PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
September 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 nine months and three months periods ended on September 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 September 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 was decreased (On September 2004) to US$ 300 thousands.

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 September 30	For the year ended December 31	For the three-month period ended September 30
	2004	2003	2003
Customer A	11.4%	18.1%	17.3%
Customer B	12.2%	12.3%	14.3%
Customer C	20.1%	*	*

* Less then 10% of 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; on May 2004 in “PCIM” exhibition in Nuremberg, Germany and on November 2004 in “Electronica” exhibition in Munich, Germany, and in “POWER SYSTEMS WORLD” exhibition, in Chicago U.S.A.

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

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2004 were USD 5,488 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. It is also noted that the Order and purchase backlog of the Group as of 30.9.04 was decreased by USD 652 thousand compare to the backlog as of 30.6.04.
Management estimates that most of this current backlog will be supplied until the end of the Third quarter of 2005.

2. Financial position

A. Balance Sheet as at September 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 September 30, 2003 includes the results of operations of Payton Asia until June 30, 2003).
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 1,547 thousand at September 30, 2004 compared to USD 1,578 thousand as at December 31, 2003 and USD 1,596 thousand at September 30, 2003.
These two items remained in about the same level though as of September 30, 2004 there was an increase in long-term Bank deposit.
As of September 30, 2004 an amount of USD 300 thousands out of the Short-term deposits uses as a guaranty against current maturities of long-term loan; And an amount of USD 400 thousands at December 31,2003 and at September 30, 2003.

Trade accounts receivable, net – these amounted to USD 2,563 thousand at September 30, 2004 compared to USD 1,638 thousand as at December 31, 2003 and USD 1,280 thousand at September 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 280 thousand at September 30, 2004 compared to USD 39 thousand as at December 31, 2003 and USD 31 thousand at September 30, 2003. The increase in this item at September 30, 2004, compared with December 31, 2003 is mainly due to an increase related parties balance.

Bank deposit **–** As of September 30, 2004, these amounted to USD 250 thousands (comprised of two years time deposit).

Short-term bank credit – these amounted to USD 1,122 thousand at September 30, 2004 compared to USD 1,590 thousand as at December 31, 2003 and USD 1,604 thousand at September 30, 2003. The decrease in this item is due to decrease in short term bank credit and gradual monthly payments of short-term bank loan.
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 1,199 thousand at September 30, 2004 compared to USD 961 thousand as at December 31, 2003 and USD 788 thousand at September 30, 2003. The increase is explained by the growth in the Company's volume of operation.

Other payables - these amounted to USD 862 thousand at September 30, 2004 compared to USD 1,075 thousand as at December 31, 2003 and USD 1,069 thousand at September 30, 2003. The decrease in this item is mainly due to a decrease related parties balance.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 7-9/04	Quarter 4-6/04	Quarter 1-3/04	Quarter 10-12/03	Quarter 7-9/03
Sales revenues	3,422	2,995	2,680	2,309	1,857
Cost of sales	1,805	1,737	1,550	1,586	1,390
Gross result	*1,617*	*1,258*	*1,130*	*723*	*467*
Development costs	127	108	115	104	109
Selling & marketing expenses	258	299	263	284	197
General & administrative expenses	348	263	282	250	293
Operating profit (loss)	*884*	*588*	*470*	*85*	*(132)*
Net financial result	(19)	(35)	(2)	(24)	11
Net operating profit (loss) after financial result	*865*	*553*	*468*	*61*	*(121)*
Other income (expense)	1	-	-	5	(2)
Result before taxes on income	*866*	*553*	*468*	*66*	*(123)*
Tax (expenses) benefits	-	-	-	-	-
Result after taxes on income	*866*	*553*	*468*	*66*	*(123)*
Minority interest in losses of subsidiaries	-	-	-	-	-
Net profit (loss) for the period	*866*	*553*	*468*	*66*	*(123)*

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 September 30, 2004 were USD 3,422 thousand compared with USD 2,995 thousand in the three-month period ended June 30, 2004 (increase of 14.3%).
The Group's sales revenue for the nine-month period ended September 30, 2004 were USD 9,097 thousand compared with USD 6,176 thousand in the nine-month period ended September 30, 2003 (increase of 47.3%).

Gross result – The Group's gross result for the nine-month period ended September 30, 2004 were USD 4,005 thousand, 44.0%, compared with USD 1,844 thousand, 29.9% in the nine-month period ended September 30, 2003.
The Group's gross result for the three-month period ended September 30, 2004 were USD 1,617 thousand, 47.3%, compared with USD 1,258 thousand, 42.0% in the three-month period ended June 30, 2004.
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.

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.

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 September 30, 2004 were USD 348 thousand compared with USD 293 thousand in the three-month period ended September 30, 2003. This increase is mainly due to the fact that starting January 1, 2004:

1. There was an increase in the Parent Company joint G&A expenses.
2. The Company's participation share in these joint G&A expenses was increased from 61% to 75%.

* See also note 4 to the attached consolidated 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 **			
	September 30, 2004	**December 31, 2003**	**September 30, 2003**
Current ratio[2]	1.94	1.36	1.35
Quick ratio[3]	1.38	0.90	0.84

** See also 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 nine-month period ended September 30, 2004 amounted USD 823 thousand, compared with the cash flow provided for operating activities of USD 504 thousand for the nine-months period ended September 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 financing activities.

Cash flow used for financing activities in the nine-month period ended September 30, 2004, amounted USD 468 thousand, compared with cash flow used for financing activities of USD 188 thousand in the nine-month period ended September 30, 2003. In the nine-months period ended September 30, 2004 the cash flow used for financing activities result from repayment of long-term debt that most of it was exchanged by sort term bank credit.

[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, November 19, 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 September 30, 2004 and the related statements of income and cash flows for the nine 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 7% of the total consolidated assets as at September 30, 2004 and whose revenues constitute 9.61% and 9.02% of the total consolidated revenues for the nine 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)

November 18, 2004

Consolidated Balance Sheets

	September 30 2004	September 30 2003	December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current assets			
Cash and cash equivalents	**1,147**	846	828
Short-term deposits	**400**	750	750
Trade accounts receivable, net	**2,563**	1,280	1,638
Other accounts receivable	**280**	31	39
Inventory	**1,789**	1,775	1,694
Total current assets	**6,179**	4,682	4,949
Non-current assets			
Bank deposit	**250**	-	-
Other investment	**348**	348	348
Property, plant and equipment, net	**718**	773	738
Other assets, net	**6**	6	6
Total non-current assets	**1,322**	1,127	1,092
Total assets	**7,501**	5,809	6,041

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

Michal Lichtenstein
V.P. Finance & CFO

Rishon Le Zion, November 18, 2004

	September 30 2004	September 30 2003	December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Liabilities and Shareholders' equity			
Current liabilities			
Short-term bank credit	**1,122**	1,604	1,590
Trade payables	**1,199**	788	961
Other payables	**862**	1,069	1,075
Total current liabilities	**3,183**	3,461	3,626
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**858**	858	858
Liability for employee severance benefits, net	**147**	130	131
Total long-term liabilities	**1,005**	988	989
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**8,942**	8,942	8,942
Accumulated deficit	**(10,448)**	(12,401)	(12,335)
Total shareholders' equity	**3,313**	1,360	1,426
Total liabilities and shareholders' equity	**7,501**	5,809	6,041

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

Consolidated Statements of Income

	Nine months ended September 30		Three months ended September 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	**9,097**	6,176	**3,422**	1,857	8,485
Cost of sales	**(5,092)**	(4,332)	**(1,805)**	(1,390)	(5,918)
Gross profit	**4,005**	1,844	**1,617**	467	2,567
Development costs	**(350)**	(380)	**(127)**	(109)	(484)
Selling and marketing expenses	**(820)**	(713)	**(258)**	(197)	(997)
General and administrative expenses	**(893)**	(989)	**(348)**	(293)	(1,239)
Operating profit (loss)	**1,942**	(238)	**884**	(132)	(153)
Net financial result	**(56)**	(94)	**(19)**	11	(118)
Other income	**1**	30	**1**	(2)	35
Profit (loss) before minority interest in losses of subsidiaries	**1,887**	(302)	**866**	(123)	(236)
Minority interest in losses of subsidiaries	**-**	83	**-**	-	83
Net result for the period	**1,887**	(219)	**866**	(123)	(153)
Basic and diluted net profit (loss) per ordinary share (in US$)	**0.11**	(0.01)	**0.05**	(0.007)	(0.009)

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

Statement of Shareholders' Equity

	Share capital: Number of shares	Share capital: 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 nine month period ended September 30, 2004 (Unaudited)					
Net profit for the period (Unaudited)	**-**	**-**	**-**	**1,887**	**1,887**
Balance at September 30, 2004 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(10,448)**	**3,313**

	Share capital: Number of shares	Share capital: 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 nine month period ended September 30, 2003 (Unaudited)					
Net loss for the period (Unaudited)	-	-	-	(219)	(219)
Balance at September 30, 2003 (Unaudited)	17,600,000	4,819	8,942	(12,401)	1,360

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 July 1, 2004 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(11,314)**	**2,447**
Changes in the three months period ended September 30, 2004 (Unaudited)					
Net profit for the period (Unaudited)	**-**	**-**	**-**	**866**	**866**
Balance at September 30, 2004 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(10,448)**	**3,313**

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at July 1, 2003 (Unaudited)	17,600,000	4,819	8,942	(12,278)	1,483
Changes in the three months period ended September 30, 2003 (Unaudited)					
Net profit for the period (Unaudited)	-	-	-	(123)	(123)
Balance at September 30, 2003 (Unaudited)	17,600,000	4,819	8,942	(12,401)	1,360

	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

	Nine months ended September 30		Three months ended September 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	**1,887**	(219)	**866**	(123)	(153)
Adjustments to reconcile net income to net cash used for operating activities:					
Depreciation and amortization	**173**	247	**61**	64	307
Capital loss on sale of equipment	**-**	1	**-**	1	3
Increase in employee severance benefits, net	**16**	6	**(5)**	(7)	7
Minority interests in losses of subsidiaries	**-**	(83)	**-**	-	(83)
Gain from issue of shares of a subsidiary	**-**	(14)	**-**	-	(14)
Decrease (increase) in trade receivables	**(925)**	178	**(334)**	409	(180)
Decrease (increase) in other accounts receivable	**(241)**	(74)	**10**	31	(82)
Decrease (increase) in inventory	**(95)**	246	**166**	91	327
Increase (decrease) in trade payables	**221**	91	**(204)**	(99)	255
Increase (decrease) in other payables	**(213)**	125	**(163)**	(77)	131
Cash flows provided by operating activities	**823**	504	**397**	290	518
Investing activities					
Investment in property, plant and equipment	**(143)**	(70)	**(21)**	(26)	(92)
Investments in deposits, net	**100**	-	**250**	-	-
Proceeds from sale of equipment	**7**	-	**7**	-	4
Disposal of subsidiary, net (Appendix A)	**-**	(77)	**-**	-	(77)
Cash flows provided by (used for) investing activities	**(36)**	(147)	**236**	(26)	(165)
Financing activities					
Repayment of long-term debt	**(1,248)**	(192)	**(1,121)**	(63)	(255)
Increase in short-term bank credit, net	**780**	4	**895**	46	53
Cash flows used for financing activities	**(468)**	(188)	**(226)**	(17)	(202)
Increase in cash and cash equivalents	**319**	169	**407**	247	151
Cash and cash equivalents at beginning of period	**828**	677	**740**	599	677
Cash and cash equivalents at end of period	**1,147**	846	**1,147**	846	828

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

Consolidated Statements of Cash Flows (cont'd)

	Nine months ended September 30		Three months ended September 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)
Fixed assets and other assets	-	(7,332)	-	-	(7,332)
Trade receivable	-	(121)	-	-	(121)
Other receivable	-	(140)	-	-	(140)
Minority interest as at the date of disposal	-	3,848	-	-	3,848
Trade payable	-	239	-	-	239
Other payable	-	107	-	-	107
Long-term investment	-	348	-	-	348
Long-term liabilities	-	-	-	-	-
Inventory	-	(419)	-	-	(419)
Liabilities for employee Severance pay	-	47	-	-	47
Repayment of long-term loan	-	3,500	-	-	3,500
Consideration of	-	-	-	-	-
Cash disposal of a subsidiary	-	77	-	-	77
Net cash outflow	-	77	-	-	77
Appendix B - Non cash activities					
Trade payables in respect of purchase of property and equipment	**17**	13	**10**	(4)	22
			3		
Supplementary disclosure:					
Interest paid	**37**	41	**13**	17	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 September 30, 2004 of US$ 10,448 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 September 2005.

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

	September 30 2004	**September 30 2003**	**December 31 2003**
New Israeli Shekel	**4.482**	4.441	4.379
Euro	**0.81**	0.86	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 September 30, 2004 and for the periods of nine months and three months then ended (the interim statements) have been prepared in a condensed form in accordance with IAS 34.

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

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

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 of 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 results 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.

	Nine months ended September 30, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	5,122	2,651	1,324	9,097
Segment result	1,094	566	282	1,942

	Nine months ended September 30, 2003 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	3,458	1,899	819	6,176
Segment result	(133)	(73)	(32)	(238)

	Three months ended September 30, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**1,850**	**735**	**837**	**3,422**
Segment result	**484**	**209**	**191**	**884**

Note 3 - Operating Segments (cont'd)

	Three months ended September 30, 2003 (Unaudited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	1,079	554	224	1,857
Segment result	(77)	(39)	(16)	(132)

	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’s 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.