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, 2003 (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 period ended on June 30, 2003.

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"), Payton Asia Planar Magnetics Ltd. ("Payton Asia")- Starting 30.6.03 was no longer a consolidated subsidiary, see hereunder - paragraph B.

B. The Group's main fields of activity and changes that occurred in the period from January to June 2003

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 on the Euro.NM (Today Euronext Stock exchange).

Payton Asia

On March 13, 2003, due to on going delays with regard to the formal registration of the real estate on the name of Payton Asia, and according to a board resolution, Payton Asia issued a demanding letter to the Sellers demanding immediate transfer of the title of the real estate.

On May 28, 2003, after receiving sellers answer that "due to the world economic recession" they are short of financial resources needed in order to finalize the title transfer, the Company decided to materialize its right to pay back the loan in the amount of $ 3.5 million, by the shares of Payton Asia issued to the company against said amount, at cost price.

On July 1, 2003 (effective from June 30, 2003) the Company executed an agreement regarding the return of the loan, as result the Company share holding in Payton Asia is reduced to 10.7%

The company engaged a local law firm in Taiwan in order to handle the formal legal procedures needed with this respect.

In the financial statements attached the consolidated statement of operations includes the results of operations of Payton Asia until June 30, 2003, whereas the assets and liabilities as at June 30, 2003 are not included in the consolidated balance sheet. The balance of the investment in Payton Asia (10.7%) was stated in the financial statements under the category of long-term investments.

The production volume of the Taichung facility (Taiwan) in the First and second quarter of 2003 remained about the same which was lower than the average quarterly production volume of 2002.

Payton America

On June 23, 2003 the employment agreement of Payton America's Vice President & C.E.O Mr. Alex Estrov expired. Mr. Jim Marinos, Payton America's Marketing and Application Director was promoted to be the Executive Vice President Marketing &Engineering of Payton America.

[1] The financial statements as at June 30, 2003 form an integral part thereof.

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
	2003	2002	2002
Customer A	17.7%	13.4%	10.8%
Customer B	*	12.5%	11.3%
Customer C	*	12.4%	*
Customer D	*	*	11.3%

* Less then 10% the Company's consolidated sales

D. Marketing

On February 2003 the Company participated in "APEC" exhibition in Florida, U.S.A and on May 2003 in "PCIM" exhibition in Nuremberg, Germany.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of June 30, 2003 were USD 3,734 thousand (December 31, 2002 totaled USD 4,500 thousand). This backlog is composed of both firm orders, frame purchase orders and operating rolling forecast. The decrease in the backlog is the result of a short lead-time orders policy implemented by customers and by termination of projects. Management estimates that most of this current backlog will be supplied until the second quarter of year 2004.

2. Financial position

A. Balance Sheet as at June 30, 2003.

Cash and cash equivalents – these amounted to USD 599 thousand at June 30, 2003 compared to USD 677 thousand as at December 31, 2002 and USD 969 thousand at June 30, 2002
The decrease in cash and cash equivalents at June 30, 2003, compared with June 30,2002 is mainly due to cash consumption and to increase in long-term deposits.

Short-term Deposit – As of June 30, 2003, most of the deposit is used as a guaranty against short-term credit taken from a Bank.

Inventory – Total of USD 1,866 thousand at June 30, 2003 compared with USD 2,440 thousand as at December 31, 2002 and USD 2,990 thousand at June 30, 2002. The decrease in this item is mainly due to the following: inventory consumption, slow-moving inventory write-offs and application of more cautious and efficient inventory maintenance and purchase policies.

Long-term bank deposit – As of June 30, 2003 these amounted to USD 400 thousands and is used as a guaranty against long-term loan.

Other Investment – As of June 30, 2003 this item represent the 10.7% investment in the Company's former subsidiary – Payton Asia.

Property, plant and equipment, net – On June 30, 2003, due to the return of the loan (see paragraph 1B above), the Company share holding in Payton Asia was reduced to 10.7%, and Payton Asia's assets including USD 7,327 thousands representing land and buildings were not consolidated in the Company's financial statements.

Other assets – The decrease in this item compared with June 30, 2002, resulted from the write-off of the balance of goodwill, aroused from the acquisition of MTC amortized in the third quarter of 2002.

Sort-term Bank Credit and current maturities of long-term debts - these amounted to USD 500 thousand at June 30, 2003 compared with USD 544 thousand at December 31, 2002 and USD 383 thousand at June 30, 2002. The increase in this item compared with June 30, 2002 is mainly due to the change in the payment terms of the credit facility taken from a bank. According to the new payment terms originally US$ 400 thousands (as of 30.6.03 remaining of US$ 280 thousands) were to be paid gradually by July 2004, out of this amount US$ 240 thousands (as of 30.6.03 remaining of US$ 120 thousands) to be paid gradually by the end of 2003.

Other Payables - Total of USD 1,146 thousand at June 30, 2003 compared with USD 1,066 thousand at December 31, 2002 and with USD 1,815 thousand as at June 30, 2002. The decrease compared with June 30, 2002, is mainly due to USD 550 thousand decrease in other payable (related parties in Payton Asia) as result of final payment made against the real estate purchase.

Long-term debts, net of current maturities- Total of USD 1,121 thousand at June 30, 2003 compared with USD 4,748 thousand at December 31, 2002 and with USD 5,000 thousand as at June 30, 2002. The decrease in this item is mainly explained by the fact that on July 1, 2003 (effective from June 30, 2003) the Company executed an agreement regarding the return of the loan received from related parties of Payton Asia. According to the terms of the agreement the payback of the loan in its original value of USD 3.5 million was effected by providing the amount in Payton Asia shares accounted at their cost price (see paragraph 1B above).

Minority interest in consolidated subsidiaries – On June 30, 2003 the Company share holding in Payton Asia was reduced from 50% to 10.7% and it is no longer consolidated in the Company's financial statements.

C. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 4-6/03	Quarter 1-3/03	Quarter 10-12/02	Quarter 7-9/02	Quarter 4-6/02
Sales revenues	2,333	1,986	1,876	2,253	2,031
Cost of sales	1,509	1,433	1,407	*1,683*	*1,526*
Gross result	*824*	*553*	*469*	*570*	*505*
Development costs	140	131	129	137	110
Selling & marketing expenses	270	246	248	253	244
General & administrative expenses	369	327	313	1,704	400
Operating profit (loss)	*45*	*(151)*	*(221)*	*(1,524)*	*(249)*
Net financial result	(96)	(9)	(54)	18	58
Net operating loss after financial result	*(51)*	*(160)*	*(275)*	*(1,506)*	*(191)*
Issue of share capital in a consolidated subsidiary & Other income	14	18	24	9	10
Result before Minority interest in losses of subsidiaries	*(37)*	*(142)*	*(251)*	*(1,497)*	*(181)*
Minority interest in losses of subsidiaries	64	19	33	5	32
Net profit (loss) for the period	*27*	*(123)*	*(218)*	*(1,492)*	*(149)*

The Group's sales revenue for the three-month period ended June 30, 2003 were USD 2,333 thousand compared with USD 1,986 thousand in the three-month period ended March 31, 2003 (increase of 17.4%).

The Group's sales revenue for the six-month period ended June 30, 2003 were USD 4,319 thousand compared with USD 3,663 thousand in the six-month period ended June 30, 2002 (increase of 17.9%).

Gross result – The Group's gross result for the three-month period ended June 30, 2003 were USD 824 thousand, 35.3%, compared with USD 553 thousand, 27.8% in the three-month period ended March 31, 2003.
The Group's gross result for the six-month period ended June 30, 2003 were USD 1,377 thousand, 31.9%, compared with USD 548 thousand, 15.0% in the six-month period ended June 30, 2002.

The improvement in the gross results between the aforementioned periods attributed mainly due to cost of sales reduction achieved mainly through improved efficiency in material consumption and in labor costs while maintaining the other cost of sales components at about the same proportions.

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. 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 for distribution 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. There were no material changes in the group's Selling & marketing expenses between the above-presented quarters.

General & Administrative expenses – The Group's General & Administrative expenses for the three-month period ended June 30, 2003 were USD 369 thousand compared with USD 327 thousand in the three-month period ended March 31, 2003, and with USD 400 thousand in the three-month period ended June 30, 2002.
It is noted that in the third quarter of 2002 Company wrote-off the remaining balance of goodwill arose from the acquisition of it's subsidiary's in America amounting US$ 1.3 million and this explains the high General & Administrative expenses during said quarter.

Net financial result –The Group's Net financial result for the three-month period ended June 30, 2003 were USD 96 thousand, compared with USD 9 thousand in the three-month period ended March 31, 2003. This increase resulted mainly due to the exposure of the net liabilities in New Israeli Shekel ("NIS") to the erosion of NIS in relation to the USD.

3. <u>Liquidity</u>

A. <u>Liquidity Ratios</u>

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

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	June 30, 2003	**December, 2002**	**June 30, 2002**
Current ratio[2]	1.80	2.01	2.00
Quick ratio[3]	1.06	1.06	1.11

B. Cash flow provided by operating activities

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

Cash flow provided by operating activities for the six-month period ended June 30, 2003 amounted USD 214 thousand, compared with the use of cash flow for operating activities of USD 690 thousand for the six-months period ended June 30, 2002. This Increase in Cash flow provided by operating activities resulted mainly of a decrease in the net loss for the period. In addition to the losses decrease 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, 2003, amounted USD 121 thousand, compared with cash flow used for investment activities of USD 407 thousand in the six-month period ended June 30, 2002. Most of the cash flow used for investing activities in the six-months period ended June 30, 2003 result from cash Reduction due to changes in holding in subsidiary company (Payton Asia) which became affiliated company.
Most of the cash flow used for investing activities in the six-months period ended June 30, 2002 result from investment in property, plant & equipment and in short-term deposit.

D. Cash flow used for financing activity

Cash flow used for financing activity for the six-month period ended June 30, 2003, amounted USD 171 thousand, compared with Cash flow provided by financing activity of USD 65 thousand, in the six-month period ended June 30, 2002. This change in cash flow used for financing activity resulted mostly from the decrease in short-term bank credit.

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from credit facilities taken from banks.

5. External factors effects

The global recession in the High-Tech industries especially the telecommunication industry, which is one of Payton's important operating markets, is still relevant. Some of Payton's major customers that operate in Europe and in the U.S. are being affected as a result of this recessions and thus influence Payton's volume of operation.
The end of the global slowdown is hard to foresee, as a result the whole market is more cautious.
Management cannot foresee the financial effect of this global scaling-down.

To the best of the Board of Directors' and management's knowledge, except the above mentioned external factors, 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 26, 2003.

Somekh Chaikin

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

We have reviewed the accompanying consolidated balance sheets of Payton Planar Magnetics Ltd. As at June 30, 2003 and the related statements 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 reports of other auditors, regarding the interim financial statements of certain subsidiaries whose assets constitute 6.6% of the total consolidated assets as at June 30, 2003 and whose revenues constitute 17.64% and 19.05% 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 reports of other auditors 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 Accounting Standards.

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

August 26, 2003

Consolidated Balance Sheets

	June 30 2003	June 30 2002	December 31 2002
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand
Current Assets			
Cash and cash equivalents	**599**	969	677
Short-term deposit	**350**	597	350
Trade accounts receivable, net	**1,689**	1,569	1,579
Other accounts receivable	**62**	638	98
Inventory	**1,866**	2,990	2,440
Total current assets	**4,566**	6,763	5,144
Long-term bank deposit	**400**	-	400
Other investment (Note 3)	**348**	-	-
Property, plant and equipment, net	**816**	8,469	8,289
Other assets, net	**6**	1,412	16
Total assets	**6,136**	16,644	13,849

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

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Michal Lichtenstein
V.P. Finance & CFO

Rishon Le Zion: August 26, 2003

	June 30 2003	June 30 2002	December 31 2002
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand
Current liabilities			
Short-term bank credit and current maturities of long-term bank debt	**500**	383	544
Trade payables	**891**	1,187	952
Other payables	**1,146**	1,815	1,066
Total current liabilities	**2,537**	3,385	2,562
Unrealized gain from issue of share capital in a subsidiary company	**-**	14	-
Loan from Payton Industries Ltd. - parent company	**858**	858	858
Long-term debt, net of current maturities	**1,121**	5,000	4,748
Liability for employee severance benefits, net	**137**	129	171
Total long-term liabilities	**2,116**	6,001	5,777
Minority interest in consolidated subsidiaries	**-**	3,969	3,931
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**8,942**	8,942	8,942
Accumulated deficit	**(12,278)**	(10,472)	(12,182)
Total shareholders' equity	**1,483**	3,289	1,579
Total liabilities and shareholders' equity	**6,136**	16,644	13,849

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

Consolidated Statements of Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2003	2002	2003	2002	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand	US$ thousand	US$ thousand
Sales revenues	**4,319**	3,663	**2,333**	2,031	7,792
Cost of sales	**(2,942)**	(3,115)	**(1,509)**	(1,526)	(6,205)
Gross result	**1,377**	548	**824**	505	1,587
Development costs	**(271)**	(243)	**(140)**	(110)	(509)
Selling and marketing expenses	**(516)**	(463)	**(270)**	(244)	(964)
General and administrative expenses	**(696)**	(783)	**(369)**	(400)	(2,800)
Operating result	**(106)**	(941)	**45**	(249)	(2,686)
Net financial result	**(105)**	91	**(96)**	58	55
Other income	**32**	21	**14**	10	54
Loss before minority interest in losses of subsidiaries	**(179)**	(829)	**(37)**	(181)	(2,577)
Minority interest in losses of subsidiaries	**83**	110	**64**	32	148
Net result for the period	**(96)**	(719)	**27**	(149)	(2,429)
Basic and diluted net profit (loss) per ordinary share (in US$)	**(0.005)**	(0.04)	**0.002**	(0.01)	(0.14)

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

Statement of Shareholders' Equity

	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**
Net loss for the period	**-**	**-**	**-**	**(96)**	**(96)**
Balance at June 30, 2003 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(12,278)**	**1,483**
Balance at January 1, 2002 (Audited)	17,600,000	4,819	8,942	(9,753)	4,008
Net loss for the period	-	-	-	(719)	(719)
Balance at June 30, 2002 (Unaudited)	17,600,000	4,819	8,942	(10,472)	3,289
Balance at April 1, 2003 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(12,305)**	**1,456**
Net profit for the period	**-**	**-**	**-**	**27**	**27**
Balance at June 30, 2003 (Unaudited)	**17,600,000**	**4,819**	**8,942**	**(12,278)**	**1,483**
Balance at April 1, 2002 (Unaudited)	17,600,000	4,819	8,942	(10,323)	3,438
Net loss for the period	-	-	-	(149)	(149)
Balance at June 30, 2002 (Unaudited)	17,600,000	4,819	8,942	(10,472)	3,289
Balance at January 1, 2002 (Audited)	17,600,000	4,819	8,942	(9,753)	4,008
Net loss for the year	-	-	-	(2,429)	(2,429)
Balance at December 31, 2002 (Audited)	17,600,000	4,819	8,942	(12,182)	1,579

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

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2003	**2002**	**2003**	**2002**	**2002**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	US$ thousand	**US$ thousand**	**US$ thousand**	**US$ thousand**	**US$ thousand**
Operating activities					
Net result for the period	**(96)**	(719)	**27**	(149)	(2,429)
Adjustments to reconcile net income to net cash used for operating activities:					
Depreciation and amortization	**183**	287	**104**	142	1,915
Capital loss (gain) on sale of equipment	**-**	(4)	**-**	-	4
Increase (decrease) in employee severance benefits, net	**13**	(12)	**11**	2	30
Translation gain on long - term debt	**-**	(5)	**-**	(1)	(4)
Minority interests in losses of subsidiaries	**(83)**	(110)	**(64)**	(32)	(148)
Gain from issue of shares of a subsidiary	**(14)**	(14)	**(7)**	(7)	(28)
Loss from short term investments	**-**	2	**-**	-	2
Increase in trade receivables	**(231)**	(42)	**(272)**	(333)	(52)
Decrease (increase) in other accounts receivable	**(105)**	(538)	**(83)**	(560)	2
Decrease in inventory	**155**	456	**101**	141	1,006
Increase (decrease) in trade payables	**190**	24	**(40)**	151	(215)
(Decrease) increase in other payables	**202**	(15)	**238**	31	(764)
Cash flows provided by (used for) operating activities	**214**	(690)	**15**	(615)	(681)
Investing activities					
Long-term deposit	**-**	-	**-**	-	(400)
Investment in property, plant and equipment	**(44)**	(169)	**(3)**	(135)	(216)
Short-term deposit	**-**	(247)	**-**	-	-
Proceeds from sale of equipment	**-**	9	**-**	-	-
Disposal of subsidiary, net (Appendix A)	**(77)**	-	**(77)**	-	-
Cash flows used for investing activities	**(121)**	(407)	**(80)**	(135)	(616)
Financing activities					
Repayment of long-term debt	**(129)**	(145)	**(64)**	(72)	(185)
Increase (decrease) in short-term bank credit	**(42)**	210	**85**	24	158
Cash flows provided by (used for) financing activities	**(171)**	65	**21**	(48)	(27)
Decrease in cash and cash equivalents	**(78)**	(1,032)	**(44)**	(798)	(1,324)
Cash and cash equivalents at beginning of period	**677**	2,001	**643**	1,767	2,001
Cash and cash equivalents at end of period	**599**	969	**599**	969	677

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

Consolidated Statements of Cash Flows (cont'd)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2003	**2002**	**2003**	**2002**	**2002**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	US$ thousand	**US$ thousand**	**US$ thousand**	**US$ thousand**	**US$ thousand**
Appendix A - Disposal of subsidiary, net (see Note 3)					
Working capital, excluding cash and cash equivalents	**334**	-	**334**	-	-
Fixed assets and other assets	**7,332**	-	**7,332**	-	-
Long-term liabilities	**(3,547)**	-	**(3,547)**	-	-
Minority interest as at the date of the sale	**(3,848)**	-	**(3,848)**	-	-
Long-term investment	**(348)**	-	**(348)**	-	-
	(77)	-	**(77)**	-	-
Appendix B - Non cash activities					
Purchase of property and equipment	17	25	17	25	29
Supplementary disclosure:					
Interest paid	24	34	15	20	67

The accompanying notes are an integral part of the 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, 2003 of $ 12,278 thousand. Based on forecast, the Company expects that its future cash flows and working capital requirements will be satisfied through its existing cash, short-term deposits and revenue generation.

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 2002 consolidated accounts.

B. The interim financial statements as at June 30, 2003 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 accepted accounting principles related to the preparation of interim financial statements.

C. Results of operations for the six and three month periods ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

Note 3 - Changes in Holding in a Subsidiary and Ceasing of Consolidation

On July 1, 2003 (effective from June 30, 2003), the Company executed an agreement regarding the return of the loan in the amount of US$ 3.5 million (according to the loan agreement dated august 17, 2000).
According to this agreement, the pay-off of the said loan is done by the shares of Payton Asia (a subsidiary) issued to the Company against said amount, at cost price.

Due to the return of the loan, as mentioned above, the Company's share holding in Payton Asia is reduced to 10.7%. Therefore, the consolidated statement of operations includes the results of operations of Payton Asia until June 30, 2003, whereas the assets and liabilities as at June 30, 2003 are not included in the consolidated balance sheet. The balance of the investment in Payton Asia was stated in the financial statements under the category of long-term investments according to the cost method.

Henceforth Payton Asia's data as included in its previous consolidated financial statements:

	As for the date of ceasing consolidation	Six months ended June 30 2002	Year ended December 31 2002
	US$ thousand	US$ thousand	US$ thousand
Balance sheet			
Cash and cash equivalents	77	26	24
Trade accounts receivables, net	122	105	106
Other accounts receivables	140	696	312
Inventory	419	516	386
Fixed assets, net	7,327	7,453	7,367
Other assets, net	5	5	5
Trade payables	(239)	(181)	(215)
Other payables	(108)	(654)	(75)
Minority interest	(3,848)	(3,969)	(3,931)
Long-term liabilities	(47)	(28)	(47)
Statement of income			
Sales revenue	191	147	321
Net loss	167	220	296
The Company's share in net loss	83	110	148

Note 4 - 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 segment based on location of customers.

	Six months ended June 30, 2003 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US$ thousands	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, 2003 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	1,469	794	65	-	2,333
Segment result	29	16	1	-	45

	Year ended December 31, 2002 (Audited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues*	5,906	1,562	324	-	7,792
Segment result*	(894)	(236)	(49)	(1,507)	(2,686)

* Reclassified

Note 4 - Operating Segments (cont'd)

	Six months ended June 30, 2002 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues*	3,001	504	158	-	3,663
Segment result*	(771)	129)	(41)	-	(941)

	Three months ended June 30, 2002 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues*	1,721	209	101	-	2,031
Segment result*	(211)	(26)	(12)	-	(249)

* Reclassified