PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
June 30, 2007 (Unaudited)

Contents

	Page
Board of Directors Report	2
Review Letter	7
Consolidated Financial Statements:	
Balance Sheets	8
Statements of Income	10
Statements of Shareholders' Equity	11
Statements of Cash Flows	12
Notes to the Interim Financial Statements	14

The Board of Directors' Report[1] on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries for the six months ended on June 30, 2007.

1. A concise description of the corporation and its business environment

A. The Group

Payton Planar Magnetics Ltd. ("the Company") and its consolidated subsidiaries: Payton America Inc. ("Payton America"), Payton Planar Holdings (1996) Ltd. ("Payton Holdings").

B. The Group's main fields of activity and changes that occurred in the period from January to June 2007

The Company, an Israeli high-tech enterprise, develops, manufactures and markets Planar transformers worldwide. The Company was founded in order to revolutionize the traditional approach to the design and manufacture of transformers through the concept of planar transformers. The invention is patented in North America, Europe and Japan. The Company completed its initial public offering in 1998 on the Euronext Stock Exchange.

As of the date of signing these financial statements the Company is conducting negotiations with regard to the purchase of premises in Florida. The premises will be used by its subsidiary, Payton America Inc., instead of the current leased premises. The company estimates the total investment in this purchase, including related costs to amount USD 800 thousand.

C. Principal customers

The consolidated sales revenues include sales to major customers (which make up in excess of 10% of the sales of the Group).

	For the six-month period ended June 30	For the year ended December 31	For the six-month period ended June 30
	2007	**2006**	**2006**
Customer A	11.9%	13.3%	13.8%
Customer B	*	*	10.7%
Customer C	26.0%	16.7%	17.5%

* Less than 10% of the Group’s consolidated sales

D. Marketing

In February 2007 the Company participated in: “APEC 2007” exhibition in Los Angeles, U.S.A. In March 2007 the Company participated in: “Electronica & Productronica China 2007 with PCIM” exhibition in Shanghai, China, and in “Electronica” exhibition in Tel-Aviv, Israel. And in May 2007 the Company participated in “PCIM” exhibition in Nuremberg, Germany.

[1] The financial statements as at June 30, 2007 form an integral part thereof.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of June 30, 2007 were USD 5,707 thousand (December 31, 2006 - USD 5,332 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 30.6.07 will be supplied until December 31, 2007.

2. Financial position

A. Balance Sheet as at June 30, 2007

Cash and cash equivalents, Marketable securities and Short-term Deposits **–** these three items amounted to a total of USD 13,580 thousand as at June 30, 2007 compared to USD 10,018 thousand as at December 31, 2006 and USD 6,483 thousand as at June 30, 2006. This increase resulted mainly of the net profit for the period.

Trade accounts receivable **–** these amounted to USD 4,309 thousand as at June 30, 2007 compared to USD 5,293 thousand as at December 31, 2006 and USD 4,009 thousand as at June 30, 2006. The decrease in this item as of June 30, 2007 compared with December 31, 2006 is mainly due to a decrease in sales volume during the period close to the reports date.

Deferred Taxes – these amounted to USD 114 thousand as at June 30, 2007 compared to USD 167 thousand as at December 31, 2006 and USD 488 thousand as at June 30, 2006. A net decrease of USD 374 thousand compared with June 30, 2006 due to use of deferred tax asset as result of taxable income. (See also note 11 to the consolidated financial statements as at December 31, 2006).

Short-term bank credit **–** this amounted to USD 0 thousand as at June 30, 2007 and as at December 31, 2006 compared to USD 400 thousand as at June 30, 2006. This decrease resulted from repayments of short-term bank loan.

Other payables - these amounted to USD 1,756 thousand as at June 30, 2007 compared to USD 1,987 thousand as at December 31, 2006 and USD 1,341 thousand as at June 30, 2006. The increase at June 30, 2007 compared with June 30, 2006 resulted mainly due to an increase in liabilities to related parties.

Current tax liability - this amounted to USD 1,046 thousand as at June 30, 2007 compared to USD 445 thousand as at December 31, 2006 and USD 0 thousand as at June 30, 2006. The increase of USD 601 thousand compared with December 31, 2006 represent increase in company’s liability for income tax payment resulted of the net profit for the period.

B. Operating results

Summary of Consolidated Quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 4-6/07	Quarter 1-3/07	Quarter 10-12/06	Quarter 7-9/06	Quarter 4-6/06
Sales revenues	5,088	4,575	6,953	5,877	5,064
Cost of sales	2,429	2,305	2,992	2,842	2,411
Gross profit	*2,659*	*2,270*	*3,961*	*3,035*	*2,653*
Development costs	142	158	159	122	133
Selling & marketing expenses	364	381	415	363	388
General & administrative expenses	487	453	573	505	459
Operating income	*1,666*	*1,278*	*2,814*	*2,045*	*1,673*
Finance income	169	117	115	60	60
Finance expense	(6)	(31)	(6)	(33)	(19)
Other (expense) income	(1)	-	4	-	-
Profit before taxes on income	*1,828*	*1,364*	*2,927*	*2,072*	*1,714*
Taxes on income	424	234	420	346	35
Net profit for the period	*1,404*	*1,130*	*2,507*	*1,726*	*1,679*

Sales revenues - The Group's sales revenues for the six-month period ended June 30, 2007 were USD 9,663 thousand compared with USD 8,734 thousand in the six-month period ended June 30, 2006 (an increase of 10.6%).

The Group's sales revenue for the three-month period ended June 30, 2007 amounted to USD 5,088 thousand, maintaining about the same level as of the three-month period ended June 30, 2006 (USD 5,064 thousand).

The sales increase attributed of recurring sales to existing customers and sales to new ones.

Gross profit – The Group's gross profit for the six-month period ended June 30, 2007 was USD 4,929 thousand (51.0% of sales) compared with USD 4,293 thousand (49.2% of sales) in the six-month period ended June 30, 2006.

This improvement in the gross profit between the six-month period ended June 30, 2007 and the six-month period ended June 30, 2006 was achieved mainly through the growth in sales volume, improved efficiency in material consumption and decrease in labor costs ratio as a result of subcontracting production to Chinese venture.

The Group's gross profit for the three-month period ended June 30, 2007 was USD 2,659 thousand (52.3% of sales) compared with USD 2,653 thousand (52.4% of sales) in the three-month period ended June 30, 2006. The Group's gross profit ratio for the year ended December 31, 2006 was 52.4% of sales.

Development costs – Payton's R&D strategy is aimed on maintaining the leadership of planar technology. The R&D department works in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were based upon time expended by the department's employees. The group's development costs for the six-month period ended June 30, 2007 were USD 300 thousand.

Selling & marketing expenses – Group's selling & marketing expenses are based on the management policy and are not related to sales, except sales commissions to the Group's reps' and Marketing Personnel, that are calculated as a portion of sales. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.

General & Administrative expenses - These amounted to USD 940 thousand in the six-month period ended June 30, 2007 compared with USD 867 thousand in the six-month period ended June 30, 2006. The increase in these expenses in the six-month period ended June 30, 2007 compared with the first half of previous year is explained mainly by the decrease in exchange rates of the USD in relation to the NIS causing an increase in these expenses when they are presented in USD.

Taxes on income – These amounted to a net tax expense of USD 658 thousand in the six-month period ended June 30, 2007 compared with a net income tax benefit amounting USD 45 thousand in the six-month period ended June 30, 2006. It is noted that in the six-month period ended June 30, 2006 the company recorded a tax income amounting USD 706 thousand due to recognizing a deferred tax asset. This tax income offset the tax expense for the first half of 2006.
During the first half of 2007 the Company used most of its deferred tax assets and its profits are fully taxable.

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the balance sheet:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	June 30, 2007	**December 31, 2006**	**June 30, 2006**
Current ratio[2]	4.82	4.32	3.73
Quick ratio[3]	4.35	3.83	3.21

B. Cash flow generated from operating activities

Cash flow generated from operating activities for the six-month period ended June 30, 2007 amounted USD 3,777 thousand, compared with the cash flow generated from operating activities of USD 2,534 thousand for the six-month period ended June 30, 2006. The increase in cash flow generated from operating activities resulted mainly from the decrease in trade receivables, which was offset by a decrease in trade payables.

[2] Current ratio calculation – Current assets / Current liabilities
[3] Quick ratio calculation – (Current assets – Inventories) / Current liabilities

C. Cash flow used for investing activities

Cash flow used for investing activities in the six-month period ended June 30, 2007, amounted USD 1,434 thousand, compared with cash flow used for investing activities of USD 481 thousand in the six-month period ended June 30, 2006.

Cash flow used for investing activities in the first half of year 2007 resulted mainly from investments in deposits, marketable securities and equipment.

4. Financing sources

The Group financed its activities during the reported period from its own resources.

5. External factors effects

Devaluation of the U.S. Dollar with relation to the local Israeli currency causes an increase in the Group's labor costs. Most of the Group's salaries and other operating costs are fixed in local New Israeli Shekel ("NIS"). The recent fluctuations of the U.S. Dollar with relation to the NIS can influence the operating results of the company.

To the best of the Board of Directors' and management's knowledge, except the above mentioned U.S. Dollar fluctuations, there have been no significant changes in external factors that may materially effect the Company's financial position or results of operations.

The Company's Board of Directors wishes to thank our shareholders for their continuance trust and belief.

The Company's Board of Directors wishes to extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

David Yativ
Chairman of the Board of Directors
and C.E.O.

Rishon Lezion, August 20, 2007.

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

To the Board of Directors
Payton Planar Magnetics Ltd.

Review of the Unaudited Interim Consolidated Financial Statements as at June 30, 2007 and for the six and three-month periods then ended.

Introduction
We have reviewed the accompanying condensed interim consolidated balance sheet of Payton Planar Magnetics Ltd. as at June 30, 2007 and the related condensed consolidated interim statements of income, changes in shareholders' equity and cash flows for the six and three months then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identifiable in an audit. Accordingly, we do not express an audit opinion.

We received a review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 6.6% of the total consolidated assets as at June 30, 2007 and whose revenues constitute 11.6% of the total consolidated revenues for the six and three months then ended.

Conclusion
Based on our review, including the reading of the review report of the other auditor as stated above, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)
(Member Firm of KPMG International)

August 20, 2007

Condensed Consolidated Interim Balance Sheets

	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**9,612**	5,055	7,269
Marketable securities	**786**	-	414
Short-term deposits	**3,182**	1,428	2,335
Trade accounts receivable	**4,309**	4,009	5,293
Other accounts receivable	**136**	197	68
Inventory	**1,928**	1,732	1,944
Total current assets	**19,953**	12,421	17,323
Non-current assets			
Deposits	**6**	6	6
Other investments	**348**	348	348
Property, plant and equipment, net	**639**	550	543
Deferred taxes	**114**	488	167
Total non-current assets	**1,107**	1,392	1,064
Total assets	**21,060**	13,813	18,387

David Yativ
Chief Executive Officer and
Chairman of the Board of Directors

Michal Lichtenstein
V.P. Finance & CFO

August 20, 2007

	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current liabilities			
Short-term bank credit	**-**	400	-
Trade payables	**1,341**	1,593	1,580
Other payables	**1,756**	1,341	1,987
Current tax liability	**1,046**	-	445
Total current liabilities	**4,143**	3,334	4,012
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**-**	406	-
Liability for employee severance benefits, net	**202**	115	194
Total non-current liabilities	**202**	521	194
Shareholders' equity			
Share capital	**4,836**	4,819	4,836
Share premium	**8,993**	9,020	8,993
Accumulated earnings (deficit)	**2,886**	(3,881)	352
Total shareholders' equity	**16,715**	9,958	14,181
Total liabilities and shareholders' equity	**21,060**	13,813	18,387

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

Condensed Consolidated Interim Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Revenues	**9,663**	8,734	**5,088**	5,064	21,564
Cost of sales	**4,734**	4,441	**2,429**	2,411	10,275
Gross profit	**4,929**	4,293	**2,659**	2,653	11,289
Development costs	**300**	262	**142**	133	543
Selling and marketing expenses	**745**	687	**364**	388	1,465
General and administrative expenses	**940**	867	**487**	459	1,945
Operating income	**2,944**	2,477	**1,666**	1,673	7,336
Finance income	**286**	125	**169**	60	280
Finance expense	**(37)**	(37)	**(6)**	(19)	(56)
Other (expense) income	**(1)**	-	**(1)**	-	4
Profit before income taxes	**3,192**	2,565	**1,828**	1,714	7,564
Income taxes	**(658)**	45	**(424)**	(35)	(721)
Net profit for the period	**2,534**	2,610	**1,404**	1,679	6,843
Basic and diluted earnings per ordinary share (in US$)	**0.14**	0.15	**0.08**	0.09	0.39

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

Condensed Interim Statement of Changes in Shareholders' Equity

	Share capital			Accumulated	
	Number of shares	**Amount**	**Share premium**	**earnings (deficit)**	**Total**
		US$ thousands			
Balance at January 1, 2007 (Audited)	**17,670,775**	**4,836**	**8,993**	**352**	**14,181**
Net profit for the period (unaudited)	**-**	**-**	**-**	**2,534**	**2,534**
Balance at June 30, 2007 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**2,886**	**16,715**
Balance at January 1, 2006 (Audited)	17,600,000	4,819	9,008	(6,491)	7,336
Capital reserve from transaction with controlling shareholder (unaudited)	-	-	12	-	12
Net profit for the period (unaudited)	-	-	-	2,610	2,610
Balance at June 30, 2006 (Unaudited)	17,600,000	4,819	9,020	(3,881)	9,958
Balance at April 1, 2007 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**1,482**	**15,311**
Net profit for the period (unaudited)	**-**	**-**	**-**	**1,404**	**1,404**
Balance at June 30, 2007 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**2,886**	**16,715**
Balance at April 1, 2006 (Unaudited)	17,600,000	4,819	9,014	(5,560)	8,273
Capital reserve from transaction with controlling shareholder (unaudited)	-	-	6	-	6
Net profit for the period (unaudited)	-	-	-	1,679	1,679
Balance at June 30, 2006 (Unaudited)	17,600,000	4,819	9,020	(3,881)	9,958
Balance at January 1, 2006 (Audited)	17,600,000	4,819	9,008	(6,491)	7,336
Capital reserve from transaction with controlling shareholder (audited)	-	-	2	-	2
Exercise of option warrant into shares (audited)	70,775	17	(17)	-	-
Net profit for the year (audited)	-	-	-	6,843	6,843
Balance at December 31 2006 (Audited)	17,670,775	4,836	8,993	352	14,181

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

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Cash flows from operating activities					
Net profit for the period	**2,534**	2,610	**1,404**	1,679	6,843
Adjustments to reconcile net result to net cash generated from operating activities:					
Depreciation	**106**	101	**53**	51	207
Capital loss (gain) on sale of equipment	**1**	-	**1**	-	(4)
Increase (decrease) in employee severance benefits, net	**8**	11	**(13)**	5	90
Decrease (increase) in trade receivables	**984**	(858)	**(133)**	(1,263)	(2,142)
(Increase) decrease in other accounts receivables	**(68)**	(21)	**(89)**	(20)	108
Decrease (increase) in inventory	**16**	(97)	**41**	(203)	(309)
(Decrease) increase in trade payables	**(236)**	363	**(207)**	541	347
Increase (decrease) in other payables and tax liabilities	**370**	458	**(28)**	460	1,549
Deferred taxes	**53**	(45)	**62**	35	276
Finance expenses from transaction with controlling shareholder	**-**	12	**-**	6	24
Loss from (gain on) marketable securities	**9**	-	**13**	-	(14)
Cash flows generated from operating activities	**3,777**	2,534	**1,104**	1,291	6,975
Net investing activities					
(Investment in) proceeds from marketable securities, net	**(381)**	-	**120**	-	(400)
Investment in property, plant and equipment	**(206)**	(82)	**(70)**	(49)	(178)
Investment in deposits, net	**(847)**	(399)	**165**	(9)	(1,306)
Proceeds from sale of equipment	**-**	-	**-**	-	4
Cash flows (used for) generated from investing activities	**(1,434)**	(481)	**215**	(58)	(1,880)
Net financing activities					
Decrease in short-term bank credit	**-**	(180)	**-**	(90)	(580)
Repayment of loan to parent company	-	-	**-**	-	(428)
Cash flows used for financing activities	**-**	(180)	**-**	(90)	(1,008)
Increase in cash and cash equivalents	**2,343**	1,873	**1,319**	1,143	4,087
Cash and cash equivalents at beginning of period	**7,269**	3,182	**8,293**	3,912	3,182
Cash and cash equivalents at end of period	**9,612**	5,055	**9,612**	5,055	7,269

Condensed Consolidated Interim Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Appendix A - Non-Cash Activities					
Purchase of property and equipment	**15**	15	**15**	15	18
Capital reserve from transactions with controlling shareholder	**-**	12	**-**	6	2
Supplementary disclosure					
Interest paid	**-**	4	**-**	2	16
Interest received	**172**	57	**95**	30	207
Tax paid	**1**	-	**-**	-	1

Note 1 - General

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992 in Israel. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company").

B. The Company develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiary and distributors. Its manufacturing activities include manufacture of printed circuits.

Note 2 - Financial Reporting and Accounting Policies

A. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) 34 "Interim Financial Reporting". They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2006.

B. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at December 31, 2006.

C. Results of operations for the six and three months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

D. The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2006.

E. **New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective at June 30, 2007, and have not been applied in preparing these consolidated financial statements:

1. The IFRIC issued interpretation IFRIC 12 "Service Concession Arrangements" on November 30 2006. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services—such as roads, airports, prisons and energy and water supply and distribution facilities—to private sector operators. Control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. IFRIC 12 addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements. IFRIC 12 is effective for annual periods beginning on or after January 1, 2008 and is not expected to have any effect on the Company.

Note 2 - Financial Reporting and Accounting Policies (cont'd)

E. New standards and interpretations not yet adopted (cont'd)

2. The IFRIC issued interpretation IFRIC 13 "Customer loyalty programmes" in June 2007. IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. The interpretation is effective for annual accounting periods beginning on or after July 1, 2008 and is not expected to have any effect on the consolidated financial statements.

3. The IFRIC issued interpretation IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" on July 5, 2007. IFRIC 14 addresses three issues: (A) when refunds or reductions in future contributions should be regarded as 'available' in the context of paragraph 58 of IAS 19 Employee Benefits; (B) how a minimum funding requirement might affect the availability of reductions in future contributions; and (C) when a minimum funding requirement might give rise to a liability. An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2008.

4. The IASB issued IFRS 8 "Operating Segments" in December 2006. This will replace IAS 14 "Segment Reporting". IAS 14 required identification of two sets of segments—one based on related products and services, and the other on geographical areas. Under IFRS 8 The identification of segments is based on the information about the components of the entity that management uses to make decisions about operating matters. IFRS 8 is effective for annual accounting periods beginning on or after January 1, 2009 and is not expected to have a material effect on the consolidated financial statements.

5. The IASB issued IAS 23 "Borrowing Costs" in March 2007, which supersedes IAS 23, revised in 1993. The amendments eliminate the option available under the previous version of the standard to recognize all borrowing costs immediately as an expense, to the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset. The revised Standard requires that they be capitalized as part of the cost of that asset. All other borrowing costs should be expensed as incurred. The revised Standard becomes mandatory for the Company's 2009 financial statements, and is not expected to have a material effect on the consolidated financial statements.

Note 3 - Operating Segments

Segment information, according to the revised IAS 14, is presented in respect of the Group's geographical segments, which is based on the Group's management and internal reporting structure.

The primary format of reporting segment information is geographical based on location of customers.

	Six months ended June 30, 2007 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**2,940**	**1,933**	**4,790**	**9,663**
Segment result	**896**	**588**	**1,460**	**2,944**

	Six months ended June 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	3,768	1,760	3,206	8,734
Segment result	1,069	499	909	2,477

	Three months ended June 30, 2007 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**1,434**	**913**	**2,741**	**5,088**
Segment result	**475**	**303**	**888**	**1,666**

	Three months ended June 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	2,002	951	2,111	5,064
Segment result	682	322	669	1,673

	Year ended December 31, 2006 (Audited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	7,989	4,548	9,027	21,564
Segment result	2,718	1,547	3,071	7,336