immediately upon the Company's IPO.

f. On November 27, 2005, the Company performed a split to the company's share capital such that each Ordinary Share 1 was split into 2 ordinary shares of NIS 0.5 par value each. In addition, the Company approved a distribution of 2,339,709 ordinary shares as bonus shares to any party that was a shareholder in the company on November 24, 2005.

   As result, the number of outstanding shares is 13,826,758. The earnings per share were calculated according to the new number of shares.

h. In August 2005, the Company and Gaon Agro agreed that the maximum number of stock options exercisable into Ordinary Shares which the Company would grant would be reduced from 4% to 3% of the Company's fully diluted share capital immediately following admission (see Notes 18(c) and 28(c)).

i. The following agreement, dated 24 November, 2005 between the Company and its shareholders, have amend or terminated the respective agreements as describe in note 26:

Addendum to a sublease agreement between the Company, Kibbutz Amiad and Amiad Filtration System LLP. According to the addendum, the monthly rate is US$ 32 Thousand. The rent is reviewed every 3 years. The term of the sublease is 10 years with an option to extend until 31 December, 2022.

Termination agreements dated November 24, 2005. It was agreed that the management agreements with the Kibbutz, the indemnification agreements with the Kibbutz in the event of dissolution, the consulting agreements with Gaon Agro and the investment agreement with Gaon Agro will be cancelled upon the completion of the company IPO.

In addition, the perpetual debenture that the Company issued to Gaon Agro will be converted into additional paid-in capital and, therefore, the interest payment in its respect will be ceased.

Addendum to a manpower agreement dated November 24, 2005 between the Company and Kibbutz Amiad pursuant to which the Kibbutz agree to provide the Company with manpower services. The term of the agreement is 10 years commencing on 1 October, 2005. The agreement is automatically renewable for additional 10 years each unless either party notifies the other of its intention not to renew the term of the agreements six month prior to the end of the agreement. The Kibbutz may terminate the agreement by a six month written notice at any time. Upon termination all personnel supplied by the kibbutz, may become the Company's employees. The cost of the manpower services under the agreement will be paid monthly based on a formula which varies depending on the number of workers and the function each worker undertakes in the company.

Addendum to a service agreement dated November 24, 2005 between the Company and Kibbutz Amiad pursuant to which the Kibbutz agreed to provide the Company with various services including utilities, maintenance etc. The term of the agreement is 10 years commencing on 1 October, 2005. The agreement is automatically renewable for additional 10 years each unless either party notifies the other of its intention not to renew the term of the agreements six month prior to the end of the agreement. In accordance with the addendum, the cost of services was updated to US$ 12 thousand per month from US$ 16 thousand per month.

Part IV — Additional information

1 Responsibility statement

1.1 The Company, whose name and registered office appears in paragraph 2 below, and the Directors, whose names and functions appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.2 Kost, Forer, Gabbay and Kasierer, registered auditors for the Company, whose registered office appears on page 4 of this document, accepts responsibility for their report contained in Part III of this document. To the best of the knowledge of Kost, Forer, Gabbay and Kasierer (which has taken all reasonable care to ensure that such is the case), their report contained in Part III of this document is in accordance with the facts and makes no omission likely to affect the import of such information.

2 The Company

2.1 The Company was incorporated and registered in Israel on 22 June 1997 under the Israeli Companies Ordinance (New Version) 1983 as a private company limited by shares with the name Amiad Filtration Systems (1997) Ltd. with registered number 512497694. By a shareholders' resolution dated 13 November 2005, the Company changed its name to Amiad Filtration Systems Ltd. Conditional upon Admission, the Company will change its status at the Israeli Companies Registrar to a "public company".

2.2 The address of the Company's registered office is D.N. Galil Elyon 1, Kibbutz Amiad 12335, Israel and its telephone number is +972 (0)4 690 9500.

2.3 The liability of each Shareholder is limited.

2.4 The Israeli Act, among others, is the legislation applicable to the Company and under which it now operates and the Company is domiciled in Israel.

2.5 The Company trades under the name "Amiad Filtration Systems".

3 Share and loan capital

3.1 On 22 June 1997, the Company was incorporated with an authorised share capital of NIS32,700 divided into 32,700 ordinary shares of NIS1.

3.2 On 1 January 2002 the Company had an authorised share capital of NIS10,000,000 divided into 10,000,000 ordinary shares of NIS1, of which 5,743,527 ordinary shares of NIS1 were issued and outstanding.

3.3 On 27 November 2005, the Company distributed an aggregate of 2,339,704 Ordinary Shares by way of a bonus issue to Kibbutz Amiad, AMS and Gaon Agro pro rata to their shareholdings, thereby increasing each of their shareholdings to 10,200, 10,189,800 and 3,626,758 Ordinary Shares, respectively.

3.4 By resolutions passed on 27 November 2005 it was resolved, *inter alia*:

3.4.1 to subdivide each ordinary share nominal value NIS1 included in the authorised, but unissued, and the whole of the issued share capital of the Company, into two Ordinary Shares (nominal value NIS0.50);

3.4.2 to approve the distribution of 2,339,704 Ordinary Shares by way of a bonus issue to Kibbutz Amiad, AMS and Gaon Agro pro rata to their shareholdings, thereby increasing each of their shareholdings to 10,200, 10,189,800 and 3,626,758 Ordinary Shares, respectively;

3.4.3 that, conditional on Admission, the Directors be generally authorised in accordance with article 9.3 of the Articles to allot Relevant Securities (as defined in the Articles) to such persons at such times and on such terms as they think proper provided that such authority is limited to the allotment of 5,045,965 Ordinary Shares pursuant to the Placing and such authority, unless and to the extent previously revoked, varied or renewed by the Company in general meeting, to expire on 27 November 2010, but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require Relevant Securities to be allotted after the expiry of such period and the Directors may allot Relevant Securities pursuant to such an offer or agreement as if the authority conferred by this resolution had not expired;

3.4.4 that, conditional on Admission, the Directors, be empowered, subject to article 9.4 of the Articles to allot Equity Securities (as defined in the Articles) for cash pursuant to the authority referred to in paragraph 3.4.2 above as if article 9.2 of the Articles did not apply to any such allotment, provided that such power shall be limited to the allotment of Equity Securities pursuant to the Placing and shall expire on 27 November 2010 save that the Company may, before the expiry of such power, make an offer or agreement which would or might require Equity Securities to be allotted after the expiry of this power and the Directors may allot Equity Securities in pursuance of such an offer or agreement as if the power had not expired;

3.4.5 conditional on Admission, to change the status of the Company to a "public company"; and

3.4.6 to adopt the Articles.

3.5 At the date of this document, the authorised and issued fully paid share capital of the Company is:

Class of shares	*Nominal value*	*Authorised*		*Issued*[(i)]	
		NIS	*Number*	*NIS*	*Number*
Ordinary Shares	NIS0.5	10,000,000	20,000,000	7,222,725	14,445,450

[(i)] *On a fully diluted basis*

3.6 The authorised and issued fully paid share capital of the Company immediately following Admission will be as follows:

Class of shares	*Nominal value*	*Authorised*		*Issued*[(i)]	
		NIS	*Number*	*NIS*	*Number*
Ordinary Shares	NIS0.5	10,000,000	20,000,000	9,745,708	19,491,415

[(i)] *On a fully diluted basis*

3.7 The following table shows the issued share capital of the Company as at the beginning of its current financial year and the end of the period covered by the audited accounts contained in Part III:

As at 1 January 2005		*As at 30 June 2005*	
Issued		*Issued*	
Nominal value	*Number*	*Nominal value*	*Number*
NIS1	5,743,527	NIS1	5,743,527

None of the capital of the Company has been paid for with assets other than cash within the period covered by the historical financial information.

3.8 The authorised but unissued share capital of the Company immediately following Admission will be NIS563,639 representing approximately 5.63 per cent. of the authorised share capital. Approximately 3.1 per cent. of the authorised share capital will be reserved for the issue of 618,692 Ordinary Shares on the exercise of the options to be issued under the Share Option Plan, as referred to in paragraph 3.11 below.

3.9 The provisions of article 9.2 of the Articles confer on Shareholders certain rights of pre-emption in respect of the allotment of Equity Securities (as defined in the Articles) which are, or are to be, paid up in cash.

3.10 Save as disclosed in this paragraph 3, there has been no issue of share or loan capital of the Company or any other member of the Group (other than intra-group issues by Subsidiaries) in the three years immediately preceding the date of this document and (other than pursuant to the Placing or on the exercise of the options to be issued under the Share Option Plan, as referred to in paragraph 3.11 below) no such issues are proposed.

3.11 The Company has granted options over an aggregate of 618,692 Ordinary Shares on the terms of the Share Option Plan (summarised in paragraph 5 of this Part IV of the document) at an exercise price of US$1.532 per Ordinary Share.

3.12 Save as disclosed in paragraph 10 below, no commissions, discounts, brokerages or other special terms have been granted by the Company or any other member of the Group in connection with the issue or sale of any share or loan capital of the Company or any other member of the Group in the three years immediately preceding the date of this document.

3.13 Save as disclosed in paragraph 3.11 above and paragraph 5 of this Part IV of the document, on Admission no share or loan capital of the Company or any other member of the Group will be under option or will be agreed conditionally or unconditionally to be put under option.

3.14 Other than pursuant to the Placing, none of the Ordinary Shares has been marketed or is available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.

3.15 The Placing Shares will be in registered form. No temporary documents of title will be issued and, prior to the issue of definitive certificates, transfers will be certified against the register.

4 Memorandum and articles of association

The Memorandum of Association of the Company includes, amongst the Company's objects, the object of carrying out business in the field of filtration and irrigation systems and to achieve any objective that seems fit to the Company's board of directors. The objects of the Company are set out in full in clause 2 of the Memorandum of Association.

As described in paragraph 3.4.6 of this Part IV, the Company has adopted the Articles which contain, *inter alia,* the following provisions:

4.1 *Voting rights*

Subject to the restrictions referred to in paragraph 4.2 below and subject to any special rights or restrictions as to voting attached to any class of shares (of which, upon Admission, there will be none), every Shareholder who is present in person or by proxy shall have one vote for each Ordinary Share held by him on every resolution by written ballot or by any other means. A corporate member may authorise any person to be its representative at a general or class meeting and such person shall be entitled to exercise such powers as the corporate member could exercise if it was an individual member.

4.2 *Restrictions on voting*

A Shareholder shall not be entitled to vote or count as part of the quorum at any general meeting unless all calls and other sums then payable by him in respect of his Ordinary Shares have been paid.

4.3 *Allotment of shares*

Subject to the provisions of the Israeli Act, the terms of any Shareholders' resolution creating new Ordinary Shares and the provisions referred to in paragraph 4.4 below, any unissued shares forming part of the authorised share capital of the Company shall be under the control of the Board which is entitled to allot them for cash or non-cash consideration on such terms and at such times as the Board deems fit.

4.4 *Pre-emption rights*

Subject to the terms of any Shareholders' resolution to the contrary, the Company shall not, subject to certain exceptions, allot its Ordinary Shares to any person for cash unless it shall first have made an offer to each Shareholder to allot to him on the same or more favourable terms a proportion of those shares which is as nearly as practical equal to the proportion in nominal value of the Ordinary Shares held by him on the record date for any such allotment of the aggregate of all such shares, but subject to such exclusion or other arrangements as the Board may deem necessary or expedient in their exclusive discretion to deal with fractional entitlements or legal or practical problems under the laws or the requirements of any regulatory authority or stock exchange in any jurisdiction.

4.5 *Dividends*

Subject to any special or restricted rights conferred upon Shareholders as to dividends (of which, on Admission, there will be none), any dividend paid by the Company must be allocated among the Shareholders in proportion to the sums paid up or credited as paid up on account of the nominal value of their respective holdings in respect of which such dividend is being paid, but without taking into account the premium paid up on these shares. A decision regarding the payment of a dividend shall be taken by the Board.

The Board may prevent the distribution of a dividend in respect of shares which have been not fully paid up. The Board may also:

(i) deduct from any dividend payable to any Shareholder all sums (if any) presently payable by such Shareholder to the Company on account of calls or otherwise in relation to the shares of the Company;

(ii) retain any dividend or other monies payable or property distributable in respect of an Ordinary Share upon which the Company has a lien and may apply that dividend in or towards the satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

Any dividend unclaimed after a period of two years from the date of declaration of the dividend (and any other money payable in respect of a share which is unclaimed after a like period from the date the same was payable) shall be forfeited and shall revert to the Company and the payment by the Board of any unclaimed dividend (or any other money payable in respect of a share) into a separate account shall not constitute the Company a trustee in respect of it.

4.6 *Return of capital*

If the Company is wound up, then (subject to applicable law and to the rights of any holder of shares with special rights upon a winding up of which, on Admission, there will be none) the assets of the Company available for distribution among the Shareholders shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

4.7 *Variation of rights*

Unless otherwise provided by the terms of issue, the rights attached to any class of shares for the time being issued may be varied only with the consent of a resolution passed at a separate general meeting of the holders of those shares. The rights attached to shares of any class shall not be deemed to be varied, modified or abrogated by the creation or issue of further shares.

4.8 *Transfer of shares*

Any Shareholder may transfer all or any of his Ordinary Shares by submitting to the Company a written instrument of transfer in any customary form or in any other form satisfactory to the Board, together with the share certificate(s) or such other evidence of title as the Board may reasonably require.

The Board has an absolute discretion to refuse to register a transfer of any Ordinary Share which is not fully paid up or upon which the Company has a lien without giving a reason, but the Board must provide the transferee with a notice of the refusal within two months after the date on which the transfer was lodged. Such discretion may not be exercised to prevent dealings in such shares taking place on an open and proper basis.

4.9 *Alteration of capital and purchase of own shares*

By resolution and subject to relevant legislation, the Company may:

(i) increase or reduce its share capital;

(ii) consolidate and divide all or any of its share capital, whether issued or unissued, into shares of larger amounts;

(iii) sub-divide all or any of its share capital, whether issued or unissued, into shares of smaller amounts; and/or

(iv) cancel any Ordinary Shares which at the date of the resolution have not been taken or agreed to be taken by any persons.

4.10 *General meetings*

All general meetings shall be held at such time (being, in the case of annual general meetings, once in every year and not more than 15 months after the previous annual general meeting) and place as the Board may determine provided that, for so long as the shares of the Company are solely listed on a stock exchange or investment exchange in the United Kingdom and not on a stock exchange or investment exchange outside the United Kingdom, all general meetings must be held in the United Kingdom.

The quorum for general meetings is one or more Shareholders present in person or by proxy (or deemed by the Israeli Act to be present) and holding in aggregate at least 25 per cent. of the voting rights in the issued share capital of the Company.

Where such a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved if it has been convened upon the request of the Shareholders; otherwise, it shall be adjourned and, if within half an hour from the time appointed for the meeting such a quorum is not present, the quorum shall be reduced to one or more Shareholders present in person or by proxy (or deemed by the Israeli Act to be present).

Subject to the Israeli Act, any Shareholder or Shareholders holding at least 1 per cent. of the voting rights in the issued share capital of the Company may request in writing, in accordance with the requirements as to form and content set out in the Articles, that the Board includes a subject in the agenda of a general and/or class meeting and such request must be delivered to the secretary of the Company:

(a) in the case of a resolution to be considered and, if thought fit, passed at an annual general meeting of the Company, not less than 90 days and not more than 120 days prior to (but excluding) the date of the first anniversary of the immediately preceding annual general meeting;

(b) in the case of a resolution to be considered and, if thought fit, passed at an extraordinary general or class meeting of the Company, not less than 90 days and not more than 120 days prior to (but excluding) the date of such meeting provided that, where such meeting has been convened on less than 90 days' prior notice, such notice must be received by the secretary of the Company not later than 5:00pm Israel time on the tenth day following (but excluding) the day on which notice of such meeting was given.

The Articles authorise the chairman of a general or class meeting to take such action as he thinks fit to promote the orderly conduct of the business of the meeting, including asking any person(s) to leave the meeting and, if necessary, having such person(s) excluded from the meeting. The Articles also authorise the Board to make such arrangements as it shall in its absolute discretion consider to be appropriate in relation to general or class meetings, including arrangements in order to regulate attendance, ensure the safety of people attending and facilitate attendance.

4.11 *Directors*

4.11.1 *Minimum and maximum number*

The minimum number of the directors of the Company is five and the maximum number is 11.

4.11.2 *Remuneration and expenses*

The directors of the Company shall be paid remuneration by the Company for their services to the extent that such remuneration has been approved at a general meeting of the Company. Any such fees shall be distinct from any other remuneration or other amounts payable to a director under any other provisions of the Articles. In addition (but subject to the prior approval of a general meeting of the Company and to Israeli law), the Board may grant special remuneration to any director who serves on any committee or who otherwise performs any special or extra services to or at the request of the Company.

4.11.3 *Appointment, retirement, removal and shareholding qualification*

Subject to the Articles (including the provisions referred to in paragraph 4.10 above), in relation to the appointment of directors (other than a statutory external director), the Company may by a resolution in general meeting appoint any person who is willing to act to be a director, either to fill a vacancy or as an additional director.

At each annual general meeting, all of the directors (other than statutory external directors) shall retire from office.

Subject to the Israeli Act and the provisions referred to below, a director retiring from office at such a meeting shall be eligible for re-appointment and (unless he is removed from office or his office is vacated in accordance with the provisions of the Articles referred to below) shall retain office until the close of the meeting at which he retires or (if earlier) when a resolution is passed at the meeting not to fill the vacancy or to appoint another person in his place or the resolution to re-appoint him is put to the meeting and lost.

Subject to complying with applicable legal requirements, the Company in general meeting may remove a director (including, in certain specific circumstances, a statutory external director) by a resolution of Shareholders and elect another person in his place. In addition, the office of any director who is not a statutory external director shall be vacated if:

(a) the director dies;

(b) the director is found to be legally incompetent;

(c) the director becomes bankrupt;

(d) the director is prevented by applicable law from serving as a director of the Company;

(e) the Board terminates the director's office in accordance with Section 231 of the Israeli Act;

(f) a court order is given in respect of that director in accordance with Section 233 of the Israeli Act;

(g) the director's period of office has terminated in accordance with the Articles;

(h) the director resigns in writing; or

(i) the Company decides in a general meeting to terminate the director's office.

Further information regarding the appointment and removal of statutory external directors under Israeli law is set out in paragraph 15 of Part I of this document.

A director shall not be required to hold any Ordinary Shares.

4.12 *Directors' interest*

Subject to the provisions of the Israeli Act and the Articles, the Company may enter into any contract or otherwise transact any business with:

(i) any director where such director has a personal interest, directly or indirectly; and

(ii) any third party where a director has a personal interest (directly or indirectly).

Except in accordance with the provisions of the Israeli Act and the Articles, a director shall neither participate in deliberations concerning nor vote upon a resolution approving a transaction with the Company in which he has a personal interest.

4.13 *Borrowing powers*

The Company may borrow or secure the payment of any sum(s) of money for the purposes of the Company and may secure or provide for the repayment of such sum(s) in such manner, at such times and upon such terms and conditions as it thinks fit. The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to any subsidiaries so as to secure (so far, as regards any subsidiary, as by such exercise they can secure) that the aggregate principal amount outstanding at any time in respect of all monies borrowed by the Group (exclusive of any intra-group borrowings), less cash deposited, will not, without the previous sanction of a Shareholders' resolution, exceed three times the capital and reserves or any higher limit fixed by a Shareholders' resolution which is applicable at the relevant time. For these purposes, "capital and reserves" means the aggregate of: (i) the amount paid up on the issued share capital of the Company and (ii) the amount, standing to the credit of the reserves of the Group after adding or deducting any balance standing to the credit or debit of the Group's profit and loss accounts.

4.14 *Exculpation, insurance and indemnity of officers*

Subject to the provision of the Israeli Act, the Company may exculpate an officer in advance from all or some of that officer's liability resulting from his/her breach of his/her duty of care to the Company, other than liability arising in connection with a distribution by the Company pursuant to the Israeli Act.

Subject to the provisions of the Israeli Act, the Company may enter into a contract to insure against any liability on the part of an officer of the Company that may be imposed upon him as a result of an action carried out while an officer in each of the following circumstances:

(i) a breach of duty of care towards the Company or towards another person;

(ii) a breach of duty of loyalty towards the Company provided that the officer acted in good faith and had reasonable grounds to assume that the action would not harm the interests of the Company; and

(iii) a financial liability imposed upon him in favour of a third party.

The Company may undertake to indemnify in advance a director of the Company in respect of any of the following liabilities or expenses, whether imposed on, or incurred by, the director in respect of an act or omission taken or made in his capacity as a director:

(a) a financial liability imposed upon him in favour of a third party by a judgment, including settlement or a decision of an arbitrator which is given the force of a judgment by court order; and/or

(b) reasonable litigation expenses, including legal fees, which the officer has expended or is obliged to pay by a court in proceedings commenced against him by the Company or in its name or by any other person or pursuant to a criminal charge in respect of which he is acquitted or a criminal charge in respect of which he is convicted of an offence which did not require proof of criminal intent; and/or

(c) reasonable litigation expenses, including legal fees, which the officer has incurred or which were imposed on him/her by a court in proceedings filed against him/her or in an indictment in respect of which the officer was acquitted or convicted in respect of an act that does not require proof of criminal intent.

The Company may undertake to indemnify a director of the Company as mentioned above both:

(i) prospectively, provided in respect of sub-paragraph (a) above, the Company's undertaking is limited to events which, in the opinion of the board of directors of the Company, can be foreseen in light of the Company's actual operations when the undertaking to indemnify is given and to an amount or criteria set by the Board as reasonable under the circumstances; and

(ii) retrospectively.

4.15 *Branch register*

The Company may, subject to and in accordance with the provisions of the Israeli Act and all orders and regulations issued thereunder, cause a branch register or registers of Shareholders to be kept at any place outside of Israel as the Board may think fit and, subject to all applicable requirements of law, the Board may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such a branch register or registers.

5 Share Option Plan

5.1 The Company operates one share option plan, the Share Option Plan. The Share Option Plan was adopted by the board of directors of the Company on 22 June 2005 and options granted under the Share Option Plan are conditional on Admission. As at 27 November 2005, being the last practicable date before the date of this documents, options over 618,692 Ordinary Shares have been granted under the Share Option Plan, none of which have vested. Of these, options over 116,005 Ordinary Shares will vest in 2006 and options over 251,344 Ordinary Shares will vest in 2007.

5.2 *Summary*

A summary of the principal features of the Share Option Plan is set out below:

5.2.1 *Administration and duration*

The Share Option Plan is administered either directly by the Board or by a committee (the "Option Committee") appointed for such purpose by the Board. Decisions by the Board or the Option Committee require a majority decision, except that no member of the Board or the Option Committee shall vote on, or be counted for quorum purposes, with respect to proposed actions of the Board or the Option Committee relating to options to be granted to that member.

The Share Option Plan shall terminate at the end of a period of 10 years from the date on which it was adopted by the Board.

5.2.2 *Eligibility and types of options which may be granted*

The persons eligible for participation in the Share Option Plan include (a) the employees of the Company and its affiliates ("Employees") and (b) consultants, advisers, service providers and controlling shareholders of the Company ("Non-Employees"), provided that:

(i) Employees may only be granted options under section 102 of the Israeli Income Tax Ordinance 1961 (the "Israeli Income Tax Ordinance") (the "102 Options"); and

(ii) Non-Employees and controlling shareholders may only be granted options under section 3(i) of the Israeli Income Tax Ordinance (the "3(i) Options").

There are two types of 102 Options to be granted under the Share Option Plan: approved 102 Options (the "Approved 102 Options") and unapproved 102 Options (the "Unapproved 102 Options"). Approved 102 Options elected and designated by the Company to qualify for capital gains tax treatment under section 102(b)(2) of the Israeli Income Tax Ordinance are classified as capital gains options (the "Capital Gains Options") and those elected and designated by the Company to qualify for ordinary income tax treatment under section 102(b)(1) of the Israeli Income Tax Ordinance are classified as ordinary income options (the "Ordinary Income Options"). The Company's election of the type of Approved 102 Options as either a Capital Gains Option or an Ordinary Income Option granted to Employees shall be filed with the Israeli Tax Authority before the date on which an Approved 102 Option is granted and shall obligate the Company to grant only the type of Approved 102 Option it has elected, but shall not prevent the Company from granting Unapproved 102 Options simultaneously.

All Approved 102 Options and/or any Ordinary Shares issued upon the exercise of such options must be held by a trustee on trust for the benefit of the relevant option grantee for such period as is required under section 102 of the Israeli Income Tax Ordinance. The trustee shall not release any Ordinary Shares issued to him/her/it upon the exercise of Approved 102 Options prior to the full payment by the relevant option grantee of his/her tax liabilities arising from the grant or exercise of such options.

On 22 June 2005, the Board passed a resolution designating all 102 Options granted under the Share Option Plan as Approved 102 Options.

5.2.3 *Exercise price*

The exercise price of each share subject to an option is determined by the Option Committee in its sole and absolute discretion, subject to any guidance as may be determined by the Board from time to time. The price is payable upon the exercise of the option in a form satisfactory to the Board or the Option Committee including by cash or cheque. The purchase price shall be denominated in NIS or in the currency in which the grantee is paid as determined by the Company and shall be set out in the individual option agreement of the grantee.

5.2.4 *Adjustments*

The terms of the Share Option Plan state that, upon a merger, acquisition or reorganisation of the Company with one or more entities in which the Company is not the surviving entity or a sale of all or substantially all of the assets of the Company (a "Transaction"), any options which have not vested and any options which have vested but have not yet been exercised as at the closing of the Transaction shall terminate.

If the Company is voluntarily liquidated or dissolved, the Company shall immediately notify the holders of any unexercised options which remain outstanding under the Share Option Plan who shall then have ten days to exercise any unexercised, but vested, options held by them at that time. Upon the lapse of the ten day period, all remaining outstanding options will terminate immediately.

If at any time the outstanding Ordinary Shares are changed or exchanged by way of a declaration of a share dividend (bonus shares), a share split, an exchange of shares, a re-capitalisation or any similar event, the class, number and purchase price of Ordinary Shares in respect of which options have been granted under the Share Option Plan, but which have not been exercised, shall be appropriately and equitably adjusted as determined by the Board, whose determination shall be final.

If prior to the completion of an initial public offering in respect of the Company's shares, substantially all of the Ordinary Shares are sold or, in the case of a Transaction, all or substantially all of the Ordinary Shares are to be exchanged for securities in another company, then each option grantee shall be obliged to sell or exchange his Ordinary Shares purchased under the Share Option Plan in accordance with the instructions of the Board in connection with the Transaction, whose determination shall be final.

5.2.5 *Vesting*

Options granted under the Share Option Plan shall vest on such dates as are determined by the Board or by the Option Committee and as set out in the individual option agreements for each option grantee.

5.2.6 *Tax and social taxes*

All taxes arising from the grant or exercise of any option granted under the Share Option Plan are borne by the option grantee. The Company and/or its affiliates and/or the trustee referred to in paragraph 5.2.2 is obliged to withhold such taxes pursuant to applicable laws and regulations, including the taxes charged at source.

5.2.7 *Termination*

Options granted under the Share Option Plan, to the extent not previously exercised, shall terminate upon the earlier of: (i) the date set forth in the individual option agreement and (ii) the expiration of any extended period.

Upon the termination of employment or service of an option grantee for any reason other than death, disability or "cause", all outstanding and unexercised options granted to such grantee, whether vested or unvested, will terminate with immediate effect and the option grantee shall not have any right in connection with such outstanding options. However, options granted under the Share Option Plan may be exercised after the date of termination of the option grantee's employment or service with the Company or its affiliates in respect of vested and unexercised options at the time of such termination if:

(i) termination is without "cause", in which case any options which have not yet vested or expired may be exercised within a period of 90 days after the date of such termination;

(ii) termination is as a result of the death or disability of a grantee, in which case any unvested and unexpired options still in force may be exercised within a period of 12 months after the date of such termination; or

(iii) prior to the date of such termination, the Board or the Option Committee shall have authorised the extension of the terms of all or part of the vested options beyond the date of such termination for a period not exceeding that which the options, by their terms, would otherwise have been exercisable.

Grantees of Unapproved 102 Options, if they cease to be employed by the Company or any of its affiliates, must provide to the Company and/or the relevant affiliate some form of security or guarantee for the payment of tax due at the time of the sale of their Ordinary Shares pursuant to the provisions of section 102 of the Israeli Income Tax Ordinance.

5.3 *Tabular summary**

Share Option Plan	*No. of options granted*	*No. of options vested as at the date of Admission*	*Exercise price*	*No. of options which have expired on date of Admission*	*Total no. of options outstanding on the date of Admission*
Share Option Plan	618,692	Nil	US$1.532	Nil	618,692

** As at 27 November 2005*

6 Directors' and other interests

6.1 As at 27 November 2005 (being the latest practicable date prior to Admission), the interests of the Directors and their immediate families (and, so far as is known to the Directors or could with reasonable diligence be ascertained by them, persons connected with them (within the meaning of section 346 of the Act)) which, if the connected person were a Director, would otherwise be disclosed pursuant to this paragraph, in the share capital of the Company as at the date of this document and on Admission, which are or will be required to be notified to the Company pursuant to sections 324 and 328 of the Act (or to be entered in the register maintained pursuant to section 325 of the Act), are or are expected to be as follows:

	Immediately before Admission			*Immediately following Admission*		
Director	*Number of Ordinary Shares*	*Number of Ordinary Shares under option*	*Percentage of issued share capital on a fully diluted basis*	*Number of Ordinary Shares*	*Number of Ordinary Shares under option*	*Percentage of issued share capital on a fully diluted basis*
Abraham Heifetz	Nil	154,674	1.07	Nil	154,674	0.79
Yosef Katz	Nil	232,010	1.61	Nil	232,010	1.19
Itamar Dov Eder	Nil	77,336	0.54	Nil	77,336	0.4
Joseph Rokah[1]	10,200,000	77,336	71.15	10,200,000	77,336	52.73
Mordechai Dabi[2]	3,626,758	Nil	25.1	2,462,304	Nil	12.63
Michael Rosenberg	Nil	Nil	Nil	Nil	Nil	Nil
Nathalie Schwarz	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

1. The 10,200,000 Ordinary Shares in which Mr Rokah is interested are registered in the name of Poalim Trust Services Ltd, which holds 10,189,800 Ordinary Shares on trust for AMS, a company fully controlled by Kibbutz Amiad, and 10,200 Ordinary Shares for Kibbutz Amiad. Mr Rokah is the chairman of the board of directors of Kibbutz Amiad.
2. The 3,626,758 Ordinary Shares in which Mr Dabi is interested are registered in the name of Gaon Agro, of which Mr Dabi is the chief executive officer.

6.2 In addition to the interests of Directors disclosed in paragraph 6.1 above, the Company is aware of the following persons who at the date of this document have, or who are expected on Admission to have, an interest in three per cent. or more of the issued share capital of the Company.

	Immediately before Admission		*Immediately following Admission*	
Name	*Number of Ordinary Shares*	*Percentage of issued share capital on a fully diluted basis*	*Number of Ordinary Shares*	*Percentage of issued share capital on a fully diluted basis*
Poalim Trust Services Ltd[1]	10,200,000	70.61	10,200,000	52.33
Gaon Agro	3,626,758	25.11	2,462,304	12.63
Kibbutz Amiad	10,200	0.07	10,200	0.05
AMS	10,189,800	70.54	10,189,800	52.28
Framlington Investment Management Ltd	Nil	Nil	940,000	4.82
Morley Fund Management Ltd	Nil	Nil	680,000	3.49
IMPAX	Nil	Nil	670,000	3.44
UBS AG	Nil	Nil	625,000	3.21

Note:

1. Of the 10,200,000 Ordinary Shares held by Poalim Trust Services Ltd 10,189,800 Ordinary Shares are held on trust for AMS, a company fully controlled by Kibbutz Amiad, and 10,200 Ordinary Share are held on trust for Kibbutz Amiad.

6.3 Save as disclosed in paragraphs 6.1 and 6.2 above, the Company is not aware of any person who will, immediately following Admission, be interested directly or indirectly in three per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

6.4 The persons, including the Directors, referred to in paragraphs 6.1 and 6.2 above do not have voting rights in respect of the share capital of the Company (issued or to be issued) which differ from any other Shareholder.

6.5 Neither the Company nor any of the Directors is aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

6.6 Save as disclosed in this document, no Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

6.7 The Company has entered into indemnification and exemption agreements with each of the Directors dated 27 November 2005, details of which are set out in paragraph 12.8 of this Part IV of the document.

6.8 The Company has entered into option agreements with each of Abraham Heifetz, Yossi Katz, Itamar Dov Eder and Kibbutz Amiad, each dated 12 August 2005, details of which are set out in paragraphs 12.11 and 12.12 of this Part IV of the document. Mr Rokah, being the chairman of the board of directors of Kibbutz Amiad, is interested in the agreements referred to in paragraphs 12.1 to 12.4, 12.8 to 12.10 and 12.12 of this Part IV of the document.

6.9 Mr Dabi, being the chief executive officer of Gaon Agro, is interested in the agreements paragraphs 12.1, 12.7, 12.8 and 12.10 of this Part IV of the document.

6.10 The Directors currently hold, and have during the five years preceding the date of this document held, the following directorships or partnerships:

Director	Current directorships/partnerships	Previous directorships/partnerships
Abraham Heifetz	Amiad Filtration Systems Ltd. Bank Poaley Agudat Israel Ltd (of the First International Bank Group) Burger Ranch Ltd "Small Business Administration Raanana" (a non profit organisation)	DOT Fuel & Infrastructure Ltd Noga Paz Power Resources Ltd Paz Aviation Assets Ltd Pazkar Ltd Fuel Oil Trading Company Ltd Paz Aviation Services Ltd Paz Energie Ventures Ltd Sahar Development & Investment Ltd. Solpaz Ltd The National Crude Oil Marketing company Ltd Matan Gas Ltd United Mizrahi Bank Ltd
Yosef Katz	Amiad Australia Pty Ltd Amiad Filtration Solutions Ltd. Amiad Filtration Systems Ltd. Amiad France SARL Amiad USA Inc. Filtration & Controls Systems Pte Ltd Filtration Ltd Habonim Industrial Valves Ltd Yixing Taixing Environtec Ltd	Plastro Asia Pacific Pty Ltd
Itamar Dov Eder	Amiad Australia Pty Ltd Amiad Filtration Solutions Ltd Amiad Filtration Systems Ltd. Amiad USA Inc.	
Joseph Rokah	Amiad Filtration Systems Ltd. Kibbutz Amiad Kibbutz Eilot Kibbutz Neve-Yam	Kibbutz Neve-Eitan Pas-Gon (1996) Ltd

Director	Current directorships/partnerships	Previous directorships/partnerships
Mordechai Dabi	Amiad Filtration Systems Ltd. Arie Insurance Co. Ltd Bec & Gaon Holdings Corp. Bec & Gaon – Stock Issuing Partnership Gaon & Bec Management – Stock Issuing Partnership Hakohav Valves Industrial Metal Ltd Maman Co. Ltd Middle East Tube Company Plassim Ltd Rimon Consultancy & Management Svc. Ltd Via Maris Ltd Desalination Consortium	Hamashbir Holdings (1999) Ltd
Michael Rosenberg	BR Light Technologies Limited B Rosenberg Limited Catalyst Media Group plc Cavendish AIM Fund VCT plc City Display Solutions Limited D.F. (Overseas) Limited David Frost Enterprises Limited David Paradine Limited David Paradine Productions Limited Discovery Productions Limited Dori Media Group Ltd. Eastkings Limited Gibbsfield Limited Glebe Music Company Limited Guardwood Limited Kenningdale Limited Magnet Films Limited Montrose Securities Limited Montrose Ventures Limited Paradine Castle Communications Limited Paradine Co-Productions Limited Paradine Documentaries Limited Pilat Media Global plc Rosetta SRK Partnership Ltd (HK) SRK Ventures Limited Talsarn Investments Limited Tele-Circuit Limited The Rosenberg Group plc Umedco (Far East) Ltd. Wired Sussex Limited	Asia Healthcare Trust plc Charterhouse Paradine Limited David Paradine Films Limited David Paradine Plays Limited E-Daily Limited Infection Management Limited Kioskpoint Limited Guaranteed Property (1) Limited Guaranteed Property (2) Limited Guaranteed Property (3) Limited Guaranteed Property (4) Limited Pilat Technologies International Limited The Guaranteed Investment Property Company plc

Director	Current directorships/partnerships	Previous directorships/partnerships
Nathalie Schwarz	None	Beat 106 Limited BRMB Limited C E Digital Limited Capital Disney (West Midlands) Limited Capital Gold Limited Capital Gold Manchester Limited Capital London Limited Capital Online Limited Capital Radio Digital Limited Capital Radio Management Limited Capital Radio plc Capital Radio UBC Data Limited Coast AM Limited Digital Radio Development Bureau Ltd Expressway Limited Glasgow Gold Limited Hit 40 UK Limited Invicta Concerts & Promotions Limited Invicta Radio Group Limited Invicta Sound Broadcasting Limited MXR Holdings Limited MXR Limited Now Digital (East Midlands) Limited Ocean FM Limited Power FM Limited Radio South Limited South Coast Radio Limited YFM Limited

6.11 None of the Directors has any unspent convictions in relation to indictable offences.

6.12 None of the Directors has been the subject of any public criticism by any statutory or regulatory authority (including a recognised professional body).

6.13 Save as disclosed below, none of the Directors has been a director of a company at the time of, or within the 12 months preceding the date of, that company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors:

Michael Rosenberg was a director of:

6.13.1 B Rosenberg Limited, a company incorporated in England & Wales, which was put into creditors' voluntary liquidation in January 2005;

6.13.2 E-daily Limited, a company incorporated in England & Wales, which was put into compulsory liquidation in November 2004;

6.13.3 Guaranteed Property (1) Limited, Guaranteed Property (2) Limited, Guaranteed Property (3) Limited, Guaranteed Property (4) Limited and The Guaranteed Investment Property Company plc, all of which are companies incorporated in England & Wales and were put into members voluntary liquidation in September 1996. As at the date of this document, the Companies have not been dissolved;

6.13.4 Kioskpoint Limited, a company incorporated in England & Wales, which was put into administration in March 2004;

6.13.5 Pilotglow Ltd, a company incorporated in England & Wales, which was put into compulsory liquidation on 15 June 1988 and which was dissolved on 18 June 2002; and

6.13.6 Scintronix Limited, a company incorporated in Scotland, to which a receiver was appointed in 1988 and was formally dissolved on 21 June 1996.

6.14 None of the Directors has been a partner of a partnership at the time of, or within 12 months preceding the date of, that partnership being placed into compulsory liquidation or administration or being entered into a partnership voluntary arrangement; nor in that time have the assets of any such partnership been the subject of a receivership.

6.15 No asset of any Director has at any time been the subject of a receivership.

6.16 None of the Directors is or has been bankrupt or been the subject of any form of individual voluntary arrangement.

6.17 None of the Directors is or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6.18 There are no outstanding loans granted by any member of the Group to any of the Directors; nor has any guarantee been provided by any member of the Group for the benefit of any of the Directors.

7 Directors' service agreements

7.1 The following agreements have been entered into between the Directors and the Company giving:

7.1.1 an employment agreement dated 27 November 2005 between the Company (1) and Yosef Katz (2) pursuant to which Mr Katz is employed as the chief executive officer of the Company and as an executive director of the Board. The agreement is conditional upon Admission, terminable by either party on four months' written notice to the other. In addition, the Company is entitled to terminate Mr Katz's employment with immediate effect, but Mr Katz would be entitled to receive the full amount of his salary and all other benefits due to him under the agreement until the end of his notice period. Mr Katz is entitled to a monthly salary of NIS 37,185 linked to the Israeli Consumer Price Index in addition to other benefits commensurate with his position, including: (i) a bonus of either (a) an amount to be determined by the Board at its discretion equal to no less than 50 per cent. and no more than 150 per cent. of Mr Katz's salary or (b) an amount equal to 1.5 per cent. of the Company's annual net profit if such profit exceeds NIS2.2 million; (ii) contributions by the Company to a managers' insurance policy at the rate of 8.33 per cent. of Mr Katz's basic salary to secure his right to severance pay and 5 per cent. of Mr Katz's basic salary to secure his right to provident payments; (iii) a contribution by the Company to a managers' insurance policy at a rate of 2.5 per cent. of Mr Katz's basic salary to cover disability insurance; (iv) a contribution by the Company to a further education fund for the benefit of Mr Katz at the rate of 7.5 per cent. of his basic salary; and (v) the use of a company car. Upon the cessation of Mr Katz's employment with the Company for any reason, the managers' insurance policy shall be assigned to him, unless the termination of Mr Katz's employment was due to circumstances which would allow the Company to terminate his employment without severance pay, in which case Mr Katz would only be entitled to receive the provident component of the policy. In addition, pursuant to the terms of the an option agreement dated 12 August 2005 between the Company (1) and Mr Katz (2), Mr Katz was granted options to purchase 232,010 Ordinary Shares at an exercise price of US$1.532 per share under the Share Option Plan;

7.1.2 an employment agreement dated 27 November 2005 between the Company (1) and Itamar Dov Eder (2) pursuant to which Mr Eder is employed as the chief financial officer of the Company and as an executive director of the Board. The agreement is conditional upon Admission, terminable by either party on giving three months' written notice to the other. In addition, the Company is entitled to terminate Mr Eder's employment with immediate effect, but Mr Eder would be entitled to receive the full amount of his salary and all other benefits due to him under the agreement until the end of his notice period. Mr Eder is entitled to a monthly salary of NIS27,700 in addition to other benefits commensurate with his position, including: (i) contributions by the Company to a managers' insurance policy at the rate of 8.33 per cent. of Mr Eder's basic salary to secure his right to severance pay and 5 per cent. of Mr Eder's basic salary to secure his rights to provident payments; (ii) a contribution by the Company to a managers' insurance policy at a rate of 2.5 per cent. of Mr Eder's basic salary to cover disability insurance; (iv) a contribution by the Company to a further education fund for the benefit of Mr Eder at the rate of 7.5 per cent. of his basic salary; (v) the use of a company car and (vi) a bonus equal to one month's salary per year payable in twelve equal monthly instalments. Upon the cessation of Mr Eder's employment with the Company for any reason, the managers' insurance policy shall be assigned to him, unless the termination of his employment was due to circumstances which would allow the Company to terminate his employment without severance pay, in which case Mr Eder would only be entitled to receive the provident component of the policy. In addition, pursuant to the terms of the an option agreement dated 12 August 2005 between the Company (1) and Mr Eder (2), Mr Eder was granted options to purchase 77,336 Ordinary Shares at an exercise price of US$1.532 per share under the Share Option Plan;

7.1.3 letters of appointment each dated 11 November 2005 pursuant to which Michael Rosenberg and Nathalie Schwarz were appointed as non-executive directors of the Company, each appointment being (subject to applicable law and the provisions contained in the letters of appointment) for such period until a resolution of the Shareholders is passed removing Mr Rosenberg and Ms Schwarz, as the case may be, from the Board and in each case at an annual fee of £18,000. The Company intends to convene an extraordinary general meeting of the shareholders to be held within three months of Admission for the purposes of appointing Mr Rosenberg and Ms Schwarz as statutory "external directors" of the Company pursuant to the Israeli Act. If such appointments are not confirmed at the extraordinary general meeting of the shareholders, both Mr Rosenberg and Ms Schwarz must resign from the Board upon the expiry of three months from the date of such meeting. Mr Rosenberg's remuneration is payable to a personal services company, Eastkings Limited; and

7.1.4 letters of appointment each dated 11 November 2005 pursuant to which Abraham Heifetz, Joseph Rokah and Mordechai Dabi were appointed as non-executive directors of the Company, each appointment being (subject to the provisions for retirement and re-appointment contained in the Articles) for such period until a resolution of the Shareholders is passed removing Messrs Heifetz, Rokah and Dabi, as the case may be, from the Board. Mr Heifetz is entitled to an annual fee of US$48,000, and Messrs Rokah and Dabi are entitled to an annual fee of £18,000 each, which each of them will transfer to Kibbutz Amiad and Gaon Agro, respectively.

7.2 The aggregate remuneration paid (including benefits in kind) to the Directors by members of the Group in respect of the year ended 31 December 2004 was approximately US$168,711. It is estimated at the date of this document that the aggregate remuneration and benefits in kind payable to the Directors by members of the Group in respect of the current financial year will be approximately US$376,000.

8 The Company and its Subsidiaries

8.1 The Company is the parent company of the Group and has the following Subsidiaries:

Name	Country of registration or incorporation	Principal activity	Percentage of issued share capital held directly or indirectly by the Company and (if different) proportion of voting power held
Filtration Ltd.	Israel	Marketing	100
Filtration & Control Systems (S)Pte Ltd.	Singapore	Marketing	100
Amiad Australia Pty Ltd.	Australia	Marketing and distribution	100
Amiad U.S.A. Inc.	USA	Marketing and distribution	82
Amiad France	France	Marketing and distribution	65.8
Amiad Filtration Solutions (2004) Ltd.	Israel	Marketing and distribution in Europe	100
Yixing Taixing Environtec Co. Ltd.	China	Marketing, distribution and assembly line	50

8.2 The Group's shareholdings in the companies listed in paragraph 8.1 above are directly or indirectly owned by the Company.

9 Principal establishments

9.1 The Company's head office and principal place of business is at Kibbutz Amiad, D.N. Galil Elyon 1, 12335, Israel.

9.2 The principal establishments of the Group are as follows:

Company	Location	Approx. area	Tenure	Current rent (per month)	Term of lease
Amiad	Kibbutz Amiad, D.N. Galil Elyon 1, 12335, Israel	17,595 sq.m. (including 9,971 sq.m. of manufacturing and office building space)	Lease	US$32,477.35	Ten years expiring on 30 September 2015 with an option to extend the term for a further period ending on 31 December 2022
Amiad U.S.A. Inc.	2220 Celsius Avenue Oxnard California 93030 USA	35,000 sq.ft	Lease	US$16,500	18 months expiring on 31 December 2006
Amiad U.S.A. Inc.	1198 Enterprise Dr. Port Charlotte Florida 33953 USA	1,200 sq.ft	Lease	US$728.71	The lease expired on 30 September 2005 and is in the process of being renewed
Filtration Ltd.	Ha'Zoran St. 5A New Industrial Park South Netanya, P.O. Box 8242 Israel	345 sq.m	Lease	US$3,100	Nine months expiring on 31 December 2005
Filtration & Control (S)Pte Ltd.	111 North Bridge Road #07-07 Peninsula Plaza Singapore 179098	1,044 sq.ft	Lease	SD2,600	12 months expiring on 30 November 2005
Amiad France	31 Boulevard Lefebvre Paris, 75015 France	45 sq.m	Lease	€1,144	Nine years expiring on 31 August 2011
Amiad Australia Pty Ltd	3/15 Brisbane St. Eltham, 3095 Victoria Australia	1,300 sq.ft	Lease	AUD$7,500	Six years expiring in June 2007
Amiad Australia Pty Ltd	Suite #533, Level 5, Edgecliff Centre 203-233 New South Head Road Edgecliff NSW 2027 Australia	15 sq.m	Lease	AUD$1,570	One year expiring on 31 March 2006
Amiad Australia Pty Ltd	160 Wecker Road Mansfield Queensland 4122 Australia	30.66 sq.m	Lease	AUD$715	Month to month basis
Amiad Australia Pty Ltd	Unit #2, 15 Drake Street Osborne Park WA 6017 Australia	190 sq.m	Lease	AUD$1,100	Month to month basis
Amiad Australia Pty Ltd	10 Joval Place Manukau city New Zealand	50 sq.m	Lease	NZD$700	Month to month basis

10 Placing and lock-in arrangements

Under the Placing Agreement, Panmure Gordon has agreed, (conditionally, *inter alia*, on Admission) as agent for the Company to use its reasonable endeavours to procure subscribers for 5,045,965 new Ordinary Shares to be issued pursuant to the Placing (the "Subscription Shares") and as agent for the Selling Shareholder to use its reasonable endeavours to procure purchasers for the Sale Shares, in each case at the Placing Price.

Under the Placing Agreement and subject to it becoming unconditional, each of the Company and the Selling Shareholder has agreed to pay Panmure Gordon a commission representing a certain percentage of the value at the Placing Price of the Subscription Shares and the Sale Shares, respectively, together with any applicable VAT thereon and (in the case of the Company only) a corporate finance fee. The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing.

The Placing Agreement contains warranties and indemnities to be given by the Company, the Directors and Gaon Agro to Panmure Gordon subject to the terms of the indemnity agreements described in paragraph 12.8 of this Part IV. The liability of those giving the warranties and indemnities is limited to certain amounts and certain periods of time. Panmure Gordon is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.

Under the terms of the Placing Agreement, the Directors and Gaon Agro have each agreed, amongst other things, not to dispose (and to procure that none of their connected persons will dispose) of any of their Ordinary Shares in the period of 12 months from Admission and, for a further period of 12 months thereafter, only to dispose of their Ordinary Shares through Panmure Gordon (provided that Panmure Gordon shall continue to be the Company's nominated adviser and broker to the Company), subject to certain specified exceptions. In addition, Kibbutz Amiad and AMS have entered into a Lock-in Agreement in favour of the Company and Panmure Gordon. The terms of the Lock-in Agreement correspond to the lock-in arrangements accepted by Gaon Agro in the Placing Agreement.

11 Taxation

The following is only a summary of the main UK tax consequences which will apply to shareholders of the Company who are either resident and ordinarily resident individuals or companies in the UK. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders and is based on current law and practice. If you are in any doubt as to your own tax position or are resident or subject to tax in a jurisdiction outside the UK, you should seek independent professional advice without delay.

11.1 *Dividends*

From 1 January 2006, dividends paid by the Company will generally be subject to Israeli income tax at the rate of 20 per cent unless the shareholder owns, or has owned within the previous twelve months, 10 per cent or more of the means of control of the Company at the time the dividend was received in which case the rate of Israeli taxation is 25 per cent. The current rate of withholding tax is 25 per cent for both types of shareholders. The UK:Israel Double Taxation Treaty ("the Treaty") provides for this withholding to be reduced to the rate of 15 per cent. of the gross dividend where the recipient is subject to tax on the dividends received in the United Kingdom. This relief under the Treaty would not be available if the shareholder had a permanent establishment in Israel and the shares held were effectively connected with the business or trade of that permanent establishment. Application of the reduced rate of withholding tax under the Treaty can be agreed in advance between the Company and the Israeli tax authorities and shareholders will need to confirm their tax residence in order to benefit from the reduced rates of withholding under the Treaty.

As mentioned in Parts I and III of this document, the Company has received "Approved Enterprise" status in Israel under the Law for the Encouragement of Capital Investments, 1959. Under Israeli law, dividends paid out of "Approved Enterprise" profits would in any event be subject to a reduced rate of withholding tax of 15 per cent.

The Company will not be obliged to make any withholding on account of UK tax on payment of any dividends. UK resident individuals who are also domiciled in the UK will be liable to UK tax on the gross dividend paid by the Company. However, relief may be available for the Israeli withholding tax, with the provision that the relief cannot exceed the amount of UK tax payable on the dividend. UK resident individual shareholders who are not domiciled within the UK will generally be subject to UK income tax on the dividend receipt only if the dividend is remitted to the UK. In such cases, it should be noted that advantage can only be taken of the reduced rate of withholding tax under the Treaty if the dividends are remitted and therefore subject to UK tax.

UK resident companies will, where double tax relief is claimed, be liable to UK tax on the gross dividend paid by the Company, subject to credit for Israeli withholding tax deducted at source. The credit given in the UK for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend.

A UK resident company may also seek relief for the underlying tax (tax borne by the Company and its Subsidiaries on the profits out of which the dividend is paid) associated with the dividend where the UK company owns 10 per cent. or more of the voting rights in the Israeli company. The Treaty also contains a "tax sparing" clause, which enables a UK company owning at least 10 per cent. of the voting power in the Company to seek credit for the underlying Israeli tax against UK corporation tax on dividend receipts which would have been paid by the Company but for the availability of Israeli tax relief under certain sections of the Law for Encouragement of Capital Investments, 1959, as amended.

As the credit given for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend, a UK company may, subject to satisfying the provisions within the UK Double Tax regulations, be entitled to claim credit for any excess unrelieved Israeli tax (both withholding and, where available, underlying tax) against dividends received from other sources.

For both individuals and companies having insufficient taxable income to give rise to a UK tax charge on which relief may be obtained for the withholding tax deducted under Israeli law, the taxpayer can elect to treat the Israel withholding tax as an expense to be deducted from the gross dividend so that the taxable receipt is reduced to the amount of the dividend net of withholding tax.

11.2 *Approved retirement benefit schemes*

HM Revenue and Customs approved retirement benefit schemes are generally exempt from UK tax on investment income and therefore not entitled to benefit from the dividend provisions of the Treaty. Any Israeli withholding tax suffered cannot be relieved; nor will it be refunded.

11.3 *Capital gains tax*

An individual who is resident and ordinarily resident in the UK shall be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including shares in the Company held as an investment) subject to the application of relevant reliefs and exemptions. Capital gains tax is charged at the rate equivalent to the rate of income tax applied to an individual's top slice of income. A company resident in the UK for corporation tax purposes will be liable to corporation tax in respect of gains on the disposal of shares in the Company, subject to the availability of an allowance for inflation and the substantial shareholding exemption.

Under Israeli law, from 1 January 2006, foreign residents will generally be liable to Israeli taxation on capital gains derived from an Israeli source at the rate of 20 per cent. unless the shareholder owns, or has owned within the previous twelve months, 10 per cent. or more of the means of control of the Company at the time of the gain in which case the rate of Israeli taxation is 25 per cent. The current rate is 25 per cent. for both types of shareholders. The sale of shares (or rights to shares) in the Company would be considered as arising from an Israeli source and be subject to Israeli taxation at the rates described above. However, according to current Israeli regulations, shareholders resident outside Israel are exempt from Israeli capital gains tax on the sale of shares listed on a foreign stock exchange (as defined) which have been purchased subsequent to listing and do not form part of a permanent establishment of the shareholder in Israel.

Under Israeli law, UK resident companies will not be entitled to the above exemption for capital gains if an Israeli resident (i) has a controlling interest of 25 per cent. or more in such UK resident company or (ii) is the beneficiary of or is entitled to 25 per cent. or more of the revenues or profits of such UK resident company, whether directly or indirectly.

In any event, UK residents disposing of shares in the Company could rely on the Treaty which exempts UK shareholders from Israeli tax on capital gains where the capital gains are subject to tax in the UK and are not attributable to a permanent establishment of the shareholder in Israel. However, where shares in the Company are, for example, held by a UK company that qualifies for the substantial shareholder exemption from corporation tax on capital gains or an approved retirement benefit scheme, it is unlikely that the Israeli Tax Authority will accept that the benefits of the Treaty apply as the capital gain would not be subject to UK tax. Therefore, the exemption contained within the Israeli domestic regulations may be the only protection available from Israeli taxation. Accordingly, UK shareholders who are unable to benefit from the Treaty may wish to apply for a recently introduced special exemption on capital gains arising from the sale of shares in an Israeli company which were purchased between 1 July 2005 and 31 December 2008. Such an application would provide a shareholder who cannot benefit from the Treaty with an additional level of protection from Israeli taxation to that contained within the Israeli domestic regulations.

In order for this additional exemption to be relevant, the following conditions will need to be met:

- the shares do not form part of a permanent establishment of the seller in Israel;

- the seller is an individual and has been a resident of a country with which Israel has a tax treaty (e.g. the UK) for the ten years prior to the acquisition or is an entity where 75 per cent. of the means of control of the entity are ultimately held by individual shareholders who are resident in a country with which Israel has a tax treaty (e.g. the UK). Where the entity is listed on a non-Israeli stock exchange this condition is deemed to be met automatically in respect of "non-material" shareholders unless it can be proved otherwise. "Material" is defined as a 10 per cent. holding of any means of control together with related parties;
- the shares were not purchased from a related party;
- any future sale would be reported to the tax authority in the country of the seller's residence; and
- within 30 days of the acquisition the transaction was disclosed in full to the Israeli Tax Authority using the appropriate Israeli Tax Authority form.

Shareholders who wish to benefit from this additional exemption would therefore be advised to approach the Israeli Tax Authority within 30 days of the purchase of the shares in the Company.

11.4 *Stamp duty and stamp duty reserve tax*

The following comments are intended as a guide to the general UK stamp duty and stamp duty reserve tax position and do not relate to persons such as market makers, brokers, dealers intermediaries and persons connected with voluntary arrangements or clearing services for whom special rules apply.

The Company is obliged under the Israeli Stamp Duty Act 1961 to pay 1 per cent. of the proceeds of the Placing as stamp duty within 30 days from the issuance of the Ordinary Shares.

The Company has established a branch register in Jersey. It has not established and has no intention of establishing a register of the Ordinary Shares in the United Kingdom.

While UK stamp duty is payable (at 0.5 per cent. of the purchase price) on transfers of Ordinary Shares if a transfer document is executed in the UK, transfers of the Ordinary Shares should be able to be registered in Jersey without payment of UK stamp duty.

Provided the Ordinary Shares are not registered in a register kept in the UK by or on behalf of the Company, no UK stamp duty reserve tax will be chargeable in respect of any agreement to transfer Ordinary Shares.

UK stamp duty reserve tax (at 0.5 per cent. of the purchase price) will be chargeable in respect of an agreement to sell DIs representing the Ordinary Shares. Where a stamp duty reserve tax charge arises, payment of stamp duty within six years of the date of an agreement on a transfer executed pursuant to the agreement will generally cancel this charge to stamp duty reserve tax.

The above comments are intended as a general guide to the current position. Any person who is in any doubt as to his taxation position, and who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom, should consult his professional advisers.

12 Material contracts

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group in the two years preceding the date of this document and which are, or may be, material:

12.1 the Placing Agreement and the Lock-in Agreement details of which are set out in paragraph 10 above;

12.2 a sub-lease agreement (the "Sub Lease") dated June 1998 between the Company (1), Kibbutz Amiad (2) and Amiad Filtration Systems LLP (now Amiad Assets 2005 LLP) (together with Kibbutz Amiad, the "Lessor") (3), as amended by an addendum dated 24 November 2005. Pursuant to the terms of this agreement, the Company has leased approximately 17,595 sq.m. (the Company's plant) at D.N. Galil Elyon 1, Kibbutz Amiad 12335, Israel, which includes 9,971 sq.m. of manufacturing and office building space. The monthly rent is US$32,477.35 plus VAT, payable monthly in advance. The rent is reviewed every three years. The next rent review is due to take place in October 2008. For the six month period ended on 30 June 2005, the Company paid approximately US$191,000 in rent under the agreement. The term of the sub-lease expires on 30 September 2015 with an option to extend until 31 December 2022. The Company is obliged to assist, by way of a loan, with the financing of changes made to the leased property by the Lessor at the request of the Company. Such loan is repayable to the Company by the Lessor offsetting against such loan any increased rent due by virtue of the changes to the property having increased the value of the leased property. The outstanding loan accrues interest at the minimum rate stipulated by the applicable Israeli law and is linked to the Consumer Price Index. As at 30 June 2005, the balance of the loan due to the Company was US$454,000.

12.3 the Manpower Agreement, pursuant to which Kibbutz Amiad agreed to supply the Company with manpower comprising both members and candidates for membership of Kibbutz Amiad. The term of the agreement is ten years commencing on 1 October 2005. The agreement is automatically renewable for additional periods of ten years each, unless either party notifies the other of its intention not to renew the term of the agreement six months prior to the end of its term. The agreement is terminable: (i) by either party giving six months' written notice to the other prior to the end of the term of the agreement or (ii) by Kibbutz Amiad giving six months' written notice to the Company at any time. Upon termination of the agreement by Kibbutz Amiad pursuant to (ii) above, all personnel supplied by Kibbutz Amiad under the agreement may become employees of the Company at the option of the Company. Kibbutz Amiad is obliged to indemnify the Company against any employment liabilities which the Company incurs as a result of the employment by the Company of personnel supplied by Kibbutz Amiad following termination by Kibbutz Amiad pursuant to (ii) above. The provisions of the agreement state that it will continue to remain in force for so long as the Company's activities are performed on the premises leased from Kibbutz Amiad. The Company pays Kibbutz Amiad a monthly payment under the agreement according to a formula which varies depending on the number of workers supplied by Kibbutz Amiad and the function each worker undertakes for the Company. For the six month period ended 30 June 2005, the Company paid approximately US$927,000 in fees to Kibbutz Amiad pursuant to the agreement. The Company is not obliged to pay any wages or salaries to the personnel provided by Kibbutz Amiad under the agreement. Kibbutz Amiad is obliged to indemnify the Company for any losses which the Company may suffer or incur as a result of a court of competent jurisdiction establishing an employer-employee relationship between the Company and any of the personnel provided by Kibbutz Amiad;

12.4 a service agreement dated June 1998 between the Company (1) and Kibbutz Amiad (2), as amended by an addendum dated 24 November 2005, pursuant to which Kibbutz Amiad undertook to supply various services to the Company, including utility services, maintenance and infrastructure. The term of the agreement is ten years commencing on 1 October 2005 with an automatic renewal for periods of ten years each, unless either party notifies the other of its intention not to renew the term of the agreement six months prior to the end of its term. The agreement will not terminate for so long as the Company's activities, wholly or partly, are undertaken on the premises leased to the Company by Kibbutz Amiad. For the six months period ended 30 June 2005, the Company paid approximately US$93,000 in fees to Kibbutz Amiad pursuant to the agreement (the "Service Agreement");

12.5 a disengagement and sale and purchase agreement dated 31 August 2005 between the Company (1), Plastro Irrigation Systems Ltd. ("Plastro") (2) and Amiad Australia Pty Ltd. ("Amiad Australia") (3) pursuant to which (i) the Company acquired the entire shareholding of Plastro in Amiad Australia for NIS1, thereby acquiring the entire issued share capital of Amiad Australia, and (ii) Amiad Australia disposed of its entire shareholding in Plastro Asia Pacific Pty Ltd. to Plastro for NIS1. The Company guaranteed the obligation of Amiad Australia to repay debts owed by it to Plastro in the amounts of AU$261,612 and US$299,303. Both the Company and Amiad Australia agreed to indemnify Plastro against any demands for payment made against Plastro pursuant to guarantees provided by Plastro on behalf of Amiad Australia or arising from Amiad Australia's activities. The agreement is subject to Israeli law and the courts in Haifa, Israel have exclusive local jurisdiction. Any disputes arising in connection with this agreement are to be submitted for the decision of a single arbitrator (in accordance with Israeli law). In the absence of agreement, the arbitrator shall be appointed by the Israel Business Association of the Israeli Chamber of Commerce;

12.6 a sale and purchase agreement dated 8 June 2005 between the Company (1), Filtration & Control Systems Pte Ltd. ("Amiad Singapore") (2), Mr Hsu Po-Lung (3), Mr Yang Yung-Chou (4) and Great Victory International Ltd. (5) pursuant to which Amiad Singapore acquired the entire shareholding of the Company in Yixing Taixiang Environtec Co. Ltd. ("YTECL") for US$160,000. The purchase price was funded by the Company by way of a loan pursuant to an agreement dated 20 July 2005 between the Company and Amiad Singapore. The loan carries an interest rate of 3 per cent. per annum and is due for repayment in August 2008. Amiad Singapore further agreed to subscribe for US$1,280,000 worth of shares in YTECL, thereby increasing its shareholding in YTECL to 50 per cent. YTECL and its shareholders agreed to indemnify Amiad Singapore against all claims for misrepresentation or breach of warranty under the sale and purchase agreement for a period of two years expiring on 8 June 2007. The law of the People's Republic of China is the governing law of the sale and purchase agreement. Disputes arising in connection with the agreement are to be settled by arbitration conducted by the China International Economic and Trade Arbitration Commission;

12.7 an information agreement (the "Information Agreement") dated 24 November 2005 between the Company (1) and Gaon Agro (2) pursuant to which the Company agreed to provide Gaon Agro with certain information in respect of the Company (including the Company's quarterly and annual financial statements) to enable Gaon Agro to comply with the disclosure requirements of the Israeli Securities Law 1968 (the "Securities Law"). Under the terms of the agreement, Gaon Agro is obliged (i) to provide the Company with copies of any reports that include information on the Company which Gaon Agro intends to disclose in compliance with the Securities Law (ii) to provide the Company with reasonable notice of the information it seeks to obtain from the Company which Gaon Agro is obliged to disclose under the Securities Law, such notice to state the scope of information sought, the time by which the information must be delivered by the Company and those provisions of the Securities Law under which the information is required and (iii) to give the Company prior notice of when it intends to publish such information so that the Company can simultaneously release such information in compliance with the AIM Rules. The Company is obliged under the terms of the agreement to endeavour to deliver the information required by Gaon Agro as detailed in the notice referred to in item (ii) above. Gaon Agro is further obliged to keep confidential any information received by it under the agreement, except for disclosures made by it in compliance with the requirements of the Securities Law. The agreement takes effect from Admission and is governed by Israeli law. The agreement will remain in full force and effect for so long as Gaon Agro is obliged to disclose information in respect of the Company under the Securities Law;

12.8 indemnification and exemption agreements (the "Indemnification Agreements") dated 27 November 2005 between the Company (1) and each of the Directors (2) pursuant to which the Company has undertaken (i) to exempt each of the Directors from responsibility for any damage caused, indirectly or indirectly, due to the Director's breach of the duty of care owed by the Director to the Company and/or its Subsidiaries (as the case may be) and due to the Director's acts and/or omissions, provided that the acts and/or omissions were committed in good faith and in the Director's capacity as an office holder (as defined under the Israeli Act) of the Company and/or of the Subsidiaries (as the case may be) and (ii) to indemnify each of the Directors for expenses and liabilities imposed or incurred by the Director due to acts performed in his/her capacity as an of office holder of the Company and/or of the Subsidiaries (as the case may be). The aggregate amount payable by the Company under an indemnification agreement will not exceed US$37,000,000. The Directors are not entitled to be indemnified by the Company under the indemnification and exemption agreements against liabilities for which they receive or are entitled to receive compensation or reimbursement from a third party;

12.9 a relationship agreement dated 29 November 2005 between the Company (1), Kibbutz Amiad (2) and AMS (3) (together with Kibbutz Amiad, the "Controlling Shareholder") pursuant to which the Controlling Shareholder has given certain undertakings to the Company. Immediately following Admission, the Controlling Shareholder will be the beneficial holder of 10,200,000 Ordinary Shares, representing 52.33 per cent. of the entire issued share capital of the Company, on a fully diluted basis. Pursuant to the terms of the relationship agreement, the Controlling Shareholder has undertaken to the Company to exercise all voting rights and powers of control available to it in relation to the Company in a manner which would ensure that, amongst other things, (i) the Company is capable of carrying on its business independently of it (ii) for so long as Panmure Gordon act as nominated adviser to the Company, members of Kibbutz Amiad will not constitute a majority of the directors on the board of directors of the Company (iii) all transactions, agreements or arrangements entered into between the Company, the Controlling Shareholder and its Associates (as defined in the agreement) will be made at arm's length and on a normal commercial basis (iv) no variations will be made to the Company's articles of association which would be contrary to the maintenance of the Company's ability to carry on its business independently of the Controlling

Shareholder (v) the provisions of the agreement will be observed and (vi) any dealings or disputes between any of the Controlling Shareholder or its Associates and the Company shall be passed to and dealt with on behalf of the Company by the audit committee of the Board. The Controlling Shareholder has also undertaken to the Company (i) not to undertake an activity which would conflict with the Company or would render the Company incapable of carrying on its business independently or lead to transactions and relationships between the Company and the Controlling Shareholder (or its Associates) which are not at arm's length or on a normal commercial basis and (ii) not to propose or vote in favour of any resolution which has the effect of waiving the pre-emption rights on issue of shares set out in the Company's articles of association (as amended from time to time) unless such resolutions are supported by a majority of the Independent Directors (as defined in the agreement). The agreement also provides that, for as long as no member of Kibbutz Amiad serves as a director of the Company, Kibbutz Amiad may appoint one non-voting observer to meetings of the Board. The agreement will terminate if the Controlling Shareholder ceases either to exercise or control the exercise of 30 per cent. or more of the rights to vote at general meetings of the Company or to be able to control the appointment of directors who are able to exercise a majority of votes at board meetings of the Company (the "Relationship Agreement");

12.10 a termination agreement dated 24 November 2005 between the Company (1), Kibbutz Amiad (2), Gaon Agro (3), Gaon Holdings Ltd (4) and AMS (5) pursuant to which the following agreements have been terminated, conditional on Admission;

12.10.1 agreement dated 12 July 1999 between the Company (1), Kibbutz Amiad (2), Gaon Holdings Ltd (3) and AMS (4);

12.10.2 management agreement dated January 1998 between the Company (1) and Kibbutz Amiad (as amended);

12.10.3 compensation agreement dated 12 April 2002 between the Company (1) and Kibbutz Amiad (2);

12.10.4 debenture deed dated 31 December 2001 between the Company (1) and Gaon Agro (2);

12.10.5 consultancy agreement dated April 2002 between the Company (1) and Gaon Agro (2); and

12.10.6 an agreement dated 4 September 2002 between the Company (1), Kibbutz Amiad (2), AMS (3), Gaon Holdings Ltd (4) and Gaon Agro (5) (the "Termination Agreement").

12.11 option agreements, each dated 12 August 2005, between the Company (1) and each of Abraham Heifetz, Yosef Katz, Itamar Dov Eder and Arie Dayan (2) pursuant to which the Company has granted to such persons options to purchase 541,356 and 541,356 Ordinary Shares, respectively, at an exercise price of US$1.532 per Ordinary Share. The options granted to:

(i) each of Abraham Heifetz, Itamar Dov Eder and Arie Dayan vest as follows: half on 11 August 2007, a quarter on 11 August 2008 and the remaining quarter on 11 August 2009;

(ii) Yosef Katz as follows: half on 11 August 2006, a quarter on 11 August 2007 and the remaining quarter on 11 August 2008,

provided that the relevant grantee is an employee of, or providing a service to, the Company on the relevant vesting dates. All unexercised options granted to the grantees shall expire on 11 August 2015, unless the employment or services of the relevant grantee is terminated without cause prior to that date, in which case such vesting dates shall be accelerated so that any option that is due to vest within six months from the date of termination shall vest immediately in full at the date of termination; and

12.12 an option agreement dated 12 August 2005 between the Company (1) and Kibbutz Amiad (2) pursuant to which the Company has granted Kibbutz Amiad options to purchase 77,336 Ordinary Shares at an exercise price of US$1.532 per Ordinary Share. The options granted to the Kibbutz Amiad, vest as follows: half on 11 August 2007, a quarter on 11 August 2008 and the remaining quarter on 11 August 2009, provided that Kibbutz Amiad continues to provide to the Company the services of "Vice President for production" through Mr Oded Rosen on the vesting dates. All unexercised options granted to Kibbutz Amiad shall expire on 11 August 2015, unless the provision of the above services to the Company has been terminated without cause, in which case the vesting dates shall be accelerated so that any option that is due to vest within six months from the date of termination shall vest immediately in full at the date of termination (together with paragraph 12.11 the "Option Agreements").

13 Related party transactions

The following related party transactions are transactions which, as a single transaction or in their entirety, are or may be material to the Company and have been entered into by the Company or any other member of the Group during the period commencing on 1 January 2002 and terminating immediately prior to the date of this document and which were concluded at arm's length:

13.1 the Placing Agreement;

13.2 the Sub-Lease;

13.3 Manpower Agreement;

13.4 the Service Agreement;

13.5 the Indemnification Agreements;

13.6 the Option Agreements;

13.7 the Relationship Agreement;

13.8 the Information Agreement;

13.9 the Termination Agreement; and.

13.10 the Lock-in Agreement.

14 Working capital

The Directors are of the opinion (having made due and careful enquiry) that, after taking into account the financing facilities available to the Group and (following Admission) the net proceeds of the Placing of the new Ordinary Shares, the Group has sufficient working capital for its present requirements, that is, for at least the period of 12 months from Admission.

15 Litigation

15.1 No member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position or profitability and, so far as the Directors are aware, there are no proceedings pending or threatened against any member of the Group.

16 CREST

16.1 *Introduction*

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through the CREST system, a depositary or custodian can hold the relevant securities and issue dematerialised DIs representing the underlying securities which are held on trust for the holders of the DIs.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a depositary interest arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. No temporary documents of title will be issued.

The Ordinary Shares will not themselves be admitted to CREST. Instead the Registrar, acting as depositary, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through the CREST system. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on AIM. The DIs will be created and issued pursuant to a deed poll (the "Deed Poll") entered into by the Registrar which will govern the relationship between the Registrar, as depositary, and the holders of DIs.

Application has been made for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission.

Holders of Ordinary Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact the Registrar.

A summary of the Deed Poll is set out below.

16.2 *Summary of the Deed Poll*

As mentioned above, the DIs will be created pursuant to and issued on the terms of the Deed Poll. The Deed Poll is executed by the Registrar, as depositary, in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against CRESTCo or its subsidiaries in respect of the underlying Ordinary Shares or the DIs representing them.

Ordinary Shares will be transferred to an account of the Registrar or its nominated custodian (the "Custodian") and the Registrar will issue DIs to participating members.

Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Registrar will pass on to holders of DIs any stock or cash benefits received by it as holder of Ordinary Shares on trust for such DI holder. DI holders will also be able to receive from the Registrar notices of meetings of holders of Ordinary Shares and other information to make choices and elections issued by the Company to its shareholders.

In summary, the Deed Poll contains, *inter alia*, provisions to the following effect:

16.2.1 The Registrar will hold (itself or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the DIs for the benefit of the holders of the DIs. The Registrar will re-allocate securities or distributions allocated to the Registrar or the Custodian *pro rata* to the Ordinary Shares held for the respective accounts of the holders of DIs, but will not be required to account for fractional entitlements arising from such re-allocation.

16.2.2 Holders of DIs warrant, *inter alia*, that the securities in the Company transferred or issued to the Registrar or Custodian on behalf of the Depositary/Custodian are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's articles of association or any contractual obligation, law or regulation.

16.2.3 The Registrar and any Custodian must pass onto DI holders all rights and entitlements received by the Registrar or the Custodian in respect of the underlying securities. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received, together with amendments and additional documentation necessary to effect such passing-on. If arrangements are made which allow a holder to take up rights in the Company's securities which require further payment, the holder must put the Registrar in cleared funds before the relevant payment date or other date notified by the Registrar if it wishes the Registrar to exercise such rights.

16.2.4 The Registrar will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying securities in certain circumstances including where a DI holder fails to furnish to the Registrar such certificates or representations as to material matters of fact, including his identity, as the Registrar deems appropriate.

16.2.5 The Deed Poll contains provisions excluding and limiting the Registrar's liability. For example, the Registrar shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Registrar shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued supervision of such Custodian or agent. Furthermore, the Registrar's liability to a holder of DIs will be limited to the lesser of (a) the value of the shares and other deposited property properly attributable to the DIs to which the liability relates and (b) that proportion of £10 million which corresponds to the portion which the amount the Registrar would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Registrar would otherwise be liable to pay to all such holders in respect of the same act, omission or event or, if there are no such amounts, £10 million.

16.2.6 The Registrar is entitled to charge holders of DIs fees and expenses for the provision of its services under the Deed Poll.

16.2.7 The holders of DIs are required to agree and acknowledge with the Registrar that stamp duty reserve tax will be payable on agreements to sell the DIs.

16.2.8 Each holder of DIs is liable to indemnify the Registrar and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the amount of DIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the Registrar, or the Custodian or any agent if such Custodian or agent is a member of the Registrar's group or, if not being a member of the same group, the Registrar shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.

16.2.9 The Registrar may terminate the Deed Poll by giving 30 days' notice. During such notice period, holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Registrar must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion, sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Registrar, together with any other cash held by it under the Deed Poll, *pro rata* to holders of DIs in respect of their DIs.

16.2.10 The Registrar or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Ordinary Shares to the holders. Holders agree to provide such information requested and consent to the disclosure of such information by the Registrar or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Company's memorandum or articles of association require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with the Company's instructions with respect thereto.

It should also be noted that holders of DIs may not have the opportunity to exercise all of the rights and entitlements available to holders of the Ordinary Shares. In relation to voting, it will be important for holders of DIs to give prompt instructions to the Registrar to vote the underlying shares on their behalf.

17 Miscellaneous

17.1 There has been no significant change in the financial or trading position of the Group since 30 June 2005, the date to which the last audited accounts of members of the Group were prepared.

17.2 The total costs and expenses relating to the Placing (including those fees and commissions referred to in paragraph 12 of Part I of this document and paragraph 10 of this Part IV of the document above) payable by the Company are estimated to amount to approximately £1,000,000 (including any applicable VAT). The total net proceeds of the Placing payable to the Company will, on Admission, be approximately £5,500,000.

17.3 In the opinion of the Directors, the minimum amount which must be raised by the allotment of Ordinary Shares pursuant to the Placing is as follows:

17.3.1	Purchase price of property	Nil
17.3.2	Costs and expenses payable under the Placing	£1,000,000
17.3.3	Repayment of money borrowed in respect of 17.3.1 and 17.3.2 above	Nil

17.3.4	For the purposes set out in paragraph 12 of Part I of this document and for working capital	£5,500,000

17.4 In making any investment decision in respect of the Placing, no information or representation should be relied on in relation to the Placing, the Group or the Placing Shares, other than as contained in this document. No person has been authorised to give any information or make any representation other than as contained in this document and, if given or made, such information or representations must not be relied on as having been authorised. Neither the delivery of this document nor any subscription or purchase made under or pursuant to it shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date of this document.

17.5 The financial information set out in this document relating to the Group does not constitute statutory accounts within the meaning of section 240 of the Act. Kost, Forer, Gabbay and Kasierer, Chartered Accountants of 3 Aminadav Street, Tel Aviv, 67067, Israel have been the auditors of the Company for the three financial years ended 31 December 2004 and have given unqualified audit reports on the statutory accounts of the Company for those financial years.

17.6 Kost, Forer, Gabbay and Kasierer has given and has not withdrawn its written consent to the inclusion in this document of its reports and the references to the reports and to its name in the form and in the context in which they are included and it has authorised the contents of Part III of this document. Kost, Forer, Gabbay and Kasierer has no material interest in the Company.

17.7 Panmure Gordon is registered in England and Wales under number 1742592 and its registered office is at Moorgate Hall, 155 Moorgate, London EC2M 6XB. Panmure Gordon is regulated by the Financial Services Authority and is acting in the capacity as nominated adviser and broker to the Company.

17.8 Panmure Gordon has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

17.9 Save as otherwise disclosed in this document:

17.9.1 there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability;

17.9.2 there have been no interruptions in the Group's business in the 12 months preceding the date of this document which may have or have had a significant effect on the Group's financial position; and

17.9.3 there are no principal investments in progress or future investments for which firm commitments have already been made.

17.10 No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:

17.10.1 received, directly or indirectly, from the Company within the 12 months preceding the date of application for Admission; or

17.10.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

17.10.2.1 fees totalling £10,000 or more;

17.10.2.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

17.10.2.3 any other benefit with a value of £10,000 or more at the date of Admission.

17.11 The amount and percentage of immediate dilution resulting from the Placing is 618,692 Ordinary Shares, amounting to 3.2 per cent. dilution.

18 Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the offices of Berwin Leighton Paisner, Adelaide House, London Bridge, London EC4R 9HA up to and including one month after Admission:

18.1 the memorandum of association of the Company and the Articles;

18.2 the reports by Kost, Forer, Gabbay and Kasierer set out in Part III of this document;

18.3 the rules of the Share Option Plan;

18.4 the statutory accounts referred to in paragraph 17.5 above;

18.5 the service agreements and letters of appointment referred to in paragraph 7.1 above;

18.6 the material contracts referred to in paragraph 12 above; and

18.7 the letters of consent referred to in paragraphs 17.6 and 17.8 above.

Dated: 29 November 2005

Definitions

The following definitions apply throughout this document, unless the context requires otherwise:

"Act"	Companies Act 1985 (as amended);
"Admission"	the admission of the Ordinary Shares, issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules;
"AIM"	a market of that name operated by the London Stock Exchange;
"AIM Rules"	the rules of the London Stock Exchange governing the admission to, and operation, of AIM;
"AMS"	A.M.SI Investments (1997) Ltd.;
"Americas"	North, Central, Caribbean and Latin America;
"Articles"	the Articles of Association of the Company, which were adopted by the Company on 27 November 2005;
"AUD$"	Australian Dollars, the lawful currency of Australia;
"Board"	the board of directors of the Company for the time being;
"Combined Code"	the revised code containing the principles of Good Corporate Governance and the Code of Best Practice published in July 2003 by the Financial Reporting Council;
"Company" or "Amiad"	Amiad Filtration Systems Ltd., a company incorporated in the State of Israel with registered number 512497694;
"CREST"	the relevant system (as defined in the CREST Regulations) operated by CRESTCo which facilitates the transfer and holding of title to shares in uncertificated form;
"CRESTCo"	CRESTCo Limited;
"CREST Regulations"	Uncertified Securities Regulations 2001 (SI 2001 No. 01/3755);
"DI"	a depository interest representing underlying Ordinary Shares;
"Directors"	the directors of the Company as at the date of this document whose details are set out on page 4 of this document;
"Euro"	the lawful currency of certain Member States of the European Union;
"FSA"	Financial Services Authority of the United Kingdom;
"FSMA"	Financial Services and Markets Act 2000 (as amended);
"Gaon Agro" or "Selling Shareholder"	Gaon Agro Industries Ltd, a public company incorporated in the State of Israel with registered number 520038720;
"Group"	the Company and its subsidiaries;
"IAS"	International Accounting Standards;
"Israeli Act"	the Israeli Companies Law 5759–1999;
"Kibbutz Amiad"	Kibbutz Amiad Agricultural Cooperative Association;
"Kost, Forer, Gabbay and Kasierer"	Kost, Forer, Gabbay and Kasierer, a member of Ernst & Young Global;
"Lock-in Agreement"	the lock-in agreement dated 29 November 2005 between Kibbutz Amiad, AMS, the Company and Panmure Gordon;

"London Stock Exchange"	the London Stock Exchange plc;
"Manpower Agreement"	a manpower service agreement dated June 1998 between the Company and Kibbutz Amiad, as amended by an addendum dated 24 November 2005, details of which are set out in paragraph 12.3 of Part IV of this document;
"NIS"	New Israeli Shekels, the lawful currency of the State of Israel;
"NZD$"	New Zealand Dollars, the lawful currency of New Zealand;
"Official List"	the Official List of the UK Listing Authority;
"Ordinary Shares"	ordinary shares of NIS0.5 each in the capital of the Company;
"Panmure Gordon"	Panmure Gordon (Broking) Limited, a company incorporated in England and Wales with registered number 01742592;
"Placing"	the conditional placing by Panmure Gordon of the Placing Shares to institutional investors at the Placing Price pursuant to the terms and conditions of the Placing Agreement as described in this document;
"Placing Agreement"	the conditional agreement dated 29 November 2005 between the Company, Panmure Gordon, the Selling Shareholder and the Directors relating to the Placing, a summary of the principal terms and conditions of which are set out in paragraph 12 of Part I and paragraph 10 of Part IV of this document;
"Placing Price"	129 pence per share, being the price at which each Placing Share is to be issued or purchased under the Placing;
"Placing Shares"	the 5,045,965 new Ordinary Shares to be issued by the Company and subscribed for pursuant to the Placing and the Sale Shares;
"Registrar"	Capita IRG (Offshore) Limited, details of which are set out on page 4 of this document;
"Sale Shares"	the 1,164,454 existing Ordinary Shares to be sold conditional on Admission by the Selling Shareholder pursuant to the Placing Agreement;
"SD$"	Singaporian Dollars, the lawful currency of Singapore;
"Shareholder"	a holder of Ordinary Shares;
"Share Option Plan"	the Amiad 2005 Share Option Plan, a summary of the principal provisions of which are set out in paragraph 5 of Part IV of this document;
"Subsidiaries"	the subsidiaries of the Company, details of which are set out in paragraph 8 of Part IV of this document;
"United Kingdom" or "UK"	United Kingdom of Great Britain and Northern Ireland;
"United States" or "US" or "USA"	United States of America, its territories and possessions and any state of the United States or the District of Columbia;
"uncertificated" or "in uncertificated form"	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST; and
"US Dollar", "USD" or "$"	US dollars, the lawful currency of the US.

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