P A Y T O N G R O U P
I N T E R N A T I O N A L

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
June 30, 2004(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 three months period ended on June 30, 2004.

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 2004

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 Euro.NM (Today Euronext Stock exchange).

On July 2004 a bank approved new terms of payment regarding USD 1,100 thousand-credit facility. The new terms set with the bank are: USD 300 thousands will be paid gradually within 12 months (starting August 2004). Additional USD 800 thousands were fixed as a loan for a period of one year, that its return terms shall be discussed and determined before the end of its period (July 2005). It is noted that the Company mortgaged US$ 400 thousands in favor of the bank, this lien is to be decreased (On September 2004) to US$ 300 thousands subject to certain performance milestones.

C. Principal customers

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

	For the three-month period ended June 30	For the year ended December 31	For the three-month period ended June 30
	2004	2003	2003
Customer A	17.5%	18.1%	17.7%
Customer B	18.9%	12.3%	*

* Less then 10% the Company’s consolidated sales

D. Marketing

On February 2004 the Company participated in “APEC” exhibition in Los Angeles, U.S.A; on April 2004 in “Power Supply Exhibition” in Tokyo, Japan and on May 2004 in “PCIM” exhibition in Nuremberg, Germany.

[1] The financial statements as at June 30, 2004 form an integral part thereof.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of June 30, 2004 were USD 6,140 thousand (December 31, 2003 - USD 5,100 thousand). This backlog is composed of both firm orders, frame purchase orders and operating rolling forecast. Starting the last quarter of 2003 there is an increase trend in the backlog; however, it is still hard to foresee how long this trend is going to continue.
Management estimates that most of this current backlog will be supplied until the end of the second quarter of 2005.

2. Financial position

A. Balance Sheet as at June 30, 2004.

General note: In the attached consolidated financial statement the assets and liabilities of Payton Asia, at all the reports date, are not included in the consolidated balance sheet (whereas the consolidated statement of operations for the periods ended June 30, 2003 includes the results of operations of Payton Asia).
The balance of the investment in Payton Asia (10.7%) was stated in the financial statements under the category of long-term investments. (See also - note 7 to the financial statements for the year ended December 31, 2003).

Cash and cash equivalents and Short-term deposits – these amounted to a total of USD 1,140 thousand at June 30, 2004 compared to USD 1,578 thousand as at December 31, 2003 and USD 949 thousand at June 30, 2003.
The decrease in these two items at June 2004, compared with December 31, 2003 is mainly due to the increase in long-term deposit.
As of June 30, 2004 and as of December 31,2003 an amount of USD 400 thousands out of the Short-term deposits uses as a guaranty against current maturities of long-term loan.

Trade accounts receivable, net – these amounted to USD 2,229 thousand at June 30, 2004 compared to USD 1,638 thousand as at December 31, 2003 and USD 1,689 thousand at June 30, 2003. The increase in this item is mainly due to the sales volume growth in the period near the reports date.

Other accounts receivable – these amounted to USD 290 thousand at June 30, 2004 compared to USD 39 thousand as at December 31, 2003 and USD 62 thousand at June 30, 2003. The increase in this item at June 30, 2004, compared with December 31, 2003 is mainly due to an increase related parties balance.

Inventory – Total of USD 1,955 thousand at June 30, 2004, compared with USD 1,694 thousand at December 31, 2003 and USD 1,866 thousand at June 30, 2003.
The increase in this item at June 30, 2004, compared with December 31, 2003 is mainly due to purchase policy enabling to support the sales growth.

Long-term bank deposit **–** As of June 30, 2004, these amounted to USD 500 thousands that were comprised of USD 250 thousands two years time deposit and USD 250 thousands five years time deposit.
As of June 30, 2003 these amounted to USD 400 thousands that are currently presented as short-term deposit uses as a guaranty against current maturities of long-term loan.

Short-term bank credit and current maturities of long-term bank debt- The increase in this item compared with June 30, 2003 item is mainly due to classifying USD 1,100 thousand from Long-term debts, net of current maturities. (See also note 13 to the financial statements for the year ended December 31, 2003).
On July 2004 new terms of payment to this USD 1,100 thousand-credit facility were approved. The new terms set with the bank are: USD 300 thousands will be paid gradually within 12 months (starting August 2004). Additional USD 800 thousands were fixed as a loan for a period of one year, that its return terms shall be discussed and determined before the end of its period (July 2005).

Trade Payables- these amounted to USD 1,391 thousand at June 30, 2004 compared to USD 961 thousand as at December 31, 2003 and USD 891 thousand at June 30, 2003. The increase in this item is mainly due to the growth in the Company's volume of operation.

Long-term debts, net of current maturities- Total of USD 0 thousand at June 30, 2004 and at December 31, 2003 compared with USD 1,121 thousand at June 30, 2003. The decrease in this item is mainly due to classifying USD 1,100 thousand from Long-term debts, net of current maturities as current liabilities (See also above explanation in "*Short-term bank credit and current maturities of long-term bank debt").*

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 4-6/04	Quarter 1-3/04	Quarter 10-12/03	Quarter 7-9/03	Quarter 4-6/03
Sales revenues	2,995	2,680	2,309	1,856	2,333
Cost of sales	1,737	1,550	1,586	1,390	1,509
Gross result	*1,258*	*1,130*	*723*	*466*	*824*
Development costs	108	115	104	109	140
Selling & marketing expenses	299	263	284	197	270
General & administrative expenses	263	282	250	293	369
Operating profit (loss)	*588*	*470*	*85*	*(133)*	*45*
Net financial result	(35)	(2)	(24)	11	(96)
Net operating profit (loss) after financial result	*553*	*468*	*61*	*(122)*	*(51)*
Issue of share capital in a consolidated subsidiary & Other income (expense)	-	-	5	(1)	14
Result before taxes on income	*553*	*468*	*66*	*(123)*	*(37)*
Tax (expenses) benefits	-	-	-	-	-
Result after taxes on income	*553*	*468*	*66*	*(123)*	*(37)*
Minority interest in losses of subsidiaries	-	-	-	-	*64*
Net profit (loss) for the period	*553*	*468*	*66*	*(123)*	*27*

General note: Starting the third quarter of 2003 Payton Asia's results of operations are not included in consolidated statement of operations.

The Group's sales revenue for the three-month period ended June 30, 2004 were USD 2,995 thousand compared with USD 2,680 thousand in the three-month period ended March 31, 2004 (increase of 11.8%).
The Group's sales revenue for the six-month period ended June 30, 2004 were USD 5,675 thousand compared with USD 4,319 thousand in the six-month period ended June 30, 2003 (increase of 31.4%).

Gross result – The Group's gross result for the three-month period ended June 30, 2004 were USD 1,258 thousand, 42.0%, compared with USD 1,130 thousand, 42.2% in the three-month period ended March 31, 2004.
The Group's gross result for the six-month period ended June 30, 2004 were USD 2,388 thousand, 42.1%, compared with USD 1,377 thousand, 31.9% in the six-month period ended June 30, 2003.
The improvement in the gross results is explained by cost of sales reduction achieved mainly through improved efficiency in material consumption and in labor costs.
(The gross results in the first half of 2003 included a write-off of slow-moving inventory amounting USD 85 thousand; total slow-moving inventory write-off in 2003 amounted to USD 154 thousand).

Development costs – Payton's R&D strategy is aimed on maintaining the leadership of planar technology. Payton's R&D department work in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were estimated upon employees' hours dedication. The decrease in development cost noted in third qurter of 2003 was mainly due to the end of Payton America's Vice President & C.E.O Mr. Alex Estrov employment on June 2003. Except this change aforementioned there were no material changes in the group's development costs between the above-presented quarters.

Selling & marketing expenses - The 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' that are calculated as a portion of sales. The Group's marketing efforts are done through participation in major power electronic shows throughout the world and by collaborating with its worldwide rep's Network.

General & Administrative expenses – The Group's General & Administrative expenses for the three-month period ended June 30, 2004 were USD 263 thousand compared with USD 369 thousand in the three-month period ended June 30, 2003. The Decrease in these expenses at the second quarter of 2004 compare with the second quarter of 2003 is explained mainly by two factors: excluding Payton Asia's General & Administrative expenses from the consolidated statement and by ending Payton America's Vice President & C.E.O employment, both, starting the second half of 2003. Regarding The Company's share in the allocation of its Parent Company joint G&A expenses (See note 4 to the attached financial statements).

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, 2004**	**December 31, 2003****	**June 30, 2003**
Current ratio[2]	1.49	1.36	1.80
Quick ratio[3]	0.97	0.90	1.06

** On June 30, 2004 and on December 31,2003 the remaining of the long-term loan amounting USD 1,100 thousands, is presented as current maturities of long-term debts, where as in June 30, 2003 it was classified as long-term debt. See above explained in paragraph 2A regarding "*Short-term bank credit and current maturities of long-term bank debt"* and note no.13 to the financial statements for the year ended December 31, 2003.

B. Cash flow provided by operating activities

Cash flow provided by operating activities for the six-month period ended June 30, 2004 amounted USD 426 thousand, compared with the cash flow provided for operating activities of USD 214 thousand for the six-months period ended June 30, 2003. This Increase in Cash flow provided by operating activities resulted mainly of an increase in the net profit for the period. In addition, the above-mentioned increase resulted of the changes in the cash flow adjustments items as detailed in the consolidated statement of cash flow.

C. Cash flow used for investing activities.

Cash flow used for investment activities in the six-month period ended June 30, 2004, amounted USD 272 thousand, compared with cash flow used for investment activities of USD 121 thousand in the six-month period ended June 30, 2003. In the six-months period ended June 30, 2004 the cash flow used for investing activities result from investment in long-term deposit and from investment in fixed assets.

[2] Current ratio calculation – Current assets / Current liabilities

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

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from credit facility taken from a bank.

5. External factors effects

To the best of the Board of Directors' and management's knowledge, 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 of 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 25, 2004.

Somekh Chaikin

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Review Report to the Board of Directors
Payton Planar Magnetics Ltd.

We have reviewed the accompanying consolidated balance sheet of Payton Planar Magnetics Ltd. as at June 30, 2004 and the related statement of income and cash flows for the six and three month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We received review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 6.3% of the total consolidated assets as at June 30, 2004 and whose revenues constitute 10% and 9.1% of the total consolidated revenues for the six and three month periods then ended, respectively.

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 financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

Somekh Chaikin
Certified Public Accountants (Isr.)
(A member of KPMG International)

August 25, 2004

Consolidated Balance Sheets

	June 30 2004	June 30 2003	December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**740**	599	828
Short-term deposits	**400**	350	750
Trade accounts receivable, net	**2,229**	1,689	1,638
Other accounts receivable	**290**	62	39
Inventory	**1,955**	1,866	1,694
Total current assets	**5,614**	4,566	4,949
Non-current assets:			
Bank deposit	**500**	400	-
Other investment	**348**	348	348
Property, plant and equipment, net	**753**	816	738
Other assets, net	**6**	6	6
Total non-current assets	**1,607**	1,570	1,092
Total assets	**7,221**	6,136	6,041

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

Michal Lichtenstein
V.P. Finance & CFO

Rishon Le Zion, August 25, 2004

	June 30 2004	June 30 2003	December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Liabilities and shareholders' equity			
Current Liabilities			
Short-term bank credit and current maturities of long-term bank debt	**1,348**	500	1,590
Trade payables	**1,391**	891	961
Other payables	**1,025**	1,146	1,075
Total current liabilities	**3,764**	2,537	3,626
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**858**	858	858
Long-term debt, net of current maturities	**-**	1,121	-
Liability for employee severance benefits, net	**152**	137	131
Total long-term liabilities	**1,010**	2,116	989
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**8,942**	8,942	8,942
Accumulated deficit	**(11,314)**	(12,278)	(12,335)
Total shareholders' equity	**2,447**	1,483	1,426
Total liabilities and shareholders' equity	**7,221**	6,136	6,041

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

Consolidated Statements of Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2004	2003	2004	2003	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand	US$ thousand	US$ thousand
Sales revenues	**5,675**	4,319	**2,995**	2,333	8,485
Cost of sales	**(3,287)**	(2,942)	**(1,737)**	(1,509)	(5,918)
Gross profit	**2,388**	1,377	**1,258**	824	2,567
Development costs	**(223)**	(271)	**(108)**	(140)	(484)
Selling and marketing expenses	**(562)**	(516)	**(299)**	(270)	(997)
General and administrative expenses	**(545)**	(696)	**(263)**	(369)	(1,239)
Operating profit (loss)	**1,058**	(106)	**588**	45	(153)
Net financial result	**(37)**	(105)	**(35)**	(96)	(118)
Other income	**-**	32	**-**	14	35
Profit (loss) before minority interest in losses of subsidiaries	**1,021**	(179)	**553**	(37)	(236)
Minority interest in losses of subsidiaries	**-**	83	**-**	64	83
Net result for the period	**1,021**	(96)	**553**	27	(153)
Basic and diluted net profit (loss) per ordinary share (in US$)	**0.058**	(0.005)	**0.031**	0.002	(0.009)

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

Statement of Shareholders' Equity

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at January 1, 2004 (Audited)	**17,600,000**	**4,819**	**8,942**	**(12,335)**	**1,426**
Changes in the six months period ended June 30, 2004 (Unaudited)					
Net profit for the period (Unaudited)	**-**	**-**	**-**	**1,021**	**1,021**
Balance at June 30, 2004 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(11,314)**	**2,447**

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at January 1, 2003 (Audited)	**17,600,000**	**4,819**	**8,942**	**(12,182)**	**1,579**
Changes in the six months period ended June 30, 2003 (Unaudited)					
Net loss for the period (Unaudited)	**-**	**-**	**-**	**(96)**	**(96)**
Balance at June 30, 2003 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(12,278)**	**1,483**

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

Statement of Shareholders' Equity (cont'd)

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at April 1, 2004 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(11,867)**	**1,894**
Changes in the three months period ended June 30, 2004 (Unaudited)					
Net profit for the period (Unaudited)	-	-	-	553	553
Balance at June 30, 2004 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(11,314)**	**2,447**

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at April 1, 2003 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(12,305)**	**1,456**
Changes in the three months period ended June 30, 2003 (Unaudited)					
Net profit for the period (Unaudited)	-	-	-	27	27
Balance at June 30, 2003 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(12,278)**	**1,483**

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at January 1, 2003 (Audited)	17,600,000	4,819	8,942	(12,182)	1,579
Changes in the year (Audited)					
Net loss for the year (Audited)	-	-	-	(153)	(153)
Balance at December 31, 2003 (Audited)	17,600,000	4,819	8,942	(12,335)	1,426

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

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2004	2003	2004	2003	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand	US$ thousand	US$ thousand
Operating activities					
Net profit (loss) for the period	**1,021**	(96)	**553**	27	(153)
Adjustments to reconcile net income to net cash used for operating activities:					
Depreciation and amortization	**112**	183	**56**	104	307
Capital loss on sale of equipment	**-**	-	**-**	-	3
Increase in employee severance benefits, net	**21**	13	**5**	11	7
Minority interests in losses of subsidiaries	**-**	(83)	**-**	(64)	(83)
Gain from issue of shares of a subsidiary	**-**	(14)	**-**	(7)	(14)
Increase in trade receivables	**(591)**	(231)	**(402)**	(272)	(180)
Decrease (increase) in other accounts receivable	**(251)**	(105)	**5**	(83)	(82)
Decrease (increase) in inventory	**(261)**	155	**(136)**	101	327
Increase (decrease) in trade payables	**425**	190	**263**	(40)	255
Increase (decrease) in other payables	**(50)**	202	**21**	238	131
Cash flows provided by operating activities	**426**	214	**365**	15	518
Investing activities					
Investment in property, plant and equipment	**(122)**	(44)	**(94)**	(3)	(92)
Investments in deposits, net	**(150)**	-	**-**	-	-
Proceeds from sale of equipment	**-**	-	**-**	-	4
Disposal of subsidiary, net (Appendix A)	**-**	(77)	**-**	(77)	(77)
Cash flows used for investing activities	**(272)**	(121)	**(94)**	(80)	(165)
Financing activities					
Repayment of long-term debt	**(127)**	(129)	**(64)**	(64)	(255)
Increase (decrease) in short-term bank credit, net	**(115)**	(42)	**(37)**	85	53
Cash flows provided by (used for) financing activities	**(242)**	(171)	**(101)**	21	(202)
Increase (decrease) in cash and cash equivalents	**(88)**	(78)	**170**	(44)	151
Cash and cash equivalents at beginning of period	**828**	677	**570**	643	677
Cash and cash equivalents at end of period	**740**	599	**740**	599	828

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

Consolidated Statements of Cash Flows (cont'd)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2004	2003	2004	2003	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand	US$ thousand	US$ thousand
Appendix A - Disposal of subsidiary, net					
Cash and cash equivalents	-	(77)	-	(77)	(77)
Fixed assets and other assets	-	(7,332)	-	(7,332)	(7,332)
Trade receivable	-	(121)	-	(121)	(121)
Other receivable	-	(140)	-	(140)	(140)
Minority interest as at the date of disposal	-	3,848	-	3,848	3,848
Trade payable	-	239	-	239	239
Other payable		107	-	107	107
Long-term investment	-	348	-	348	348
Inventory	-	(419)	-	(419)	(419)
Liabilities for employee Severance pay	-	47	-	47	47
Repayment of long-term loan	-	3,500	-	3,500	3,500
Consideration of	-	-	-	-	-
Cash disposal of a subsidiary	-	77	-	77	77
Net cash outflow	-	77	-	77	77
Appendix B - Non cash activities					
Trade payables in respect of purchase of property and equipment	**27**	17	**27**	17	22
Supplementary disclosure:					
Interest paid	**24**	24	**19**	15	53

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

Note 1 - General

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992. 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 subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.

C. The Company has an accumulated deficit at June 30, 2004 of US$ 11,314 thousand. The company has considered its expected cash flows from operations, assuming current sales levels are maintained, and expects to continue to generate positive cash flows from operations. This combined with the cash and short-term deposits on hand, are expected to be sufficient to settle any repayments required of debt due until June 2005.

D The exchange rate of the U.S. dollar are as follows:

	June 30 2004	June 30 2003	December 31 2003
New Israeli Shekel	**4.497**	4.312	4.379
Euro	**0.823**	0.875	0.791

Note 2 - Financial Reporting and Accounting Policies

A. The unaudited interim financial statements comply with the recognition criteria and the measurement methods of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. The accounting conventions and accounting policies are the same as those applied in the 2003 consolidated accounts, with the exception of IFRS 3 on business combinations, which impacts the accounting treatment of all new acquisitions as from March 31, 2004 onwards.

B. The interim financial statements as at June 30, 2004 and for the periods of six months and three months then ended (the interim statements) have been prepared in a condensed form in accordance with IAS 34.

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

C. Results of operations for the six and three-month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

D. Changes in tax rates

On June 29, 2004, the Knesset passed Income Tax Ordinance Amendment (No. 140 and Temporary Order), 2004 (hereinafter – the Amendment).

The Amendment provides a gradual reduction in the company tax rate from 36% to 30% in the following manner: in 2004 the tax rate will be 35%, in the 2005 the tax rate will be 34%, in 2006 the tax rate will be 32% and from 2007 onward the tax rate will be 30%.

The Company does not recognize deferred taxes in respect to its carried forward losses for tax purposes, therefore the change has no effect on the Financial Statement.

E. Consequences from the European Union's IFRS endorsement

As an Israeli company, the Company is not affected by the European Union decision requiring EU-listed companies to present their accounts in accordance with IFRS as from 2005. However, the Company has complied with IFRS/IAS since 2001. Therefore, the Company will comply from January 1, 2005 onwards with all new IFRS and revised IASs that are effective on this date.

These standards comprise in particular IFRS 2 on share based payments, IFRS 3 on business combinations together with the consequential changes of IAS 36 on impairment of assets and IAS 38 on intangible assets, IFRS 5 on non current assets held for sale and discontinued operations as well as the revision of existing IASs such as IAS 16 on property, plant and equipment, and IAS 32 and 39 on financial instruments.

The Company believes that the adoption of these standards will not have a significant impact on the Company's financial position or result of operations.

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, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**3,272**	**1,916**	**487**	**5,675**
Segment result	**610**	**357**	**91**	**1,058**

	Six months ended June 30, 2003 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	2,784	1,344	191	4,319
Segment result	(68)	(33)	(5)	(106)

	Three months ended June 30, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**1,691**	**918**	**386**	**2,995**
Segment result	**333**	**182**	**73**	**588**

Note 3 - Operating Segments (cont'd)

	Three months ended June 30, 2003 (Unaudited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	1,474	794	65	2,333
Segment result	28	16	1	45

	Year ended December 31, 2003 (Audited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	4,740	2,675	1,070	8,485
Segment result	(86)	(48)	(19)	(153)

Note 4 - Related Parties Transactions

Until December 31, 2003, the joint general and administrative expenses (the expenses) of the Company and of Payton Technologies (a subsidiary of the parent company) were allocated 61% to the Company and 39% to Payton Technologies. Beginning from January 1, 2004, due to the increase in the business activity of the Company, the allocation was changed so that 75% of the expenses are allocated to the Company and 25% to Payton Technologies.

Note 5 - Cancellation of Tax Benefits Approval Received from the Israeli Investment Center of the Ministry of Industry and Commerce

On June 4, 2004, the Company's tax benefits approval dated May 26, 1999 was cancelled retroactively.

According to management opinion the abovementioned cancellation will have no effect on the Company's financial position or results of operations and will not generate the Company any commitments.