

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share and per share data

	Year ended December 31,		
	2003	2004	2005
Sales, net	\$ 163,086	\$ 182,819	\$ 205,585
Cost of sales	139,422	159,937	166,217
Gross profit	23,664	22,882	39,368
Selling, general and administrative expenses	20,323	22,387	19,837
Impairment and other expenses related to the put option exercise	-	-	6,073
Operating income	3,341	495	13,458
Financial expenses, net	5,628	5,212	4,371
Other income	228	-	409
Income (loss) before taxes on income	(2,059)	(4,717)	9,496
Taxes on income (tax benefit)	(424)	203	7,818
Equity in losses of affiliated companies	(183)	-	-
Minority interest in losses (earnings) of a subsidiary	(2,550)	(1,945)	1,615
Pre-acquisition earnings of subsidiary since April 1, 2003 through May 5, 2003	(85)	-	-
Net income (loss)	<u>\$ (4,453)</u>	<u>\$ (6,865)</u>	<u>\$ 3,293</u>
Basic and diluted net earnings (losses) per share:			
Basic net earnings (losses) per share	<u>\$ (0.36)</u>	<u>\$ (0.44)</u>	<u>\$ 0.19</u>
Diluted net earnings (losses) per share	<u>\$ (0.36)</u>	<u>\$ (0.44)</u>	<u>\$ 0.18</u>
Weighted average number of shares used for computing basic earnings (losses) per share	<u>12,412,166</u>	<u>15,603,904</u>	<u>17,719,275</u>
Weighted average number of shares used for computing diluted earnings (losses) per share	<u>12,412,166</u>	<u>15,603,904</u>	<u>18,542,618</u>

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2004	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,558	\$ 8,201
Trade receivables (net of allowances of \$ 252 and \$ 594 at December 31, 2004 and 2005, respectively)	21,402	30,501
Other accounts receivable and prepaid expenses	5,696	4,981
Inventories	33,137	29,919
<u>Total current assets</u>	<u>63,793</u>	<u>73,602</u>
DEFERRED TAXES	2,486	-
PROPERTY, PLANT AND EQUIPMENT, NET	93,931	86,928
GOODWILL	30,743	25,060
DEFERRED LOAN ISSUANCE COSTS	578	290
<u>Total assets</u>	<u>\$ 191,531</u>	<u>\$ 185,880</u>

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	December 31,	
	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	\$ 21,355	\$ 17,713
Current maturities of long-term debt:		
Loans from banks and others	9,039	7,623
Capital leases	206	-
Trade payables	28,991	30,385
Conditional obligation with respect to issuance of shares	3,454	-
Other accounts payable and accrued expenses	9,189	9,104
<u>Total current liabilities</u>	<u>72,234</u>	<u>64,825</u>
LONG-TERM LIABILITIES:		
Loans from banks and others (net of current maturities)	47,907	41,034
Deferred taxes	5,611	9,116
Accrued severance pay, net	2,744	2,061
<u>Total long-term liabilities</u>	<u>56,262</u>	<u>52,211</u>
LIENS, CONTINGENCIES AND COMMITMENTS		
MINORITY INTEREST	16,291	14,159
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 1 par value - Authorized: 49,995,500 shares; Issued: 18,014,247 and 19,010,376 shares at December 31, 2004 and 2005, respectively; Outstanding: 17,016,847 and 18,012,976 shares at December 31, 2004 and 2005, respectively	6,582	6,810
Deferred shares of NIS 1 par value - Authorized: 4,500 shares; Issued and outstanding: 4,500 and 0 shares at December 31, 2004 and 2005, respectively	1	-
Additional paid-in capital	79,243	83,069
Deferred stock-based compensation	(486)	(198)
Less - 997,400 Ordinary shares in treasury, at cost	(7,408)	(7,408)
Cumulative other comprehensive gain	-	307
Accumulated deficit	(31,188)	(27,895)
<u>Total shareholders' equity</u>	<u>46,744</u>	<u>54,685</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$ 191,531</u>	<u>\$ 185,880</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2003	2004	2005
Cash flows from operating activities:			
Net income (loss)	\$ (4,453)	\$ (6,865)	\$ 3,293
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and impairment of property, plant and equipment	9,005	10,760	10,348
Impairment of goodwill related to the put option exercise	-	-	5,683
Amortization of deferred stock compensation	-	554	431
Loss related to conditional obligation	-	150	-
Accrued severance pay, net	(692)	380	(588)
Deferred income taxes, net	(621)	(853)	7,126
Realization of pre-acquisition acquired operating losses	-	489	-
Equity in losses of affiliated companies	183	-	-
Loss (gain) on disposal of property, plant and equipment, net	(199)	28	(409)
Minority interest in earnings (losses) of a subsidiary	2,550	1,945	(1,615)
Pre-acquisition earnings of a subsidiary	85	-	-
Decrease (increase) in trade receivables, net	(3,006)	3,515	(9,099)
Decrease (increase) in other accounts receivable and prepaid expenses	(469)	65	682
Decrease (increase) in inventories	(4,482)	(1,461)	3,218
Increase (decrease) in trade payables	3,911	(567)	1,394
Increase (decrease) in other accounts payable and accrued expenses	1,064	(1,231)	347
Net cash provided by operating activities	<u>2,876</u>	<u>6,909</u>	<u>20,811</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment	(3,948)	(8,950)	(5,255)
Investment grants received	1,868	1,156	452
Investment in affiliated companies	(125)	-	-
Proceeds from sale of property, plant and equipment	499	422	475
Proceeds from the Company's insurance policy for plant and machinery damage	-	-	619
Acquisition of Macro Clothing (b)	300	(106)	(261)
Net cash used in investing activities	<u>(1,406)</u>	<u>(7,478)</u>	<u>(3,970)</u>
Cash flows from financing activities:			
Receipt of long-term bank loans	8,500	-	-
Repayment of long-term bank loans and other loans	(22,614)	(9,854)	(8,289)
Payments under capital lease	(1,691)	(1,488)	(206)
Short-term bank credit, net	14,506	(9,276)	(3,642)
Dividend paid to minority interest in subsidiary	(1,166)	(706)	(517)
Proceeds from issuance of shares and conditional obligation, net	-	19,704	-
Proceeds from exercise of stock options	-	-	456
Net cash used in financing activities	<u>(2,465)</u>	<u>(1,620)</u>	<u>(12,198)</u>
Increase (decrease) in cash and cash equivalents	(995)	(2,189)	4,643
Cash and cash equivalents at the beginning of the year	<u>6,742</u>	<u>5,747</u>	<u>3,558</u>
Cash and cash equivalents at the end of the year	<u>\$ 5,747</u>	<u>\$ 3,558</u>	<u>\$ 8,201</u>