METAL-TECH LTD.

ANNUAL REPORT

AS OF DECEMBER 31, 2006

METAL-TECH LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

U.S. DOLLARS IN THOUSANDS

INDEX

	Page
Independent Auditors' Report	2
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Operations	5
Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7 - 8
Notes to Consolidated Financial Statements	9 - 33

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

METAL-TECH LTD.

We have audited the accompanying consolidated financial statements of Metal-Tech Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2006 and 2005 and the consolidated statements of operations, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 0% and 16% of total consolidated assets as of December 31, 2006 and 2005, respectively, and whose revenues constitute approximately 0%, and 4% of total consolidated revenues for the years ended December 31, 2006 and 2005, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained, together with the reports of the other auditors, are sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2006 and 2005, and of its financial performance and its cash flows for each of the two years in the period ended December 31, 2006, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
June 28, 2007

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

CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands

	Note	December 31, 2006	December 31, 2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	15,755	14,258
Short-term deposits	5	-	95
Short-term restricted cash	6	1,898	2,168
Marketable securities	7	806	-
Trade receivables	8	13,320	23,438
Other accounts receivable	10	1,115	3,278
Inventories	9	41,002	37,517
Total current assets		73,896	80,754
NON-CURRENT ASSETS:			
Long-term restricted cash	6	-	744
Investment in joint ventures	12	9,327	-
Deferred finance costs	2	679	830
Deferred taxes	18	2,421	1,503
Property, plant and equipment, net	11	20,644	31,188
Total non-current assets		33,071	34,265
Total assets		106,967	115,019

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

CONSOLIDATED BALANCE SHEETS

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

	Note	December 31, 2006	December 31, 2005
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank credit	13	10,322	10,993
Short-term loans and current maturities	14	7,661	8,903
Trade payables		14,622	22,034
Related parties	19	1,003	1,066
Other accounts payable	15	12,223	13,373
Total current liabilities		45,831	56,369
NON-CURRENT LIABILITIES:			
Long-term loans	16	4,040	6,560
Deferred tax liabilities	18	391	670
Severance pay liability	17	422	293
Total non-current liabilities		4,853	7,523
EQUITY:			
Equity attributable to the equity holders of the company-	21		
Issued capital		2,399	2,399
Additional paid-in capital		23,892	23,892
Foreign currency translation reserve		(136)	-
Retained earnings		28,373	16,911
		54,528	43,202
Minority interests		1,755	7,925
Total equity		56,283	51,127
Total liabilities and equity		106,967	115,019

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

June 28, 2007		
Date of approval of the financial statements	Ran Mimon Chief Executive Officer and Director	Ariel Rosenberg Chairman of the Board

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	Year ended December 31, 2006	Year ended December 31, 2005
Revenues	23a	119,146	125,875
Cost of revenues	22a	98,053	93,592
Gross profit		21,093	32,283
Research and development expenses, net	22b	1,108	310
Selling and marketing expenses	22c	1,049	833
General and administrative expenses	22d	2,045	3,235
Total operating expenses		4,202	4,378
Operating profit		16,891	27,905
Financial expenses	22e	(3,321)	(2,110)
Financial income	22e	1,467	1,117
Other income (expenses)		10	(29)
Share of losses of joint ventures		(655)	-
Profit before taxes on income		14,393	26,883
Taxes on income	18	412	5,728
Net Profit		13,981	21,155
Attributable to:			
Equity holders of the company		12,959	15,840
Minority interest		1,022	5,315
		13,981	21,155
Basic and diluted earnings per share attributable to ordinary equity holders of the company		0.34	0.45
Weighted average number of shares used in computing basic and diluted net earnings per share attributable to ordinary equity holders of the company		38,376,923	35,415,385

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Attributable to equity holders of the company							Total recognized income and expense	
	Share capital	Additional paid-in capital	Capital reserve	Retained earnings	Total	Minority interest	Total equity	Attributable to equity holders of the company	Attributable to minority interest
Balance as of January 1, 2005	2,031	7,405	(242)	1,071	10,265	493	10,758	-	-
Issuance of shares net of $2,425 issuance expenses	368	16,487	-	-	16,855	-	16,855	-	-
Minority investment in subsidiaries	-	-	-	-	-	2,117	2,117	-	-
Net gain on cash flow hedges	-	-	242	-	242	-	242	242	-
Net profit	-	-	-	15,840	15,840	5,315	21,155	15,840	5,315
Balance as of December 31, 2005	2,399	23,892	-	16,911	43,202	7,925	51,127	16,082	5,315
Deconsolidation of a subsidiary	-	-	-	-	-	(7,235)	(7,235)	-	-
Minority investment in subsidiaries	-	-	-	-	-	39	39	-	-
Foreign currency translation reserve	-	-	(136)	-	(136)	4	(132)	(136)	4
Dividend paid	-	-	-	(1,497)	(1,497)	-	(1,497)	-	-
Net profit	-	-	-	12,959	12,959	1,022	13,981	12,959	1,022
Balance as of December 31, 2006	2,399	23,892	(136)	28,373	54,528	1,755	56,283	28,905	6,341

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net profit	13,981	21,155
Adjustments required to reconcile net profit to net cash provided by (used in) operating activities (a)	320	(23,233)
Net cash provided by (used in) operating activities	14,301	(2,078)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(3,994)	(11,847)
Proceeds from sale of property, plant and equipment	39	82
Short-term deposits, net	95	69
Investment in joint ventures	(3,229)	-
Restricted cash	1,014	(669)
Deconsolidation of a subsidiary (d)	(5,289)	-
Investment in marketable securities	(806)	-
Net cash used in investing activities	(12,170)	(12,365)
Cash flows from financing activities:		
Dividend paid	(1,497)	-
Proceeds from issuance of shares, net	-	16,855
Minority investment in subsidiaries	39	78
Proceeds from short and long-term loans	12,500	9,080
Repayment of short and long-term loans	(10,989)	(6,569)
Short-term bank credit, net	(687)	6,790
Net cash provided by (used in) financing activities	(634)	26,234
Increase in cash and cash equivalents	1,497	11,791
Cash and cash equivalents at the beginning of the year	14,258	2,467
Cash and cash equivalents at the end of the year	15,755	14,258

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2006	Year ended December 31, 2005
(a) Adjustments required to reconcile net income to net cash provided by (used in) operating activities:		
Income and expenses not involving cash flows:		
Depreciation	2,271	3,223
Amortization of deferred finance costs	151	151
Share of losses of joint ventures	655	-
Unrealized gains	(104)	-
Severance pay liability	129	105
Accrued interest and foreign exchange differences on short and long-term liabilities, net	442	(155)
Capital gains on sales of property, plant and equipment	-	29
Deferred taxes	(787)	833
	2,757	2,520
Changes in operating assets and liabilities:		
Increase (decrease) in related parties payables, net	(63)	(439)
Decrease (Increase) in trade receivables, net	10,118	(10,006)
Decrease (Increase) in other accounts receivable	905	(1,422)
Increase in inventory	(5,286)	(24,914)
Increase (decrease) in trade payables	(7,412)	2,009
Increase (decrease) in other accounts payable	(699)	9,019
	(2,437)	(25,753)
	320	(23,233)
(b) Supplemental disclosure of cash flows activities:		
Interest received	797	225
Interest paid	1,570	1,922
Income taxes paid	-	5
(c) Non-cash activities:		
Purchase of property, plant and equipment against investment in a subsidiary	-	1,200
Deferred finance cost against investment in a subsidiary	-	1,132
(d) Deconsolidation of a subsidiary, see also Note 2a:		
Assets and liabilities of the subsidiary previously consolidated at date of deconsolidation:		
Working capital (excluding cash and cash equivalent)	2,627	
Property, plant and equipment, net	12,229	
Deferred taxes	(410)	
Long-term loan and current maturities	(5,789)	
Minority interests	(7,236)	
Investment in a joint venture	(6,710)	
	(5,289)	

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

NOTE 1:- GENERAL

a. Company description:

Metal-Tech Ltd., an Israeli corporation ("the Company") and its subsidiaries ("the Group") manufacture, process and market high purity and quality Tungsten and Molybdenum oxide and powders. In addition, the Group is engaged in research and development in the fields of metallurgy, recycling and fuel conservation.

b. The Group is currently dependent on two main suppliers for Molybdenum raw material. One is the minority shareholders in the Company's subsidiary in Mongolia and the other is our partner in the joint venture in Uzbekistan. If either supplier should be unable or unwilling to continue to sell the Group raw materials in required volumes or on a timely basis, any resulting supply delays could result in the loss of sales, which could adversely affect operating results. See also Notes 2a and 2b.

c. As for major customers, see Note 23b.

NOTE 2:- INVESTMENTS IN SUBSIDIARIES

	Country of incorporation	December 31	
		2006	2005
		%	
Uzmetal Technology Ltd. (a)	Uzbekistan	50	50
Shim Technology Ltd. (b)	Mongolia	70	70
Metek Metal-Tech SA (c)	Switzerland	100	100
Jar Ltd. - Inactive	Russia (Birubijan autonomous region)	100	100
Soltek Ltd. - Inactive	Israel	100	100

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

In March 2000, the Company together with AGMK and UzKTZM (two Uzbek companies) established Uzmetal. The equity interest in Uzmetal is as follows: the Company-50%, UzKTZM-30% and AGMK-20%. In May 2000, the Company entered into an agreement with Uzmetal under which the Company undertook to obtain financing and manage the procurement, planning, construction and supply of peripheral equipment in a project for the erection of a molybdenum production plant in Uzbekistan, for a total amount of $ 17,490. The project was financed as follows: (i) 15%-Company credit; (ii) 85%-National Uzbeki bank credit through a transfer from Bank Leumi in Israeli secured 80% by the Israeli Foreign Trade Risks Insurance Corporation Ltd ("IFTRIC") for 5 years.

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

NOTE 2:- INVESTMENTS IN SUBSIDIARIES (Cont.)

Uzmetal has relied solely on AGMK's mine for material supplies. On the date of Uzmetal's incorporation the Uzbek government issued a decree according to which, Uzmetal will have exclusivity on all Molybdenum contained materials dug from AGMK's mine. The exclusivity was also determined in the contract between Uzmetal and AGMK. In July 2006 the Uzbek government issued another decree resulting in the cancellation of the exclusivity clause in the contract between the companies. AGMK ceased supplying Uzmetal with materials, and asked Uzmetal to sign the agreement annulment. Uzmetal refused to sign. AGMK applied to the court for its approval of the annulment. In January 2007, the court approved the annulment of the agreement. Uzmetal appealed and lost and then Uzmetal appealed to the Uzbek Supreme Court.

As a result of the shortage in materials, Uzmetal has ceased its main operations as of July 2006.

Uzmetal maintains the premises, machinery and employees. Uzmetal has used the cessation from work period to improve and restore its product lines.
Uzmetal's management continue its attempt to cause the renewal of a supply of Molybdenum contained material by AGMK in the near future.

Uzmetal has established new product lines of production of Calcium Molybdate. In light of the successful experience; Uzmetal's management is planning to proceed with the import of materials to produce Calcium Molybdate from the sister company in Mongolia.
Uzmetal is also planning to import materials for the production of Molybdenum Oxide and to produce Molybdenum Oxide for others as a subcontractor.

According to Uzmetal's forecasted cash flows, Uzmetal is expected to generate a positive cash flow from the future activities even if AGMK will not renew supplies to Uzmetal.
In addition, the Company guaranteed to meet Uzmetal's cash flow requirements until December 2007, and agreed to postpone the repayment of current liabilities of Uzmetal to the Company. The Company periodically assesses the recoverability of the carrying amount of the investment in this joint venture provides for any possible impairment loss based upon the difference between the carrying amount and recoverable amount of such asset in accordance with IAS 36, "Impairment of Assets". As of December 31, 2006, no impairment losses have been identified.

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

NOTE 2:- INVESTMENTS IN SUBSIDIARIES (Cont.)

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

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

In September 2003, the Company together with Erdenet Co. Ltd. ("Erdenet"), a Mongolian mining company, established Shim-Tech. The equity interest in Shim-Tech is as follows: the Company-70% and Erdenet -30%. In May 2004, the Company entered into an agreement with Shim-Tech under which the Company undertook to obtain financing and manage the procurement, planning, construction and supply of peripheral equipment in a project for the erection of a molybdenum production plant in Mongolia, for a total amount of $ 23,850. The project will be financed as follows: (i) 30%- equity invested by the shareholders; (ii) 34%-Company credit; (iii) 36%-National Mongolian bank credit through a transfer from an Israeli bank secured by the Israeli Foreign Trade Risks Insurance Corporation Ltd. ("IFTRIC") for 7 years. In January 2005, a financing agreement with Mizrahi Bank was signed at a total amount of $ 4,250. In addition, Erdenet signed a guarantee in favor of the Israeli bank in respect of any amounts that have been secured by IFTRIC and up to an amount of $ 10 ,000. This guarantee was recorded in its fair value as a deferred finance cost which will be amortized on a straight-line basis at the term of the loan.

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

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

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

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

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

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

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a historical cost basis except for marketable securities which are measured at fair value.

a. Use of estimates and assumptions:

The preparation of financial statements in accordance with IFRS requires estimates and assumptions by the management that affect the amounts and disclosures reported in the financial statements and the accompanying notes. The actual results could differ from the estimates.

b. Functional and reporting currency:

The consolidated financial statements are presented in U.S. dollar, which is the Company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at 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 profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, Metal Tech C.Z and BIT Metals B.V., is the Czech Crown and Euro respectively. As at the reporting date, the assets and liabilities of these subsidiaries or joint ventures are translated into the presentation currency of the Company (the U.S. dollar) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Significant intercompany transactions and balances, expenses and profits between the Company and its subsidiaries were eliminated in consolidation.

The financial statements of subsidiaries and joint ventures are prepared for the same reporting periods as the Company, using consistent accounting policies.

Minority interest represents the portion of net profit and net assets not held by the Group and are presented separately in the statements of operations and within equity in the consolidated balance sheets separately from the Company's shareholders' equity.

Uzmetal was consolidated in the financial statements of operations until June 30, 2006. For the period commencing July 1, 2006 and ending December 31, 2006, Uzmetal was accounted for in the consolidated financial statements using the equity method. See Note 2a.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash and cash equivalents:

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

e. Short-term deposits:

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

f. Short-term and long-term restricted cash:

Short-term and long-term restricted cash is primarily invested in certificates of deposit, which mature within one year to two years and serve as collateral for short-term and long-term loans.

g. Investments and other financial assets:

The marketable securities are non-derivative financial assets that are designated as available-for-sale. After initial measurement, these available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the net unrealized gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement, interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. In 2006, unrealized gains in the amount of $ 3 were included in the consolidated statement of operations in financial income and other, due to immateriality.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the statement of operations, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of operations.

h. Trade receivables:

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified by management. Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

i. Inventories:

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

Raw materials - using the "first-in, first-out" method.

Work-in-progress and finished goods - on basis of production costs as follows: Raw materials - using the "first-in, first-out" method, labor and overhead component - on average basis.

j. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation and net of investment grants. Investment grants are recorded at the time the Company is entitled to such grants. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Buildings	2 - 6.5
Machinery and equipment	10 - 20
Computers and peripheral equipment	20 - 33
Office furniture and equipment	6 - 20
Motor vehicles	15 - 20

Borrowing costs in respect of credit used to finance the acquisition of construction of property and equipment are capitalized to the cost of such asset until the assets are ready for their intended use.

The Company periodically assesses the recoverability of the carrying amount of property and equipment and provides for any possible impairment loss based upon the difference between the carrying amount and recoverable amount of such assets in accordance with IAS 36, "Impairment of Assets". As of December 31, 2006, no impairment losses have been identified.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Deferred taxes:

Deferred taxes are provided for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are determined in accordance with IAS 12, "Income Taxes" using the liability method. Deferred tax assets are recognized for deductible temporary differences and loss carryforwards to the extent that it is probable they can be utilized. Deferred taxes are measured at the tax rates that are expected to apply when the provision is reversed bases on tax rates that have been enacted at balance sheet date.

The Company has not recorded deferred taxes in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures as it is not probable that these temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

All deferred tax assets and liabilities were recognized in the consolidated statements of operations.

l. Severance pay liability:

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

The Company funds its liability for severance pay by monthly payments to pension funds and insurance companies ("plan assets"). The plan assets include profits accumulated up to the balance sheet date. The plan assets may be withdrawn only in accordance with Israel’s Severance Pay Law or labor agreements.

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

The severance pay liability recognized in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

m. Revenue recognition:

The Group generates revenues mainly from selling Tungsten and Molybdenum oxide and powders. The Group does not grant a right of return to its customers.

Revenues from Tungsten and Molybdenum oxide and powders sales are recognized when the significant risks and benefits of ownership are transferred to the buyer, it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenues can be measured reliably.

Revenues from interest income are recognized as interest accrues.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Research and development:

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period of which the assets are not yet in use it is tested for impairment annually.

o. Interest in a joint venture:

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest. The Group recognizes its interest in the joint venture using the equity method. The financial statements of the joint venture are prepared for the same reporting year as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share in the profits of the joint venture from the transaction until it resells the assets to an independent party.

p. Government grants:

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a reduction in research and development expenses.

q. Basic and diluted earnings per share:

Basic and diluted earnings per share are presented in accordance with IAS No. 33, "Earnings per Share".

Basic earnings per share have been computed using the weighted average number of Ordinary shares outstanding during the period. Diluted earnings or loss per share are computed based on the weighted average number of Ordinary shares outstanding during each period, plus the effect of potential Ordinary shares considered outstanding during the period, except if the effect of such potential Ordinary shares is anti-dilutive.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Exchange rates and linkage basis:

1. Assets and liabilities in or linked to foreign currencies are included in the financial statements according to the representative exchange rate as published by the Bank of Israel on December 31, 2006.

2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

Data regarding exchange rate of Euro and New Israeli Shekels (NIS) in relation to the U.S dollar:

As of	Exchange rate of Euro	Exchange rate of NIS
December 31, 2006	0.759	4.225
December 31, 2005	0.845	4.603
December 31, 2004	0.733	4.308
Changes during the year	**%**	**%**
2006	(10.2)	(8.2)
2005	15.3	6.8

s. Fair value of financial instruments:

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

The fair value of marketable securities is determined by reference to quoted bid prices at the close of business on the balance sheet date.

The carrying amounts of the Group's principal long-term and short-term loans approximate their fair value as the interest rates are variable.

t. Concentrations of credit risk:

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

Cash and cash equivalents are invested in U.S. dollars and in NIS with major banks in Israel and abroad. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

u. Reclassification:

Inventory in the amount of $144 has been reclassified to Property, Plant and Equipment to conform to the current-year presentation.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Future changes in accounting policies:

IFRS 7 - Financial Instruments: Disclosures and Amendment to IAS 1 - Presentation of Financial Statements:

Pursuant to these standards, comprehensive disclosures are required in respect of capital and the substance of financial instruments and their impact on the entity's financial position and results of operations as well as qualitative and quantitative disclosures of the nature and scope of risks. The standards will be adopted for annual financial statements for periods beginning on or after January 1, 2007. The effect of adopting the standards will require the Company to provide comprehensive disclosure, as discussed above.

IAS 23 (Revised), "Borrowing Costs":

IAS 23 has been revised to require that borrowing costs be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is defined as an asset that takes a substantial period of time to get ready for its intended use or sale and includes fixed assets, investment properties and inventories that require a substantial period of time to bring them to a saleable condition. The option to immediately recognize such costs as an expense is eliminated. The revised Standard is effective for annual periods beginning January 1, 2009. Early application is permitted.

The Company believes adoption of the revised Standard is not expected to have a material effect on its financial position, results of operations and cash flows since the Company presently has a policy of capitalizing borrowing costs as part of the cost of qualifying assets.

NOTE 4:- CASH AND CASH EQUIVALENT

	December 31,	
	2006	2005
Cash	7,813	5,631
Short term deposits	7,942	8,627
	15,755	14,258

NOTE 5:- SHORT-TERM DEPOSITS

	Annual interest rate	December 31,	
	%	2006	2005
In U.S. dollars	2.77	-	95

NOTE 6:- SHORT-TERM AND LONG-TERM RESTRICTED CASH

	Annual interest rate	December 31,	
	%	2006	2005
In U.S. dollars	4.90 - 5.15	1,898	2,912
Less - current maturities		(1,898)	(2,168)
		-	744

The restrictions in the amount of $ 1,487 are released each year in equal parts until 2007, in accordance with the repayment schedule of a long-term loan (see Note 16). The remaining restrictions are released in accordance with the repayment schedule of short-term loans during 2007.

NOTE 7:- MARKETABLE SECURITIES

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

	December 31,					
	2006			2005		
	Amortized cost	Gross unrealized gains	Estimated fair market value	Amortized cost	Gross unrealized gains	Estimated fair market value
Available-for-sale:						
Debentures and securities	803	3	806	-	-	-
	803	3	806	-	-	-

NOTE 8:- TRADE RECEIVABLES

	December 31,	
	2006	2005
Foreign	10,050	21,922
In Israel	3,454	1,685
	13,504	23,607
Less - allowance for doubtful accounts	184	169
	13,320	23,438

NOTE 9:- INVENTORIES

Raw materials	16,111	24,045
Work in progress	1,857	1,335
Finished goods	23,034	12,137
	41,002	37,517

As for charges, see Note 20.

NOTE 10:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2006	December 31, 2005
Government authorities	733	2,431
Prepaid expenses	68	31
Income receivables	128	142
Deferred finance costs	151	151
Advances to suppliers	35	399
Others	-	124
	1,115	3,278

NOTE 11:- PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Computers and peripheral equipment	Office furniture and equipment	Motor vehicles	Total
Cost:						
Balance at January 1, 2006	8,504	35,937	561	298	712	46,012
Additions during the year	393	3,384	60	61	96	3,994
Disposals during the year	-	(32)	-	-	(55)	(87)
Deconsolidation of a subsidiary	(4,359)	(15,931)	(355)	(39)	(215)	(20,899)
Balance as of December 31, 2006	4,538	23,358	266	320	538	29,020
Accumulated depreciation :						
Balance at January 1, 2006	2,131	12,052	332	134	175	14,824
Additions during the year	264	1,824	72	24	87	2,271
Disposals during the year	-	(19)	-	-	(30)	(49)
Deconsolidation of a subsidiary	(685)	(7,709)	(227)	(7)	(42)	(8,670)
Balance as of December 31, 2006	1,710	6,148	177	151	190	8,376
Depreciated cost at December 31, 2006	2,828	17,210	89	169	348	20,644
Cost:						
Balance at January 1, 2005	7,169	24,815	445	209	480	32,974
Additions during the year	1,355	11,214	116	89	294	13,048
Disposals during the year	-	(92)	-	-	(62)	(154)
Balance as of December 31, 2005	8,504	35,937	561	298	712	46,012
Accumulated depreciation :						
Balance at January 1, 2006	1,792	9,374	246	115	116	11,643
Additions during the year	339	2,689	86	19	90	3,223
Disposals during the year	-	(11)	-	-	(31)	(42)
Balance as of December 31, 2005	2,131	12,052	332	134	175	14,824
Depreciated cost as of December 31, 2005	6,373	23,885	229	164	537	31,188

NOTE 11:- PROPERTY, PLANT AND EQUIPMENT

(1) Depreciation expense amounted to $ 2,271 and $ 3,223 in 2006 and 2005, respectively.

(2) As of December 31, 2006 and 2005, investment grants received and related accumulated depreciation amounted to $ 5,141 and $ 5,150 and $ 3,976 and $ 3,808, respectively.

(3) Rights in real estate:

In April 1994, the Company entered into an agreement with the Israel Lands Administration (hereinafter – "the Administration") for the lease of a plot with an area of approximately 10,000 sq.m. in the Ramat-Hovav industrial zone over a period of 49 years ending in 2042. The company paid discounted lease fees in the amount of $ 33.

In January 1994, the Company entered into a development agreement with the Administration, under which additional land, with an area of approximately 10,000 sq.m. was allotted to the Company. The Company paid discounted usage fees in the amount of $ 47 for the use of the land over the lease period. In October 2000, an agreement was signed with the Administration for the use of the land over a period ending in 2042.

(4) Plant under construction as of December 31, 2006 amounted to $ 4,113 and is included primarily in machinery and equipment.

(5) As for charges, see Note 20.

NOTE 12:- INVESTMENT IN JOINT VENTURES

The Company has a 50% interest in Uzmetal, and a 50% in BIT Metals. The following table summarized financial information of the Company's investment in the joint ventures mentioned.

	December 31,	
	2006	2005
Share of the joint ventures balance sheets:		
Current assets	7,791	-
Non-current assets	4,482	-
Current liabilities	(7,401)	-
Non current liabilities	(1,588)	
Net assets	3,284	-
Share of the joint ventures 's revenues expenses and profit:		
Revenues	13,772	-
Expenses	(13,117)	
Profits	(655)	-
Carrying amount of the investment	3,284	-
Carrying amount of loans to investees	6,043	-

NOTE 13:- SHORT-TERM BANK CREDIT

	Annual interest rate	December 31,	
	%	2006	2005
NIS - unlinked	Prime+ 1.25-2.5	822	1,330
U.S dollars	LIBOR+ 1.5-2.5	7,222	7,903
Euro	LIBOR+ 1.5-2.0	2,278	1,759
		10,322	10,993

As of December 31, 2006, the Company has unused credit line in the amount of $ 2,698.
As for collateral, see Note 20.

NOTE 14:- SHORT-TERM LOANS AND CURRENT MATURITIES OF LONG-TERM LOANS

	Annual interest rate	December 31,	
	%	2006	2005
In U.S. dollar	LIBOR+ 0.7-2.5	6,959	4,710
Current maturities of long-term loans (see Note 16)		702	4,193
		7,661	8,903

NOTE 15:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2006	2005
Employees and payroll accruals	544	680
Accrued liabilities	1,899	3,285
Accrued income taxes	9,113	7,918
Advances from customers	519	1,465
Other	148	25
	12,223	13,373

NOTE 16:- LONG-TERM LOANS

a. Composed as follows:

	Annual interest rate	December 31,	
	%	2006	2005
Loans from banks:			
U.S. dollar (1)	LIBOR+3.1	-	5,574
U.S. dollar (2)	LIBOR +1.2	4,275	4,451
Euro	LIBOR+ 1.7-3.1	90	376
NIS - unlinked	Prime+1.25	-	6
		4,365	10,407
Less - current maturities		(702)	(4,193)
		3,663	6,214
Other long-term loans:			
NIS - unlinked (3)	-	377	346
		4,040	6,560

(1) This loan in the original amount of $ 14,867 was provided in 2001 in connection with the construction of the plant in Uzbekistan. The loan is to be repaid in equal semi-annual installments for five years commencing in 2002, see also Note 2a. As of July 1, 2006, Uzmetal was deconsolidated.

(2) This loan in the original amount of $ 4,250 was provided in 2005 in connection with the construction of the plant in Mongolia. The loan is to be repaid in equal semi-annual installments for seven years commencing in 2006, see also Note 2b.

(3) Capital notes due to the Company's shareholders bear no interest and have no maturity date.

b. The Company is required to maintain certain financial covenants as follows: (1) Shareholders' equity will not decline below $ 25,000. (2) Shareholders' equity/total balance will not decline below 20%. (3) The Company is not allowed to pay a cash dividend that exceeds 50% of the annual profit. As of December 31, 2006, the Company is in compliance with all such requirements.

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

First year - current maturities	702
Second year	681
Third year	754
Fourth year	831
Fifth year and thereafter	1,397
	3,663
	4,365

NOTE 16:- LONG-TERM LOANS (Cont.)

d. As for collateral, see Note 20.

NOTE 17:- SEVERANCE PAY LIABILITY

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

	December 31, 2006	December 31, 2005
Accrued severance pay	525	416
Plan assets	(103)	(123)
	422	293

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

	December 31, 2006	December 31, 2005
Net liability as of January 1, 2006	293	$ 188
Expense recognized in statement of income	165	138
Contribution paid	(36)	(33)
Benefits not paid from assets	-	-
Net liability as of December 31, 2006	422	$ 293

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

	2006	2005
Cost of current services	49	$ 37
Interest	16	10
Expected return on plan assets	(1)	(11)
Net actuarial loss recognized during the year	101	102
Total expense included in statement of income	165	$ 138

c. The actuarial assumptions used are as follows:

	2006	2005
	%	%
Discount rate	3.7%	3.85%
Expected rate of return on funds	2.9%	4.5%
Future salary increase	3%	3%
Rate of employee turnover, disability early retirement	see note d	See note d

d. Rate of employee turnover, disability early retirement 12.5% withdrawal rates until attained age 40, 7.5% withdrawal rates are increased by 10% per annum to account for early retirements.

NOTE 18:- TAXES ON INCOME

a. Israeli income tax:

Results for tax purposes in Israel are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the net income shown in the financial statements.

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

Three programs of the Company have been granted "Approved Enterprise" status, under the Law. In addition, the Company filed an application for its fourth program in November 2004 and an updated application in June 2007, which has not yet been approved. According to the Law, the Company is entitled to investment grants (at percentages, mentioned below of investment cost) and also to a tax benefit, which grants the Company a tax exemption for a period of two years and a reduced tax rate of 10%-25% (depending on the level of foreign investments in the Company) for a period of five years. Pursuant thereto, the income of the Company derived from the following "Approved Enterprise" programs will be eligible for these benefits for periods stated below:

1. Benefit period for the first program commenced in 1989 and expired in 2002. The investment grants received for this program were 38% of investment cost.

2. Benefit period for the second program commenced in 1999 and is to expire in 2012. The investment grants received for this program were 24% of investment cost.

3. Benefit period for the third program commenced in 1994 and is to expire in 2007. The investment grants received for this program were 36% of investment cost.

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

As of December 31, 2006, management believes that the Company is meeting all of the aforementioned conditions.

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

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

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

NOTE 18:- TAXES ON INCOME (Cont.)

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

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

On April 1, 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

However, the Investment Law provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore, the Company's existing Approved Enterprise will generally not be subject to the provisions of the Amendment. As a result of the amendment, tax-exempt income generated under the provisions of the new law, will subject the Company to taxes upon distribution or liquidation and the Company may be required to record deferred tax liability with respect to such tax-exempt income. As of December 31, 2006, the Company did not generate income under the provision of the new law.

b. Reduction in corporate tax rate:

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 and in July 2005, the “Knesset” (Israeli parliament) passed amendments to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 and (No. 147), 2005 respectively, which determine, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

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

d. Non-Israeli subsidiaries are taxed according to the applicable laws in their countries of residence. In Mongolia, the current applicable tax rate is graded at the rate of 15% up to taxable income of MNT 100 million and 30% for taxable income in excess of MNT 100 million. In Switzerland, the Company entered into a special tax program according to which its effective profit tax rate for the income derived from foreign sources will be 9.6%.

NOTE 18:- TAXES ON INCOME (Cont.)

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

	Year ended December 31,	
	2006	2005
Profit before taxes on income	14,393	26,883
Tax calculated at statutory tax rate (2006 - 31%; 2005 - 34%)	4,462	9,140
Increase (decrease) due to:		
"Approved Enterprise" benefit	(1,764)	(851)
Different income tax rates of other countries	(1,836)	(2,420)
Temporary differences for which deferred taxes were not previously recorded	(397)	(237)
Non-deductible expenses	145	64
Other	(198)	32
Taxes on income	412	5,728
Effective tax rate	3%	21%

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

	December 31,	
	2006	2005
Deferred tax assets:		
Employee benefits	145	99
Unrealized Intercompany gains	2,033	1,323
Issuance expenses	197	72
Allowance for doubtful accounts	46	9
Total deferred tax assets	2,421	1,503
Deferred tax liabilities:		
Property, plant and equipment	283	667
Inventory	89	3
Other	19	-
Total deferred tax liabilities	391	670

As of December 31, 2006, deferred taxes associated with investments in subsidiaries and joint ventures which have not been recognized amounted to $996.

g. Taxes on income consist of the following:

	Year ended December 31,	
	2006	2005
Current	1,169	6,561
Deferred	(757)	(833)
	412	5,728

NOTE 19:- RELATED PARTIES

a. Transactions with related parties:

	Year ended December 31, 2006	Year ended December 31, 2005
Salaries to officers and directors	437	560
Bonuses (1)	(350)	700
	87	1,260

b. Balances with related parties:

	December 31, 2006	December 31, 2005
Accrued bonus (1)	-	700
Other liability (2)	1,003	366
Loans to joint ventures (3) (4)	6,043	-

(1) The bonus was calculated in accordance with the employment agreements with the CEO and the Chairman of the Board of Directors; both of whom are shareholders, according to which each is entitled to a bonus equal to 5% of the annual increase in the pre-tax income of the Group provided that the Group's profit exceeds $1,000. In 2005, the Company has signed a new employment agreement with these executives according to which each is entitled to a bonus equal to 5% of the annual increase in the net profit of the Group subject to a maximum bonus cap of $883 (£450) each equal to three times their gross basic salary. In 2006, the Chairman of the Board of Directors has waived its right to receive the accrued bonus.

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

(3) Amounts owed by Uzmetal amounted to $2,953 and are on a current account basis, bearing no interest and with no maturity date.

(4) Amounts owed by BIT amounted to $3,090 bearing interest of LIBOR+1% and with no maturity date. The loan was provided to BIT in order to secure a credit line from the Bank.

c. Compensation of key management personal:

	Year ended December 31, 2006	Year ended December 31, 2005
Short-term employee benefits	343	1,195
Post-employment pension and medical benefits	52	259
Termination benefits	-	-
Total compensation paid to key management personal	395	1,454

NOTE 20:- COMMITMENTS AND CONTINGENT LIABILITIES

a. In accordance with the provisions of the Law for the Encouragement of Capital Investments, 1959, the Company and its subsidiaries in Israel received grants from the State of Israel in respect of investments in their plants (see Note 10). The conditions in the letters of approval extending the grants from the State of Israel primarily include the requirements that the investments be made according to the approved plan and that at least 30% of the investments be financed by outstanding share capital. Non-fulfillment of these conditions would require the refund of the grants linked to the Consumer Price Index in Israel from the date of receipt plus interest. To guarantee fulfillment of the conditions for receiving the grants, the Company and its subsidiaries have recorded floating charges on all of their assets in favor of the State of Israel. In the opinion of management, as of December 31, 2006, the Company and its subsidiaries are meeting the required conditions.

b. Charges:

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

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

c. Royalty commitments:

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

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

The Company did not accrue any royalties for each of the three years in the period ended December 31, 2006 as no revenues were recorded.

As of December 31, 2006, the Company had a contingent obligation to pay royalties in the amount of approximately $431. This obligation will be recorded when payment becomes probable.

d. Regarding the bonus to CEO and Chairman of the Board of Directors, see Note 18b.

e. The joint venture in Uzbekistan is operating without insurance on assets, employees, etc. As of the date of the auditors report on these financial statements, the Company's management has not yet obtained such insurance.

NOTE 20:- COMMITMENTS AND CONTINGENT LIABILITIES

f. In July 2006, the Uzbek government issued a regulation resulting in cancellation of the exclusivity clause in the contract between Uzmetal and AGMK, its main supplier. AGMK ceased supplying Uzmetal with materials, and asked Uzmetal to sign on the agreement annulment, Uzmetal refused to sign. AGMK applied to a court of law for its approval of the annulment. The court approved the annulment of the agreement. Uzmetal appealed and lost. During 2007, Uzmetal appealed to the Uzbek Supreme Court. The Company with the advice of its legal counsel can not predict at this stage the results of this appeal.

g. Capital commitments:

As of December 31, 2006, commitments for the purchase of property and equipment and inventory total approximately $622.

NOTE 21:- SHAREHOLDERS' EQUITY

a. Issuance of shares:

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

b. The share capital is composed as follows:

	Authorized	Issued and outstanding
	December 31, 2006 and 2005	December 31, 2006 and 2005
Ordinary shares of NIS 0.2 par value each	100,000,000	38,376,923

c. Dividends:

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

Pursuant to the terms of the credit provided by a bank, the Company is restricted from paying cash dividends to its shareholders exceeding 50% of the Company's net profit. See also Note 16b.

NOTE 21:- SHAREHOLDERS' EQUITY

d. Stock options:

The Company is committed to grant certain employees and consultants, 1,918,846 options to purchase Ordinary shares of the Company, subject to an approval of an option plan with the tax authorities and obtaining certain legal approvals. The exercise price is $1.8 per share, the vesting period is three years and the expiration period is ten years.

NOTE 22:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

a. Cost of revenues:

	Year ended December 31,	
	2006	**2005**
Materials	87,143	78,396
Salaries and related benefits	2,963	3,676
Depreciation	2,221	2,998
Maintenance and repairs	1,314	1,101
Electricity, water and gas	1,230	931
Packaging, transportation and shipping	1,122	1,511
Others	2,060	4,979
	98,053	93,592

b. Research and development costs, net:

	2006	2005
Subcontractors	593	41
Salaries and related benefits	401	226
Supplies and materials	54	31
Others	60	95
	1,108	393
Less – research and development grants	-	(83)
	1,108	310

c. Selling and marketing expenses:

	2006	2005
Commissions	551	524
Travel	198	146
Others	214	163
Salaries and related benefits	86	-
	1,049	833

NOTE 22:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS (Cont.)

d. General and administrative expenses:

	Year ended December 31,	
	2006	2005
Salaries and related benefits	635	1,797
Others	395	821
Professional fees	879	463
Communications	136	154
	2,045	3,235

e. Financial expenses and financial incom:

	2006	2005
Financial expenses:		
Interest in respect of loans	(1,569)	(1,413)
Bank commissions and other expenses	(369)	(346)
Loss from forward contract	-	(175)
Foreign exchange differences	(1,232)	(176)
Deferred finance costs	(151)	-
	(3,321)	(2,110)
Financial income:		
Interest in respect of deposits	307	250
Foreign exchange differences	671	867
Interest in respect of loan to a joint venture	90	-
	1,467	1,117
	(1,853)	(993)

NOTE 23:- REVENUES BY GEOGRAPHIC AREAS AND MAJOR CUSTOMERS

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

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

	Year ended December 31,	
	2006	2005
United States	24,691	27,809
China	17,768	18,744
Japan	21,215	50,523
Korea	23,317	1,200
Europe	18,082	15,778
Israel	8,576	4,188
Others	5,497	7,633
	119,146	125,875

NOTE 23:- REVENUES BY GEOGRAPHIC AREAS AND MAJOR CUSTOMERS (Cont.)

b. Information about major customers (in percentages):

	Year ended December 31,	
	2006	2005
Customer A	10%	15%
Customer B	18%	40%

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

	December 31,	
	2006	2005
Israel	6,447	5,717
Uzbekistan	-	13,476
Mongolia	14,070	11,851
Switzerland	127	-
	20,644	31,044

NOTE 24: - SUBSEQUENT EVENT

In accordance with resolutions approved by the shareholders in meetings held in May 2007, the Company declared dividends in the amounts of approximately $ 1,200 ($ 0.031 per share) to be paid on July 24, 2007. The ex date will be June 13, 2007.

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