Unitronics (1989)(R"G) LTD.

Quarterly Report as of June 30, 2005

Financial Statements included in this report have been prepared in accordance with Israeli GAAP (Generally Accepted Accounting Principles)

Note: The Company's accounts are administered in NIS. All figures for all periods specified in this report were translated for convenience at the same exchange rate of the EUR against the NIS (New Israeli Shekel) as of June 30, 2005 (1 EUR = 5.5270 NIS).

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This Report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, estimations, assessments, expectations or other information pertaining to future events or issues, the occurrence of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used herein. Although such information is based on data available to the Company as of the date of the Report, and reflects the Company's intents and estimates as of such date, the actual occurrences and/or results may vary substantially from those presented in the Report or implied therefrom as projected or anticipated since their occurrence is subject, *inter alia*, to uncertainties and other factors beyond the Company's control as set out in this Report below.

CHAPTER A – PREFACE

1. General

Company's Name:	Unitronics (1989) (R"G) Ltd. (hereinafter: the "**Company**" or "**Unitronics**")
Company No.:	520044199
Address:	Unitronics House, Arava Street, Airport City, P.O.B. 300, Israel 70100
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2. Description of the Company and its business environment

Unitronics is engaged through its Products Department in design, development, production, marketing, and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "**controllers**" or "**PLCs**"). Controllers are computer based electronic products (hardware and software) which serve for control and supervision of industrial manufacturing, storage, retrieval and logistics systems and machines. The Company is also engaged, through its Systems Department, in planning service, establishment service, and maintenance service in the framework of projects for mechanization, computerization and integration of computerized production and/or logistic systems, mainly automatic warehouses.

The Company's PLCs are distributed through over one hundred distributors (and a wholly-owned subsidiary) in about fifty countries throughout Europe, Asia, America and Africa, and the services of the Systems Department are provided mainly to customers in Israel, and in a few cases, also outside Israel.

The Company operates from facilities at "Unitronics Building", an offices and industrial building part of which is leased by the Company. Unitronics Building is located at Airport City which is adjacent to Israel's Ben-Gurion Airport, and the offices of the Company and all the rest of its facilities in Israel are located there.

Since May 2004, the shares of the Company are traded on the Tel Aviv stock exchange (based on a prospectus published in May 2004 – hereafter the "Israeli prospectus"), and since September 1999 in Brussels, Belgium, (first on the EuroNM Stock Exchange and since year 2000 on the EuroNext Stock Exchange).

3. Main Events in the Period of the Report and prior to its Publishing

3.1 Contract to supply automated logistic system to a large food company in Israel

Unitronics executed an agreement with a large food company which is part of the Sunfrost / Tnuva group in Israel (the "Client"), for the planning, supply and installation of an automated logistic system which includes and automated frozen storage system, control apparatus and software, to be installed at the Client's facility in Gan-Yavne, Israel. Such unattended unique system operates automatically under very low temperatures that do not tolerate human presence.

Pursuant to the Agreement, the system to be installed in the Project will be based upon Unitronics' PLCs, other control software tools developed by Unitronics as well as other components and elements to be supplied and installed by certain subcontractors. In consideration the Client undertook to pay Unitronics a total amount of approximately 1.1 million Euro (about NIS 6.5 million), including V.A.T subject to the achievement of certain milestones. The Agreement also provides that in order to secure its obligations under the Agreement, Unitronics will provide certain guaranties, which are to be released in portions according to the progress of the work on the Project. The project is targeted for completion in the fourth quarter of 2006.

3.2 Legal Procedures

Unitronics encountered a conflict with IMO Jeambrun Automation SAS (hereafter "IMO") in France that acquired in August 2004 the business activities of Unitronics' exclusive distributor in France, following its insolvency declaration.

In April 2005, Unitronics appealed to the Israeli court to appoint an arbitrator in order to check IMO's claims regarding the termination of the agreement between the companies following a six months advanced termination notice. In addition the Company appealed for and was granted a permission for service of process outside Israel's territory. IMO appealed to cancel such permission for service and this matter is expected to be addressed by the court in the coming months. Since no response has been received as of yet to the essence of Unitronics' claims, and since no witnesses have been questioned, the merits of this procedure can not be currently estimated.

Following the appeal in Israel to appoint an arbitrator, IMO filed in France two lawsuits against the Company:

- A first lawsuit requesting to enforce the delivery of products – a lawsuit that was rejected by the French court pursuant to a rapid procedure in a sentence from June 7th 2005 (IMO appealed on this matter, and a court session for such matter has not been set as of yet).
- The second lawsuit is a monetary claim in excess of one million Euro, claiming unfair competition. No court session has yet been set for this claim. Due to the complexity of this matter, the merits of such claim can not be estimated as of yet.

3.3 Government Benefits

Approved Enterprise

The Company reported within the Israeli Prospectus, that in January 2003, it received approval for an investment plan in the alternative investments course, in accordance with the Encouragement of Investments Law. In accordance with the approval, and subject to the fulfillment of the terms set out in the approval (in brief, financing of at least 30% of the investments in fixed assets shall be carried out by additional paid up share capital, compliance with the intellectual property laws and the submission of reports to the Investments Center and to the Assessment Officer in accordance with the law) the company shall be entitled to tax benefits in accordance with clause 51 of the Encouragement of Capital Investments Law, 5719-1959 (for details of the plan and its tax benefits aspects, see clauses 6.11.1 and 6.14.1 of the prospectus).

After the reported period, in August 2005, the Company filed a final execution report for such plan. According to this report, the requested starting year (the base year for the benefits period) is the year 2004, and the Company reported completion till the end of 2004 of essentially all of the investment plan (about 99%) amounting to approximately NIS 1,257 thousand (about EUR 227 thousand) only in production equipment. The Company also reported that during the year 2004 its revenues increased by approximately NIS 20 million (about EUR 3.6 million) as compared to the year 2003 (growth rate of about 38% according to the VAT reports). Up to the publication of this periodic report, the Company did not receive a statement approving that it complied with the plans' terms and conditions.

Chief Scientist

The Company reported within the Israeli Prospectus that in year 2003 it applied for a grant – financing for the research and development plans of the Company in accordance with the Encouragement of Research and Development in Industry Law, for the development of the WilCo™ series of controllers. A final execution report has been filed in November 2004.

During the reported period, the Company received from the office of the Chief Scientist at the Ministry of Trade and Industry, a final account statement for this R&D plan, stating that the Company has an un-used outstanding credit of about NIS 40 thousand (about EUR 7.2 thousand), that was actually paid during the reported period. In total, a sum of about NIS 657 thousand (approximately EUR 119 thousand) has been paid to Unitronics in the framework of this plan (about 40% government participation from the actual use of the approved plan of about NIS 1,644 thousand - about EUR 297 thousand). The net research and development expense items during the plan incorporated a deduction of the participation of the Chief Scientist.

3.4 Company's position regarding internal auditing of the Institute of CPAs

In August 11th, 2005 the Company's board of directors reviewed the decision of the institute of Certified Public Accountants in Israel to establish a "member's auditing institute" that will control and audit CPA offices, and reviewed also the possibility that the Company may be requested to cooperate with such institute in the framework of a representative sample and to provide documents related to the auditing procedures performed, which are in the possession of the Company's CPA.

Although no request to provide documents has yet been received by the Company from the "member's auditing institute", and in light of the importance of such matter, the board of directors decided that should the Company be requested by the "member's auditing institute" to participate in such review and provide documents which are in the possession of the Company's CPA related to the Company's accounting audit, the Company will comply with such request, subject to compliance with non disclosure requirements in respect with said documents. .

CHAPTER B – BOARD OF DIRECTORS REPORT

1. The Financial Status

Assets

The total assets according to the consolidated balance sheet of the Company as of June 30, 2005 amounted to approximately NIS 89,259 thousand (about EUR 16,150 thousand) as compared to approximately NIS 93,986 thousand (about EUR 17,005 thousand) as of December 31, 2004. This change is mainly attributable to the decrease in the cash and cash equivalents items, the accounts receivable (trade) and the inventory items, as specified below.

In the total of the cash, cash equivalents and marketable securities items, a decrease was registered, amounting to approximately NIS 47,259 thousand (about EUR 8,551 thousand) as of June 30, 2005 compared to approximately NIS 49,083 thousand (about EUR 8,881 thousand) as of December 31, 2004. This change is mainly attributable to a negative cash flow from operating activities resulting mainly from the decrease in accounts payable (trade and other) items and a decrease in the accounts payable (other) items, after deducting the decrease in the inventory item, as specified below.

In the accounts receivable (trade) item, a decrease was registered from approximately NIS 6,862 thousand (about EUR 1,242 thousand) as of December 31, 2004 to approximately NIS 5,762 thousand (about EUR 1,043 thousand) as of June 30, 2005. This decrease is mainly attributable to the decrease in the accounts receivable from the Company's systems' activities resulting from performance of existing and new projects from the beginning of year 2005.

A decrease of about 23% was registered in the inventory item, from an amount of approximately NIS 9,785 thousand (about EUR 1,770 thousand) as of December 31, 2004 to approximately NIS 7,549 thousand (about EUR 1,366 thousand) as of June 30, 2005. The decrease is mainly attributable to a continual improvement in the Company's procurement procedures and production planning, according to the Company's policy.

Other assets as of June 30, 2005 amounted to approximately NIS 3,774 thousand (about EUR 683 thousand), as compared to NIS 4,157 thousand (about EUR 752 thousand) as of December 31, 2004, attributable mainly to deferred issuance expenses in connection with the convertible debentures issued to the public in accordance with the Israeli prospectus.

Liabilities

The aggregate short term credit amounted to approximately NIS 1,112 thousand (about EUR 201 thousand) as of June 30, 2005, as compared to NIS 1,127 thousand (about EUR 204 thousand) as December 31, 2004, and is mainly attributable to current maturities of long-term debts. As described in the Israeli Prospectus, a credit facility has been made available for the Company, for financing the acquisition of rights in "Unitronics Building" facility. According to the terms of the long term loans provided within this credit framework, the maturity of some loans – which principal amounts to approximately NIS 6.3 million (about EUR 1.1 million) – in July 30th 2006. Therefore, such amount may be considered as short term credit (instead of long term credit) as of the next periodic report[1].

Accounts payable (trade) amounted as of June 30, 2005 to NIS 10,105 thousand (about

[1] The information concerning the expected growth in short term credit is forward-looking information. The primary data which served as the basis for this information are financing terms agreed between the Company and the bank as described in clause 6.13.2 of the Israeli Prospectus, and the lack of an alternative financing plan. The main factors likely to prevent this information from being implemented are the possible existence of an alternative financing plan or a rescheduling of the long term debt in a way that will not require repayment of all the above mentioned sum on this date.

EUR 1,828 thousand) as compared to NIS 13,730 thousand (about EUR 2,484 thousand) as of December 31, 2004. The decrease results mainly from the decrease in the accounts payable in connection with the Company's systems' activities, resulting from performance of existing and new projects from the beginning of year 2005.

Accounts payable (other) amounted as of June 30, 2005 to NIS 5,693 thousand (about EUR 1,030 thousand) as compared to NIS 7,895 thousand (about EUR 1,428 thousand) as of December 31, 2004. This decrease results mainly from a decrease in the accrued expenses and the prepaid income items, within the activities of the Company's systems division.

No significant change was registered in the long-term liabilities, amounting to NIS 50,595 thousand (about EUR 9,154 thousand) as of June 30, 2005 as compared to NIS 50,619 thousand (about EUR 9,158 thousand) as of December 31, 2004.

The working capital of the Company amounted to approximately NIS 46,023 thousand (about EUR 8,327 thousand) as of June 30, 2005 as compared to approximately NIS 44,324 thousand (about EUR 8,020 thousand) as of December 31, 2004. This increase results mainly from the net profit of the Company in the reported period, as described below.

The Company's shareholders equity as of June 30, 2005 increased to approximately NIS 21,754 thousand (about EUR 3,936 thousand), as compared to approximately NIS 20,615 thousand (about EUR 3,730 thousand) as of December 31, 2004. This increase arises mainly from the net profit of the Company in the reported period, as described below.

2. Operating Results

Revenues

The Company's revenues for the first half of year 2005 amounted to approximately NIS 39,840 thousand (about EUR 7,208 thousand) as compared to approximately NIS 28,084 thousand (about EUR 5,081 thousand) in the corresponding period of 2004 (an increase of approximately 42%). The Company's revenues for the three months period ended June 30, 2005 amounted to approximately NIS 20,214 thousand (about EUR 3,657 thousand) as compared to approximately NIS 14,607 thousand (about EUR 2,643 thousand) in the corresponding period of 2004 (an increase of approximately 38%). The continued increase in revenues in the last fourteen quarters results mainly, according to Company, from the following factors:

- Continued market recognition in the Company's new generation products. The majority of these products have been developed during the course of the last five years and new models have been released every year.
- Marketing efforts primarily in the United States, intended to enhance the market penetration and the products recognition.
- Increased involvement of the Company in integration activities in the framework of the systems department.

The revenues from the Company products' activities in the three months period ended June 30, 2005 amounted to approximately NIS 9,088 thousand (about EUR 1,644 thousand) and constituted approximately 45% of the total revenues of the Company in this quarter whereas the revenues from its systems' activities in the same period amounted to approximately NIS 10,946 thousand (about EUR 1,980 thousand) and constituted approximately 54% of the total revenues. In the contemporaneous quarter in the year 2004, the revenues from products' activities amounted to approximately NIS 7,270 thousand (about EUR 1,315 thousand) and constituted 50% of the total revenues of the Company in such quarter whilst the revenues from systems' activities in the same period amounted to approximately NIS 7,137 thousand (about EUR 1,291 thousand) and constituted approximately 49% of the total revenues. In the first half of year 2005 revenues from the Company products' activities constituted approximately 44% of the total revenues of the Company whereas the revenues from its systems' activities in the same period constituted approximately 55% of the total revenues, as compared to the same period in 2004, in which the revenues from the products' activities constituted approximately 50% of the total revenues of the Company whereas the revenues from its systems' activities in the same period constituted approximately 49% of the total revenues. In all above mentioned periods, about 1% of the Company's revenues was generated by other activities. In the annual report for the year 2004, the revenues from the Company's products' activities constituted approximately 48.4% of the revenues whereas the revenues from the Company's systems' activities constituted approximately 50.6% of the revenues.

The fluctuations between the quarters results mainly from the pace of the actual progress of work of logistic systems projects preformed by the Company's systems division (in the ordinary course of Company's business). In recent quarters an increase was registered in the Company's revenues from its systems' activities as compared to its products activities, however the Company does not consider it as a trend and believes that continued growth in its system's activities depends on a relatively small number of large orders and on the actual performance of existing and new projects[2].

[2] The information concerning the growth in revenues from system's activities including logistic systems in Israel is forward-looking information. The primary data which served as the basis for this information are the assumption that economic growth and relative improvement in the economic situation in Israel, concurrently with the increasing complexity of the business activities with which the automated logistic systems are aimed to cope, will impact on the demand in this field. The primary factors likely to result in such information not materializing are lack of improvement in the economic situation in Israel and/or in the world (or insignificant improvement) and/or the refraining of businesses from investments at large and investments in automated logistic systems in particular notwithstanding relative improvement in the economic situation, inter alia, in view of cutting expenses and/or on grounds

Gross Profit

The gross profit for the first half of 2005 amounted to approximately NIS 12,481 thousand (about EUR 2,258 thousand) (approximately 31% of the revenues for the period) as compared to approximately NIS 10,207 thousand (about EUR 1,847 thousand) in the contemporaneous period in the year 2004 (approximately 36% of the revenues in the period). The gross profit for the three months period ended June 30, 2005 amounted to approximately NIS 6,443 thousand (about EUR 1,166 thousand) (approximately 32% of the revenues for the period) as compared to approximately NIS 5,312 thousand (about EUR 961 thousand) in the contemporaneous period in the year 2004 (approximately 36% of the revenues in the period).

The Company believes that different profit margins of certain transactions, variations in the percentage of revenues generated from the different activities (in the ordinary course of Company's business), and the depreciation of the Euro against the NIS in the reported period, are the main factors affecting these gross profit figures.

Research and Development Expenses (Net)

The net research and development expenses (R&D) in the first half of 2005 amounted to approximately NIS 2,654 thousand (about EUR 480 thousand) (approximately 6.6% of the revenues) as compared to approximately NIS 2,016 thousand (about EUR 365 thousand) in the corresponding period of 2004 (approximately 7.2% of the revenues). The net research and development expenses (R&D) in the three months period ended June 30, 2005 amounted to approximately NIS 1,367 thousand (about EUR 247 thousand) (approximately 6.8% of the revenues) as compared to approximately NIS 1,090 thousand (about EUR 197 thousand) in the corresponding quarter of 2004 (approximately 7.5% of the revenues).

The R&D expenses in the reported period reflect a continued development activity of new technologies and new products, required to support the Company's continued growth. During and after the reported period, the Company continued recruiting additional personnel for the development teams, and therefore expects an increase in such expenses in the coming quarters[3].

Sale and Marketing Expenses

The sales and marketing expenses in the first half of 2005 amounted to approximately NIS 4,275 thousand (about EUR 773 thousand) (about 10.7% of revenues), in comparison to approximately NIS 3,585 thousand (about EUR 649 thousand) (about 12.8% of revenues) in the corresponding period of 2004. The sales and marketing expenses in the three months period ended June 30, 2005 amounted to approximately NIS 2,388 thousand (about EUR 432 thousand) (about 11.8% of revenues), in comparison to approximately NIS 1,689 thousand (about EUR 306 thousand) (about 11.6% of revenues) in the corresponding quarter of 2004.

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of changes in policy of maintenance and/or management of inventories and/or on grounds of delay or absence of recognition on the part of the market of the advantage of automated logistic systems. Further, inasmuch as this information pertains specifically to the Company, other factors can result in such information not materializing, such as the Company's failure to compete with its competitors, and the other risk factors enumerated in section 1.39 of the Company's annual report for the year 2004.

[3] The information with regard to the expected growth in the R&D Expenses item is forward-looking information. The main data constituting the basis for this information are the Company's development plans, the actual stages of development on the date of the report of the technology being developed at the Company and the need for continued material investments in R&D expenses, to implement the Company's plans. The main factors likely to prevent this information from being implemented are changes in the Company's development plans arising from reasons beyond the Company's control (such as market requirements and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), the lack of budget to finance the expenses required for continued development in general or in the scopes required for the Company, and possible technological difficulties with the completion of the development stages pursuant to these plans.

The increase registered in such item in the reported period is mainly attributable to adaptations required to support the continued growth, conforming with the increased revenues, in accordance with the Company's policy, and resulting mainly from recruitment of additional personnel to the marketing teams, attendance and participation in trade shows, and additional marketing activities in Israel and worldwide.

General and Administrative Expenses

The general and administrative expenses for the first half of 2005 amounted to approximately NIS 3,856 thousand (about EUR 698 thousand) as compared to approximately NIS 2,139 thousand (about EUR 387 thousand) in the corresponding quarter of 2004. The general and administrative expenses for the three months period ended June 30, 2005 amounted to approximately NIS 2,228 thousand (about EUR 403 thousand) as compared to approximately NIS 1,205 thousand (about EUR 218 thousand) in the corresponding quarter of 2004.

The general and administrative expenses in the reported period reflect adaptations required for supporting the continued growth, and include expenses related mainly to professional consulting and legal services as well as non-recurring expenses due to office relocation of the Company's US subsidiary and a special bonus the Company's CEO.

As published in an immediate report from April 12, 2005, in March 2005 the Company’s audit committee and board of directors resolved to grant Mr. Haim Shani - the Company’s Chief Executive Officer and chairman of the board of directors - subject to the approval of a meeting of the Company’s shareholders, a bonus, as consideration for his contribution to the Company’s successful performance over the previous years in general and during the year 2004 in particular, in an amount of NIS 400,000 (approx. Euro 72,372) and an annual bonus in respect of each calendar year beginning on 2005 and as long as he serves as the Company’s CEO at a rate of 7.5% of the Company’s profit before taxes. On April 12, 2005, the general meeting of the company's shareholders approved the above resolutions. Provisions for those bonuses are included in the profit and loss of the reported period.

Operating Profit

The operating profit for the first half of 2005 amounted to approximately NIS 1,696 thousand (about EUR 307 thousand) as compared to an operating profit of approximately NIS 2,467 thousand (about EUR 446 thousand) for the corresponding period of 2004 (a decrease of about 31%). The operating profit for the three months period ended June 30, 2005 amounted to approximately NIS 460 thousand (about EUR 83 thousand) as compared to an operating profit of approximately NIS 1,328 thousand (about EUR 240 thousand) for the corresponding quarter of 2004.

The decrease in operating profit results mainly from adaptations made in the reported period in R&D, sales and marketing expenses and in general and administrative expenses, required for supporting the continued growth as explained above, as well as the special bonus the Company's CEO in the second quarter of 2005.

Financing Expenses (Net)

The financing expenses for the first half of 2005 amounted to approximately NIS 568 thousand (about EUR 103 thousand) as compared to approximately NIS 1,064 thousand (about EUR 192 thousand) for the corresponding period of 2004. The financing expenses for the three months period ended June 30, 2005 amounted to approximately NIS 160 thousand (about EUR 29 thousand) as compared to approximately NIS 447 thousand (about EUR 81 thousand) for the corresponding quarter of 2004.

As of May 2004, the Company's exposure to exchange rate fluctuations of the NIS against the US Dollar increased as a result of the issuance of Dollar linked convertible bonds (series 1) issued by the Company as part of its public offering pursuant to the Israeli prospectus. In addition, such public offering also introduced an 'interest' factor and accordingly an exposure of the Company related to interest rates exists as explained below. Notwithstanding the above, a decrease in financing expenses was registered in the reported period, mainly as a result of financial income from investment activities effected within the framework of the Company's risk management policy detailed below.

Net Profit

In the first half of 2005, the Company reports a net profit which amounts to approximately NIS 1,139 thousand (about EUR 206 thousand), in comparison to a net profit of approximately NIS 1,370 thousand (about EUR 248 thousand) in the corresponding period of 2004. In the three months period ended June 30, 2005, the Company reports a net profit which amounts to approximately NIS 325 thousand (about EUR 59 thousand), in comparison to a net profit of approximately NIS 855 thousand (about EUR 155 thousand) in the corresponding period of 2004.

According to the Company, the continued increase in revenues along with increased operational expenses required to support its continued growth – are the main factors for the decrease in net profit in the reported period. As indicated above, the Company expects a possible increase in certain expenses items in the coming quarters, required for supporting its continued growth.

Analysis of Business Results by Sectors of Operations

As stated above, the Company's main commercial activities are performed through two business Divisions, the Products Division and the Systems Division. For details of the Income of each - see below.

The Products Sector

The Products sector results for first half of 2005, amounted to approx. NIS 4,895 thousand (about EUR 886 thousand), as compared to approx. NIS 3,983 thousand (about EUR 721 thousand) for the corresponding period of 2004. The Products sector results for the three months period ended June 30, 2005, amounted to approx. NIS 2,320 thousand (about EUR 420 thousand), as compared to approx. NIS 2,271 thousand (about EUR 411 thousand) for the corresponding quarter of 2004. The increase in the results in the reported period is mainly attributable, in the Company's opinion, to the growth in revenues from the Products sector as explained above. The Company believes that different profit margins of certain transactions (in the ordinary course of Company's business), and the depreciation of the Euro against the NIS in the reported period, are the main factors affecting the sector's results compared to the sector's revenues.

The Systems Sector

The Systems sector results for first half of 2005, amounted to approx. NIS 3,015 thousand (about EUR 545 thousand), as compared to approx. NIS 2,877 thousand (about EUR 521 thousand) for the corresponding period of 2004. The Systems sector results for the three months period ended June 30, 2005, amounted to approx. NIS 1,629 thousand (about EUR 295 thousand), as compared to approx. NIS 1,326 thousand (about EUR 240 thousand) for the corresponding quarter of 2004.

The increase in the results for the reported period is mainly attributable in the Company's opinion to the growth in revenues from the Systems sector in such period. The Company reported that it performed certain adaptations to a possible growth in this sector, mainly through the recruitment and education of new employees intended to support future projects.

3. Liquidity and Financial Sources

The cash and cash equivalents and marketable securities of the Company as of June 30, 2005 amounted to approximately NIS 47,259 thousand (about EUR 8,551 thousand), as compared to approximately NIS 49,083 thousand (about EUR 8,881 thousand) as of December 31, 2004. This change is mainly attributable to the negative cash flow from operating activities as described below.

The cash flow from operating activities for the first half of 2005, amounted to a negative flow of approximately NIS 1,404 thousand (about EUR 254 thousand), and a negative cash flow of approximately NIS 2,511 thousand (about EUR 454) for the three months period ended June 30, 2005. The negative cash flow is mainly attributable to the previously described decrease in accounts payable (trade and other) items deducting the decrease in the inventory item..

The cash flow from investment activities for the first half of 2005, amounted to a negative cash flow of approximately NIS 3,581 thousand (about EUR 648 thousand), and approximately NIS 2,206 thousand (about EUR 399) for the three months period ended June 30, 2005, mainly as a result of investments in marketable securities in the reported period

The cash flow from financing activities for the first half of 2005, amounted to approximately NIS 591 thousand (about EUR 107 thousand) and approximately NIS 176 thousand (about EUR 32) for the three months period ended June 30, 2005. The negative flow resulted mainly from the repayment of long term loans during the reported period.

As of June 30, 2005, the aggregate credit framework available to the Company amounted to approximately NIS 5 million (about EUR 0.9 million), of which approximately NIS 2 million (about EUR 0.36 million) has been exploited mainly for guarantees to secure the Company's obligations in certain projects performed by its systems' division.

4. Exposure to Market Risks and Risk Management Handling

The persons in charge for the handling of the market risks are the chief executive officer of the Company and its chief financial officer.

Exposure to Exchange Rate Fluctuations

The Company is exposed to exchange rate fluctuations, mainly to the rate of the dollar against the NIS and against the Euro, for the following reasons:

In May 2004, the Company issued convertible bonds (series 1) according to the Israeli prospectus. The principal amount and interest of the convertible bonds are linked to the exchange rate of the US dollar. Until their conversion or their payment in full until May of 2010, the Company is exposed to exchange rate fluctuations of the US Dollar against the NIS.

In February 2001, the Company issued convertible bonds which were denominated in Euro. In December 2003, 75% in principal amount of the convertible bonds were converted into Company shares. Until their conversion or their payment in full, commencing from May 2006 until September of 2008, the Company is exposed to exchange rate fluctuations of the Euro against the NIS.

The assets of the Company which are exposed to exchange rate fluctuations mainly include deposits in various currencies (mainly in Euro and United States Dollar), and liabilities of customers which are denominated in various currencies depending on the customer, and do not bear interest.

The current liabilities which are exposed to exchange rate fluctuations include credit from banks which are linked in part to foreign currency, and liabilities to suppliers in foreign currency, mainly in Euro. The Company has long term liabilities related to the financing plan for supporting the acquisition of rights in the Company's facility at Airport City, approximately 40% of which is denominated in United States Dollar.

The majority of the Company's activity is performed in foreign currency or in NIS linked to foreign currencies. In the Company's products division, the bulk of revenues is denominated in United States Dollars or is linked to the rate of the United States Dollar, with the exception of revenues generated from sales in Europe, the majority of which is denominated in Euro. The majority of the Company's revenues from its systems division are derived mainly from sales denominated in Euro or which are linked to the rate of the Euro.

Raw materials required for production of the Company's products include mainly various electronic and mechanical components, and in most cases their prices are denominated in foreign currency – especially in Dollar and Euro.

Risks Related to Marketable Securities

Certain of the Company's financial assets are invested in marketable securities. Irregular developments in capital markets in Israel and in the world are likely to cause fluctuations in the rates of securities traded on Stock Exchanges and consequently affect the financial income or expenses of the Company.

Interest Related Risks

The Company has a number of outstanding loans within the framework of a financing plan for the acquisition of rights in the Company's facility at Airport City, convertible debentures issued by the Company within the framework of the Israeli prospectus and also manages certain other credit frameworks, which bear various rates of interest and which are exposed to possible changes in the “Prime” and/or "Libor" rates of interest.

Company's Policy of Handling Market Risks

The Company acts to reduce its exposure to market risks by implementing appropriate assessment procedures which are designed to facilitate detection of extreme variations of costs and erroneous assessments. These procedures are conducted by the Company's management regularly on a weekly basis. Furthermore the Company performs daily reporting and control of its cash and credit balances.

The Company continuously examines the credit granted to customers and potential losses that may result from granting such credit to customers. The Company makes specific provisions in respect of debts where doubt exists as to their recovery.

In the Company's systems' activities, the Company's policy is to minimize - for each contract - the exposure to exchange rate fluctuations by adjusting the currency of the revenues to the currency of the major expenses.

In parallel, and in order to further enhance its ability to address the above exposures, the Company invested through two separate financial entities in Israel, in portfolios linked to the US dollar and in acquisition of bonds linked to the US dollar with varying interest rates. The investments activity of the Company is controlled inter alia by a committee established for this purpose by the board of directors (the credit and investments committee).

Monetary Assets and Liabilities Classified by Linkage Basis

	June 30, 2005						
	Israeli currency		Other currencies				
	Not linked	Linked to the Israeli CPI	EURO	USD	Other currencies	Non monetary assets and liabilities	Total
	NIS in thousands						
Assets							
Cash and cash equivalents	3,244	-	6,870	5,257	-	-	15,371
Marketable securities	3,748	15,044	-	13,096	-	-	31,888
Accounts receivable - Trade	2,378	-	1,710	1,674	-	-	5,762
Accounts receivable - Other	360	564	-	-	-	271	1,195
Inventory	-	-	-	-	-	7,549	7,549
Inventory - work in progress	-	-	-	-	-	1,168	1,168
Long-term deposits	-	-	-	-	-	147	147
Property and equipment	-	-	-	-	-	22,405	22,405
Other assets	-	-	-	-	-	3,774	3,774
Total assets	9,730	15,608	8,580	20,027	-	35,314	89,259
Liabilities							
Credit from banks and others	949	163	-	-	-	-	1,112
Accounts payable - Trade	5,677	-	4,244	170	14	-	10,105
Accounts payable - Other	4,958	-	-	213	-	522	5,693
Long-term debt	5,086	426	-	5,292	-	-	10,804
Convertible bonds	-	-	4,588	33,606	-	-	38,194
Accrued severance pay, net	1,391	-	-	-	-	-	1,391
Deferred taxes	-	-	-	-	-	206	206
Total liabilities	18,061	589	8,832	39,281	14	728	67,505
	(8,331)	15,019	(252)	(19,254)	(14)	34,586	21,754

Tzvi Livne
Director

Haim Shani
Chairman & CEO

Date: August 11th, 2005

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of June 30, 2005

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of June 30, 2005

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AMIT, HALFON C.P.A (ISR)
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To the Board of Directors of Unitronics (1989) (R"G) Ltd.

Re: **Review of the Interim Financial Statements**

At your request, we have reviewed the interim consolidated balance sheet of Unitronics (1989) (R"G) Ltd. as of June 30, 2005, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the six and the three months then ended.

Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We did not review the Interim Financial Statements of a subsidiary, which were reviewed by other auditors. We have been furnished with reports of other auditors in respect of the review of the Interim Financial Statements of the subsidiary whose assets as at June 30, 2005 represent approximately 2% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the six month period ending June 30, 2005 represents approximately 11% of the total income included in the Consolidated Interim Statement of Operations.

Since the review performed is limited in scope and does not constitute an examination in accordance with acceptable auditing standards, we do not give an opinion on the above Interim Financial Statements.

Based on our review and the reports of other accountants, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles in Israel and with chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

Amit, Halfon
Certified Public Accountants (Israel)

August 11, 2004

Unitronics (1989) (R"G) Ltd. Consolidated Balance Sheets	***June 30, 2005***	***June 30, 2005***	***June 30, 2004***	***December 31, 2004***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Cash and cash equivalents	2,781	15,371	43,916	20,947
Marketable securities	5,769	31,888	1,234	28,136
Accounts receivable -				
Trade	1,043	5,762	5,235	6,862
Other	216	1,195	1,105	903
Inventory	1,366	7,549	6,101	9,785
Inventory - work in progress	211	1,168	198	443
Current assets	*11,386*	*62,933*	*57,789*	*67,076*
Long-term deposits	*27*	*147*	*108*	*133*
Property and equipment	*4,054*	*22,405*	*21,221*	*22,620*
Other assets	*683*	*3,774*	*4,619*	*4,157*
Total assets	***14,150***	***89,259***	***83,737***	***93,986***
Credit from banks and others	202	1,112	1,075	1,127
Accounts payable -				
Trade	1,828	10,105	7,386	13,730
Other	1,030	5,693	5,866	7,895
Current liabilities	*3,060*	*16,910*	*14,327*	*22,752*
Long-term debt	1,955	10,804	11,347	11,062
Convertible bonds	6,910	38,194	37,679	38,252
Accrued severance pay, net	252	1,391	1,167	1,140
Deferred taxes	37	206	172	165
Long-term liabilities	*9,154*	*50,595*	*50,365*	*50,619*
Shareholders' equity	*3,936*	*21,754*	*19,045*	*20,615*
Total liabilities and shareholders' equity	***14,150***	***89,259***	***83,737***	***93,986***

Haim Shani
Chairman of the Board of Directors and Chief Executive Officer

Tzvi Livne
Director

Yair Itscovich
Chief Financial Officer

Approved: August 11, 2005.

(1) See note 2E.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	For the six months period ended June 30,	For the six months period ended June 30,		For the three months period ended June 30,	For the three months period ended June 30,		For the year ended December 31,
	2005	2005	2004	2005	2005	2004	2004
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro (1)	Reported NIS		Convenience translation into Euro (1)	Reported NIS		
Revenues	7,208	39,840	28,084	3,658	20,214	14,607	61,771
Cost of revenues	4,950	27,359	17,877	2,492	13,771	9,295	40,069
Gross profit	*2,258*	*12,481*	*10,207*	*1,166*	*6,443*	*5,312*	*21,702*
Research & development expenses, net	480	2,654	2,016	247	1,367	1,090	4,169
Selling & marketing expenses	773	4,275	3,585	433	2,388	1,689	7,746
General & administrative expenses	698	3,856	2,139	403	2,228	1,205	4,691
Operating profit	*307*	*1,696*	*2,467*	*83*	*460*	*1,328*	*5,096*
Financing expenses, net	103	568	1,064	29	160	447	2,193
Operating profit after financing expenses, net	*204*	*1,128*	*1,403*	*54*	*300*	*881*	*2,903*
Other income, net	-	-	-	-	-	-	48
Profit before tax benefits (taxes on income)	*204*	*1,128*	*1,403*	*54*	*300*	*881*	*2,951*
Tax benefits (taxes on income)	2	11	(33)	5	25	(26)	(72)
Profit for the period	*206*	*1,139*	*1,370*	*59*	*325*	*855*	*2,879*
Profit per NIS 1 ordinary share							
Basic	0.88	4.88	6.22	0.25	1.39	3.84	12.69
Fully diluted	0.88	4.88	3.51	0.25	1.39	1.73	12.69
Supplementary information (2)							
Profit per ordinary share							
Basic	0.02	0.10	0.12	0.01	0.03	0.08	0.25
Fully diluted	0.02	0.10	0.07	0.01	0.03	0.03	0.25

(1) See note 2E.
(2) See note 2F.
The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Statements of Shareholders' Equity

	Share capital	Share premium	receipts on account of warrants	Accumulated loss	total
			Reported NIS in thousands		
Balance at January 1, 2004 (audited)	336	43,721	-	(31,734)	12,323
Issue of share capital	16	4,721	-	-	4,737
Receipts on account of warrants	-	-	676	-	676
profit for the year	-	-	-	2,879	2,879
Balance at December 31, 2004 (audited)	352	48,442	676	(28,855)	20,615
Profit for the period	-	-	-	1,139	1,139
Balance at June 30, 2005 (unaudited)	352	48,442	676	(27,716)	21,754
Balance at January 1, 2004 (audited)	336	43,721	-	(31,734)	12,323
Issue of share capital	16	4,660	-	-	4,676
Receipts on account of warrants	-	-	676	-	676
profit for the period	-	-	-	1,370	1,370
Balance at June 30, 2004 (unaudited)	352	48,381	676	(30,364)	19,045
Balance at April 1, 2005 (unaudited)	352	48,442	676	(28,041)	21,429
Profit for the period	-	-	-	325	325
Balance at June 30, 2005 (unaudited)	352	48,442	676	(27,716)	21,754
Balance at April 1, 2004 (unaudited)	336	43,721	-	(31,219)	12,838
Issue of share capital	16	4,660	-	-	4,676
Receipts on account of warrants	-	-	676	-	676
Profit for the period	-	-	-	855	855
Balance at June 30, 2004 (unaudited)	352	48,381	676	(30,364)	19,045

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Statements of Shareholders' Equity

	Share capital	Share premium	receipts on account of warrants	Accumulated Loss	Total
	Convenience translation into Euro in thousands (unaudited) (1)				
Balance at January 1, 2005	64	8,764	122	(5,220)	3,730
Profit for the period	-	-	-	206	206
Balance at June 30, 2005	64	8,764	122	(5,014)	3,936
	Convenience translation into Euro in thousands (unaudited) (1)				
Balance at April 1, 2005	64	8,764	122	(5,073)	3,877
Profit for the period	-	-	-	59	59
Balance at June 30, 2005	64	8,764	122	(5,014)	3,936

(1) See note 2E.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	*For the six months period ended June 30,*	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2005	**2005**	**2004**	**2005**	**2005**	**2004**	**2004**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Profit for the period	206	1,139	1,370	59	325	855	2,879
Adjustments necessary to show the cash flows from operations (Appendix A)	(460)	(2,543)	4,887	(513)	(2,836)	(3,140)	8,787
Cash flows provided by (used in) operating activities	*(254)*	*(1,404)*	*6,257*	*(454)*	*(2,511)*	*(2,285)*	11,666
Sale of (investment in) marketable securities, net	(544)	(3,008)	33	(380)	(2,099)	(35)	(26,695)
Purchase of property and equipment	(89)	(492)	(2,437)	(15)	(83)	(93)	(4,309)
Sale of equipment	-	-	-	-	-	-	246
Investment in long-term deposits	(5)	(25)	(12)	-	-	(5)	(37)
Repayment of long-term deposits	2	11	20	2	9	7	20
Investment in other assets	(12)	(67)	(2)	(6)	(33)	(2)	(58)
Cash flows used in investing activities	*(648)*	*(3,581)*	*(2,398)*	*(399)*	*(2,206)*	*(128)*	*(30,833)*
Deferred offering expenses	-	-	(4,184)	-	-	(3,776)	(4,184)
Repayment of long-term loans	(105)	(578)	(294)	(32)	(176)	(148)	(594)
Loans received from others	-	-	-	-	-	-	283
Short-term credit from banks, net	(2)	(13)	-	-	-	(468)	13
Share capital issue	-	-	4,676	-	-	4,676	4,737
Receipts on account of warrants	-	-	676	-	-	676	676
Convertible bonds issue	-	-	33,153	-	-	33,153	33,153
Cash flows provided by (used in) financing activities	*(107)*	*(591)*	*34,027*	*(32)*	*(176)*	*34,113*	*34,084*
Increase (decrease) in cash and cash equivalents	*(1,009)*	*(5,576)*	*37,886*	*(885)*	*(4,893)*	*31,700*	14,917
Cash and cash equivalents at beginning of period	3,790	20,947	6,030	3,666	20,264	12,216	6,030
Cash and cash equivalents at end of period	*2,781*	*15,371*	*43,916*	*2,781*	*15,371*	*43,916*	*20,947*

(1) See note 2E.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	For the six months period ended June 30,	For the six months period ended June 30,		For the three months period ended June 30,	For the three months period ended June 30,		For the year ended December 31,
	2005	2005	2004	2005	2005	2004	2004
	(unaudited)	(unaudited)		(unaudited)	(unaudited)		(audited)
				(in thousands)			
	Convenience translation into Euro (1)	Reported NIS		Convenience translation into Euro (1)	Reported NIS		
Appendix A - Adjustments necessary to show the cash flows from operations							
Depreciation and amortization	265	1,462	752	132	729	476	2,099
Profit from marketable securities, net	(135)	(744)	(13)	(87)	(478)	(15)	(396)
Capital gain	-	-	-	-	-	-	(48)
Increase in accrued severance pay, net	45	251	99	35	192	33	72
Deferred taxes, net	(4)	(22)	33	(5)	(27)	26	32
Long-term debt and convertible bonds exchange rate differences	3	18	203	28	153	(94)	326
Decrease (increase) in accounts receivable - trade	199	1,100	(321)	(188)	(1,041)	(116)	(1,617)
increase in accounts receivable - other	(53)	(292)	(602)	(55)	(305)	(484)	(400)
Decrease (increase) in inventory	405	2,236	278	204	1,127	(52)	(3,406)
Decrease (increase) in inventory - work in progress	(131)	(725)	1,150	78	430	371	905
Increase (decrease) in accounts payable - trade	(656)	(3,625)	2,481	(201)	(1,107)	1,199	8,695
Increase (decrease) in accounts payable - other	(398)	(2,202)	827	(454)	(2,509)	(4,484)	2,525
	(460)	*(2,543)*	*4,887*	*(513)*	*(2,836)*	*(3,140)*	*8,787*
Appendix B - Non cash transactions							
Payables related to property and equipment	-	-	170	-	-	170	300

(1) See note 2E.

The notes to the financial statements form an integral part thereof.

Notes to the Financial Statements of Unitronics (1989) (R"G) Ltd.

Note 1 - General

These financial statements have been prepared in a condensed format as of June 30, 2005, and for the six and the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended.

Note 2 - Significant Accounting Policies

A. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements.

B. The company prepares its financial statements in reported amounts according to Accounting Standard No. 12 (as amended by Accounting Standard No. 17) with respect to the discontinuance of the adjustment of financial statements for the effects of inflation, starting at January 1, 2004.

C. The company prepares its financial statements according to chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

D. Following are data regarding the Israeli CPI and the exchange rate of the U.S. dollar and the Euro:

As of	Israeli CPI	Exchange rate of One U.S. dollar	Exchange rate of One Euro
	Points (*)	NIS	NIS
June 30, 2005	181.63	4.574	5.5270
June 30, 2004	181.09	4.497	5.4657
December 31, 2004	180.74	4.308	5.8768
Change during the period	**%**	**%**	**%**
June 2005 (six months)	0.49	6.17	(5.95)
June 2004 (six months)	1.41	2.69	(1.22)
June 2005 (three months)	1.10	4.88	(2.16)
June 2004 (three months)	1.51	(0.68)	(1.26)
December 2004 (12 months)	1.21	(1.62)	6.21

(*) The index on an average basis of 1993 = 100.

Note 2 - Significant Accounting Policies (cont')

E. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at June 30, 2005 (EURO 1 = NIS 5.527).

The translated EURO amounts presented in these financial statements should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

F. Profit per ordinary share

The company, in accordance with Israeli GAAP, presents the profit per NIS 1.00 ordinary shares, i.e. the profit for the period is divided by the nominal value of the company's share capital. For the convenience of the reader the company present as supplementary information profit per ordinary share, i.e. by dividing the profit for the period by the number of company's ordinary shares.

Note 3 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	***For the six months period ended June 30,***	***For the six months period ended June 30,***		***For the three months period ended June 30,***	***For the three months period ended June 30,***		***For the year ended December 31,***
	2005	**2005**	**2004**	**2005**	**2005**	**2004**	**2004**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro	**Reported NIS**		**Convenience translation into Euro**	**Reported NIS**		
Products	3,139	17,349	14,048	1,644	9,088	7,270	29,883
System integration projects	4,007	22,148	13,836	1,980	10,946	7,137	31,263
Other	62	343	200	33	180	200	625
	7,208	*39,840*	*28,084*	*3,657*	*20,214*	*14,607*	*61,771*

B. Segment results

Products	885	4,895	(*) 3,983	420	2,320	(*) 2,271	9,241
System integration projects	546	3,015	(*) 2,877	295	1,629	(*) 1,326	4,934
Other	6	32	1	1	7	1	114
Unallocated corporate expenses	(1,130)	(6,246)	(4,394)	(633)	(3,496)	(2,270)	(9,193)
Operating profit (loss)	*307*	*1,696*	*2,467*	*83*	*460*	*1,328*	*5,096*

(*) Re-classified.

Note 4 - Commitments

In March 2005 the Company's audit committee and board of directors resolved, to grant Mr. Haim Shani - the Company's Chief Executive Officer and chairman of the board of directors (hereinafter: "Mr. Shani"), a bonus (the "Special Bonus"), as consideration for his contribution to the Company's successful performance over the previous years in general and during the year 2004 in particular. The Special Bonus will be in an amount of NIS 400,000 (aprox. Euro 69,000).

In addition, the Company will pay to Mr. Shani, an annual bonus in respect of each calendar year beginning on 2005 and as long as he serves as the Company's CEO (the "Future Bonus"), at a rate of 7.5% of the Company's profit before taxes.

In April 2005 the above resolutions were approved by the general meeting of the Company's shareholders.

Note 5 - Contingent liabilities

The company encountered a conflict with IMO Jeambrun Automation SAS (hereafter "IMO") in France that acquired in August 2004 the business activities of the company's exclusive distributor in France, following its insolvency declaration.

In April 2005, the company appealed to the Israeli court to appoint an arbitrator in order to check IMO's claims regarding the termination of the agreement between the companies following a six months advanced termination notice. In addition the Company appealed for and was granted an permission for service of process outside Israel's territory. IMO appealed to cancel such permission for service and this matter is expected to be addressed by the court in the coming months. According to the legal advisors of the company the results of this procedure can not be currently estimated.

Following the appeal in Israel to appoint an arbitrator, IMO filed in France two lawsuits against the Company: A first lawsuit requesting to enforce the delivery of products – a lawsuit that was rejected by the French court pursuant to a rapid procedure in a sentence from June 7th 2005 (IMO appealed on this matter, and a court session for such matter has not been set as of yet). According to the legal advisors of the company the results of this procedure can not be currently estimated.

The second lawsuit is a monetary claim in excess of one million Euro, claiming unfair competition. No court session has yet been set for this claim. According to the legal advisors of the company the results of this procedure can not be currently estimated.

Note 6 - Events after the balanced date

On June 25, 2005 an adjustment to the income tax ordinance (no. 147) 2005, was approved by the government. This adjustment reduces the company tax rates in stages: 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 - 25%.

The adjustment should not have a material effect on the company's financial position and results of operations.