PAYTON GROUP
INTERNATIONAL

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

Contents

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 nine months ended on September 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 September 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.

1. On September 17, 2007, the fully owned subsidiary of the Company Payton America Inc. (“P.America”) purchased a property located in Deerfield Beach, South Florida, U.S.A. The purchased property is going to serve P.America instead of its current leased premises.
2. The purchased property area is 4,680 Sq. Ft. (435 Sq. Mt.) under roof plus 1,476 Sq. Ft. (137 Sq. Mt.) of an outside fenced storage yard, the total cost of it amounted to USD 702 thousand. Interior construction including related expenses is currently estimated by additional USD 200 thousand.
3. The company expects to move to its new location during the beginning of 2008.
4. The above-mentioned purchase was financed by an intercompany loan given by the Company to P.America ensured by mortgaging the property in favor of the Company.

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 nine-month period ended September 30	For the year ended December 31	For the nine-month period ended September 30
	2007	**2006**	**2006**
Customer A	14.4%	13.3%	15.5%
Customer B	*	*	11.9%
Customer C	23.6%	16.7%	18.3%

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

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

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.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2007 were USD 5,382 thousand compared with a backlog of USD 7,271 thousand as of September 30, 2006 (December 31, 2006 - USD 5,332 thousand). The backlog is composed only of firm orders.

The decrease in the backlog compared with the same period of last year is mainly explained by the fact that two projects, of two substantial customers (one of them customer B as defined in paragraph 1C above), reached their end of life cycle.

Management estimates that most of the backlog as of 30.9.07 will be supplied until March 31, 2008.

2. <u>Financial position</u>

A. Balance Sheet as at September 30, 2007

Cash and cash equivalents, Marketable securities and Short-term Deposits **–** these three items amounted to a total of USD 14,572 thousand as at September 30, 2007 compared to USD 10,018 thousand as at December 31, 2006 and USD 8,020 thousand as at September 30, 2006. This increase resulted mainly of the net profit for the period.

Trade accounts receivable – these amounted to USD 3,528 thousand as at September 30, 2007 compared to USD 5,293 thousand as at December 31, 2006 and USD 4,384 thousand as at September 30, 2006. The decrease in this item as of September 30, 2007 compared with December 31, 2006 is mainly due to a decrease in sales volume.

Property, plant and equipment, net – these amounted to USD 1,322 thousand as at September 30, 2007 compared to USD 543 thousand as at December 31, 2006 and USD 523 thousand as at September 30, 2006. The increase in this item resulted from purchasing the property in Florida, U.S.A (See paragraph 1B above).

Other payables - these amounted to USD 1,521 thousand as at September 30, 2007 compared to USD 1,987 thousand as at December 31, 2006 and USD 1,445 thousand as at September 30, 2006. The decrease at September 30, 2007 compared with December 31, 2006 resulted mainly due to a decrease in liabilities to government institutions as result of repayment of a debt to the Israeli Marketing Encouragement Fund.

Current tax liability - this amounted to USD 1,136 thousand as at September 30, 2007 compared to USD 445 thousand as at December 31, 2006 and USD 0 thousand as at September 30, 2006. The increase of USD 691 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 7-9/07	Quarter 4-6/07	Quarter 1-3/07	Quarter 10-12/06	Quarter 7-9/06
Sales revenues	4,406	5,088	4,575	6,953	5,877
Cost of sales	2,411	2,429	2,305	2,992	2,842
Gross profit	*1,995*	*2,659*	*2,270*	*3,961*	*3,035*
Development costs	149	142	158	159	122
Selling & marketing expenses	299	364	381	415	363
General & administrative expenses	490	487	453	573	505
Operating income	*1,057*	*1,666*	*1,278*	*2,814*	*2,045*
Finance income	155	169	117	115	60
Finance expense	(43)	(6)	(31)	(6)	(33)
Other (expense) income	-	(1)	-	4	-
Profit before income taxes	*1,169*	*1,828*	*1,364*	*2,927*	*2,072*
Income taxes	159	424	234	420	346
Net profit for the period	*1,010*	*1,404*	*1,130*	*2,507*	*1,726*

Sales revenues - The Group's sales revenues for the nine-month period ended September 30, 2007 amounted to USD 14,069 thousand compared with USD 14,611 thousand in the nine-month period ended September 30, 2006. The Group's sales revenue for the three-month period ended September 30, 2007 amounted to USD 4,406 thousand compared with USD 5,877 thousand in the three-month period ended September 30, 2006.
The sales decrease is mainly explained by the fact that two projects, of two substantial customers (one of them customer B as defined in paragraph 1C above), reached their end of life cycle.

Gross profit - The Group's gross profit for the nine-month period ended September 30, 2007 was USD 6,924 thousand (49.2% of sales) compared with USD 7,328 thousand (50.1% of sales) in the nine-month period ended September 30, 2006.

The Group's gross profit for the three-month period ended September 30, 2007 was USD 1,995 thousand (45.3% of sales) compared with USD 3,035 thousand (51.6% of sales) in the three-month period ended September 30, 2006. The decrease in the Group's gross profit ratio for the three-month period ended September 30, 2007 is mainly explained by an increase in material consumption. The third quarter (2007) material consumption increase is attributed to some high volume projects where the material cost in relates to the sales price is higher.

Development costs - Payton's R&D strategy is aimed on maintaining the leadership of the 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 nine-month period ended September 30, 2007 were USD 449 thousand compared with USD 384 thousand in the nine-month period ended September 30, 2006. The increase in these expenses in the nine-month period ended September 30, 2007 compared with the same period last year is mainly explained by the decrease in the exchange rate of the USD in relation to the NIS causing about 10% increase of local labor cost fixed in NIS but translated to USD.

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 1,430 thousand in the nine-month period ended September 30, 2007 compared with USD 1,372 thousand in the nine-month period ended September 30, 2006. The increase in these expenses in the nine-month period ended September 30, 2007 compared with the same period last year is explained mainly by the decrease in exchange rate of the USD in relation to the NIS causing an increase in these expenses when they are presented in USD.

Income taxes - These amounted to a net tax expense of USD 817 thousand in the nine-month period ended September 30, 2007 compared with USD 301 thousand in the nine-month period ended September 30, 2006. It is noted that in the nine-month period ended September 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 three quarters in 2006.

By September 30, 2007 the Company used most of its deferred tax assets and its profits are fully taxable.

3. <u>Liquidity</u>

A. Liquidity Ratios

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

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	September 30, 2007	**December 31, 2006**	**September 30, 2006**
Current ratio[2]	4.88	4.32	3.96
Quick ratio[3]	4.39	3.83	3.43

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

B. Cash flow generated from operating activities

Cash flow generated from operating activities for the nine-month period ended September 30, 2007 amounted USD 5,536 thousand, compared with the cash flow generated from operating activities of USD 4,493 thousand for the nine-month period ended September 30, 2006. The increase in cash flow generated from operating activities resulted mainly from the decrease in trade receivables, which was partly offset by the decrease in the net profit.

C. Cash flow used for investing activities

Cash flow used for investing activities in the nine-month period ended September 30, 2007, amounted USD 4,070 thousand, compared with cash flow used for investing activities of USD 793 thousand in the nine-month period ended September 30, 2006.

Cash flow used for investing activities in the first nine-months of year 2007 resulted from investing in: deposits, marketable securities and in the property at Florida, U.S.A.

4. Financing sources

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

5. External factors effects

5.1 Devaluation of the U.S. Dollar with relation to the local Israeli currency leads to 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 fluctuation of the U.S. Dollar with relation to the NIS has an influence on the operating results of the company.

5.2 The company is subcontracting Chinese ventures. Devaluation of the U.S. Dollar with relation to the Chinese currency may have an influence on the Group's cost of goods sold.

To the best of the Board of Directors' and management's knowledge, except the above mentioned, 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 extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

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

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

Rishon Lezion, November 28, 2007.

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To the Board of Directors
Payton Planar Magnetics Ltd.

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

Introduction
We have reviewed the accompanying condensed interim consolidated balance sheet of Payton Planar Magnetics Ltd. as at September 30, 2007 and the related condensed consolidated interim statements of income, changes in shareholders' equity and cash flows for the nine 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 9.8% of the total consolidated assets as at September 30, 2007 and whose revenues constitute 11.7% and 11.9% of the total consolidated revenues for the nine and three months then ended, accordingly.

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)

November 28, 2007

Condensed Consolidated Interim Balance Sheets

	September 30 2007	September 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**8,735**	6,302	7,269
Marketable securities	**1,652**	404	414
Short-term deposits	**4,185**	1,314	2,335
Trade accounts receivable	**3,528**	4,384	5,293
Other accounts receivable	**190**	119	68
Inventory	**2,028**	1,913	1,944
Total current assets	**20,318**	14,436	17,323
Non-current assets			
Deposits	**6**	6	6
Other investments	**348**	348	348
Property, plant and equipment, net	**1,322**	523	543
Deferred taxes	**102**	142	167
Total non-current assets	**1,778**	1,019	1,064
Total assets	**22,096**	15,455	18,387

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

Michael Perez
Director

Michal Lichtenstein
V.P. Finance & CFO

November 28, 2007

	September 30 2007	September 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current liabilities			
Trade payables	**1,510**	1,789	1,580
Other payables	**1,521**	1,445	1,987
Current tax liability	**1,136**	-	445
Loan from Payton Industries Ltd. – parent company	**-**	412	-
Total current liabilities	**4,167**	3,646	4,012
Non-current liabilities			
Liability for employee severance benefits, net	**204**	125	194
Total non-current liabilities	**204**	125	194
Shareholders' equity			
Share capital	**4,836**	4,819	4,836
Share premium	**8,993**	9,020	8,993
Accumulated earnings (deficit)	**3,896**	(2,155)	352
Total shareholders' equity	**17,725**	11,684	14,181
Total liabilities and shareholders' equity	**22,096**	15,455	18,387

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

Condensed Consolidated Interim Statements of Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2007	September 30 2006	September 30 2007	September 30 2006	December 31 2006
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Revenues	**14,069**	14,611	**4,406**	5,877	21,564
Cost of sales	**7,145**	7,283	**2,411**	2,842	10,275
Gross profit	**6,924**	7,328	**1,995**	3,035	11,289
Development costs	**449**	384	**149**	122	543
Selling and marketing expenses	**1,044**	1,050	**299**	363	1,465
General and administrative expenses	**1,430**	1,372	**490**	505	1,945
Operating income	**4,001**	4,522	**1,057**	2,045	7,336
Finance income	**441**	185	**155**	60	280
Finance expense	**(80)**	(70)	**(43)**	(33)	(56)
Other (expense) income	**(1)**	-	**-**	-	4
Profit before income taxes	**4,361**	4,637	**1,169**	2,072	7,564
Income taxes	**817**	301	**159**	346	721
Net profit for the period	**3,544**	4,336	**1,010**	1,726	6,843
Basic and diluted earnings per ordinary share (in US$)	**0.20**	0.25	**0.06**	0.10	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)	**-**	**-**	**-**	**3,544**	**3,544**
Balance at September 30, 2007 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**3,896**	**17,725**
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)	-	-	-	4,336	4,336
Balance at September 30, 2006 (Unaudited)	17,600,000	4,819	9,020	(2,155)	11,684
Balance at July 1, 2007 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**2,886**	**16,715**
Net profit for the period (unaudited)	**-**	**-**	**-**	**1,010**	**1,010**
Balance at September 30, 2007 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**3,896**	**17,725**
Balance at July 1, 2006 (Unaudited)	17,600,000	4,819	9,020	(3,881)	9,958
Net profit for the period (unaudited)	-	-	-	1,726	1,726
Balance at September 30, 2006 (Unaudited)	17,600,000	4,819	9,020	(2,155)	11,684
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 nine months ended		For the three months ended		For the year ended
	September 30 2007	September 30 2006	September 30 2007	September 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	**3,544**	4,336	**1,010**	1,726	6,843
Adjustments to reconcile net result to net cash generated from operating activities:					
Depreciation	**157**	155	**51**	54	207
Capital loss (gain) on sale of equipment	**1**	-	**-**	-	(4)
Increase in employee severance benefits, net	**10**	21	**2**	10	90
Decrease (increase) in trade receivables	**1,765**	(1,233)	**781**	(375)	(2,142)
(Increase) decrease in other accounts receivables	**(122)**	57	**(54)**	78	108
Increase in inventory	**(84)**	(278)	**(100)**	(181)	(309)
(Decrease) increase in trade payables	**(57)**	558	**179**	195	347
Increase (decrease) in other payables and tax liabilities	**225**	562	**(145)**	104	1,549
Deferred taxes	**65**	301	**12**	346	276
Finance expenses from transaction with controlling shareholder	**-**	18	**-**	6	24
Loss from (gain on) marketable securities	**32**	(4)	**23**	(4)	(14)
Cash flows generated from operating activities	**5,536**	4,493	**1,759**	1,959	6,975
Net investing activities					
Investment in marketable securities, net	**(1,270)**	(400)	**(889)**	(400)	(400)
Investment in property, plant and equipment	**(950)**	(108)	**(744)**	(26)	(178)
Investment in deposits, net	**(1,850)**	(285)	**(1,003)**	114	(1,306)
Proceeds from sale of equipment	**-**	-	**-**	-	4
Cash flows used for investing activities	**(4,070)**	(793)	**(2,636)**	(312)	(1,880)
Net financing activities					
Decrease in short-term bank credit	**-**	(580)	**-**	(400)	(580)
Repayment of loan to parent company	-	-	**-**	-	(428)
Cash flows used for financing activities	**-**	(580)	**-**	(400)	(1,008)
Increase (decrease) in cash and cash equivalents	**1,466**	3,120	**(877)**	1,247	4,087
Cash and cash equivalents at beginning of period	**7,269**	3,182	**9,612**	5,055	3,182
Cash and cash equivalents at end of period	**8,735**	6,302	**8,735**	6,302	7,269

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

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

	For the nine months ended		For the three months ended		For the year ended
	September 30 2007	September 30 2006	September 30 2007	September 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	**5**	16	**5**	16	18
Capital reserve from transactions with controlling shareholder	**-**	12	**-**	-	2
Supplementary disclosure					
Interest paid	**-**	16	**-**	12	16
Interest received	**283**	120	**111**	63	207
Tax paid	**1**	-	**-**	-	1

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

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 nine and three months ended September 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 September 30, 2007, and have not been applied in preparing these consolidated financial statements:

1. IFRIC 11 IFRS 2 - Group and Treasury share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instrumetns are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

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 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.

3. 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.

4. 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.

5. 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.

6. 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 2 - Financial Reporting and Accounting Policies (cont'd)

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

6. The IASB issued a revised version of IAS 1 "Presentation of Financial Statements" in September 2007, which supersedes IAS 1, revised in 2003. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The revisions include changes in the titles of some of the financial statements to reflect their function more clearly (for example, the balance sheet is renamed a statement of financial position). The revised standard will become mandatory for the Company's 2009 financial statements, earlier application is permitted.
Adoption of IAS 1 is not expected to have a material effect on the Company's 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.

	Nine months ended September 30, 2007 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**4,265**	**2,851**	**6,953**	**14,069**
Segment result	**1,213**	**811**	**1,977**	**4,001**

	Nine months ended September 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	6,087	3,047	5,477	14,611
Segment result	1,884	943	1,695	4,522

Note 3 - Operating Segments (cont'd)

	Three months ended September 30, 2007 (Unaudited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	**1,325**	**918**	**2,163**	**4,406**
Segment result	**317**	**223**	**517**	**1,057**

	Three months ended September 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	2,319	1,287	2,271	5,877
Segment result	815	444	786	2,045

	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