Prospectus

UNITRONICS (1989) (R"G) LTD.

a Limited Liability Company under Israeli Law

Application for admission to listing on EURONEXT Brussels of 800,000 Ordinary Shares of the Company NIS 0.02 nominal value each, as well as the shares that may come forth from the exercise of securities convertible into an aggregate of 7,075,200 Ordinary Shares of the Company NIS 0.02 nominal value each

This prospectus relates to the listing by Unitronics (1989) (R"G) Ltd., of an aggregate of 7,875,200 ordinary shares, comprised of the following shares:

Description Of Shares	Number of Shares
Aggregate shares issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.1)	800,000
Aggregate amount of shares issuable upon conversion of all of the series 1 convertible debentures issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2)	3,888,889
Aggregate amount of shares issuable upon exercise of all of the series 1 option deeds issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2)	1,000,000
Aggregate amount of shares issuable upon exercise of series 1 option deeds issued to certain underwriters of the Israeli Prospectus (see Section 4.2)	300,000
Aggregate amount of shares issuable upon exercise of all of the options issued under the Company's 1999, 2001 and/or 2003 Share Option plans (see Section 5.6)	1,886,311
TOTAL COMPANY SHARES TO BE LISTED HEREUNDER	7,875,200

The Company will not receive any proceeds from the listing of these ordinary shares.

The present application for listing is organized by

Leleux Associated Brokers SA/NV

at the offices of which a copy of this Prospectus is available. This Prospectus can also, strictly for information purposes only, be consulted on the web site http://www.leleux.be. Only the printed original version of this Prospectus is valid.

See "Risk Factors", beginning on page 6 which affect the Shares being listed hereunder.

This Prospectus was approved by the Banking, Finance and Insurance Commission on June 29, 2004 pursuant to article 8, number 3 of the Royal Decree of October 31, 1991 and article 14 of the Law of 22 April, 2003, on the public offer of securities. This approval cannot be considered as a judgment as to the opportunity or the quality of the Offering, nor on the situation of the Company. The announcement as referred to by article 13 §1 of the Law of 22 April, 2003 has been published in the press.

Prospectus dated July 9, 2004

IMPORTANT ADVICE

No dealer, salesperson or other person has been authorized to give any information, or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Financial and Paying Agent. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy any securities, generally and/or to any person in any jurisdiction in which it is unlawful to make such offer or solicitation to such person. Neither the delivery of this Prospectus, nor any sale made in connection herewith, shall under any circumstances create any implication that the information contained herein, as supplemented prior to the date of the Prospectus, is correct as of any date subsequent to the date of the Prospectus.

This Prospectus has not been approved, or submitted for approval, to any supervisory authority outside Belgium. This Prospectus may not be distributed to the public outside Belgium, the Shares being registered under this Prospectus may not be publicly offered for sale in any jurisdiction outside Belgium, and no steps may be taken which would constitute, or result in, a public offering pursuant to this Prospectus outside Belgium.

In making an investment decision, investors must rely on their own examination of the Company, and the merits and risks involved in the sale and purchase of the Company's shares. Any decision to buy Company shares should be based solely on this Prospectus. Any descriptions of legal provisions or contractual relationships set forth in this Prospectus are for information purposes only and should not be construed as legal advice as to the interpretation or enforceability of such provisions. Investment in the Company's Shares has not been recommended by any government securities commission or regulatory authority.

The Company is incorporated in Israel. The Company’s assets (other than the Company’s shares in, and the assets of its US wholly owned subsidiary, Unitronics, Inc.) are located in Israel and a majority of its officers and directors are Israeli residents. Israel is not a party to the EEC Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters of 1968 (as amended). It may therefore be difficult for investors to effect service of process, and/or enforce judgments against the Company and/or its officers and directors obtained in non-Israeli courts and predicated solely upon non-Israeli laws.

This Prospectus contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Prospectus, the words “project”, “anticipate”, “believe”, “estimate”, “expect”, “intend” and similar expressions, as they relate to the Company and/or its management, and any other non-historic information, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks, which may be outside of the Company’s control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results of outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.

In case of any doubt about the contents or the meaning of the information of this document one should consult an authorized or professional person who specializes in advising on the acquisition of financial instruments.

In this Prospectus, references to “USD” are to United States Dollars, references to “NIS” are to New Israeli Shekel, and references to “EUR” are to the pan European currency effective as of January 1, 1999. The translation was made solely for the convenience of the reader. The NIS and/or USD and/or EUR amounts presented in this prospectus should not be construed to represent amounts receivable or payable in NIS and/or USD and/or EUR amounts (as the case may be) or convertible into NIS and/or USD and/or EUR amounts (as the case may be), unless otherwise indicated herein. The Company publishes its financial statements in NIS. Translations of NIS into EUR and vice versa in the Company's financial statements per year-end have been made at the rate per December 31, 2003 (NIS 1 = EUR 0.1807).

Figures are presented according to US standards: "," is the digital grouping system and "." is the decimal symbol.

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Unitronics is engaged in the design, development, production, marketing and sale of industrial automation products, mainly PLC's – Programmable Logic Controllers which are computer based electronic products (hardware and software) which serve for the control of systems and machines for production, storage, retrieval and industrial logistics. The Company is also engaged in design, construction and maintenance services in the framework of projects for mechanization, computerization and integration of production systems and/or computerized logistics systems, mainly automatic warehouses.

An investment in the Company's shares is highly speculative and involves a high degree of risk. Prospective investors, prior to making an investment decision, should carefully consider, together with the other information in this Prospectus, the risk factors, inherent in and affecting the business of the Company, WHICH INCLUDE BUSINESS-SPECIFIC AND AS STOCK MARKET RISK FACTORS DETAILED IN SECTION 6 HEREOF, as well as the following risk factors which are particularly relevant to non-Israeli investors in the Company's shares:

Middle East Political, Military and Related Risk

The Company's facilities are mainly located in Israel and a substantial portion of its activities is conducted in Israel. Since 1948, a state of hostility has existed, varying in degree and intensity, between Israel and certain Arab countries, as well as incidents of civil unrest, military and terrorist actions. There has been a significant increase in violence since September 2000, which has continued through to the present with varying levels of severity, including a marked acceleration in the number and frequency of numerous incidents of lethal suicide attacks and other acts of terrorism. Any major hostilities affecting Israel, or the interruption or curtailment of trade between Israel and its current trading partners, could have a material adverse effect on the Company. In addition, certain countries and companies participate or could participate in a boycott of Israeli firms and others doing business in Israel or with Israeli companies. Although Israel has entered into peace treaties with Egypt, Jordan, and the Palestine Liberation Organization and has commenced discussions in respect of analogous arrangements with Syria, no prediction can be made as to whether a full resolution of these problems will be achieved or as to the nature of any such resolution. Neither the Memorandum of Incorporation nor the Articles of Association of the Company nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries, which are in a state of war with Israel.

Government Sponsored Programs

The Company receives certain grants and tax benefits from, and participates in programs sponsored by the Government of Israel, certain of which have been reduced in recent years and may be further reduced or discontinued. Such grants and benefits relate principally to the Company's development, manufacturing and marketing activities. In order to be eligible for such grants and benefits, the Company is required to meet certain conditions. If, after receiving such grants and benefits, the Company fails to continue to meet such conditions, or otherwise violates the terms of such programs, the Company may be required to refund grants or benefits previously received. The results of operations of the Company have been favorably affected by the Company's participation in such government-sponsored programs. The results of operations of the Company could be adversely affected if these programs were further reduced or eliminated and not replaced with equivalent programs, or if the Company ceases or fails to be eligible for participation therein. There can be no assurance that the Company will be eligible for such grants or benefits or that, even if eligible, the Company will be awarded any such grants or benefits in the future, or that any will be available.

Differences between Israeli law and Belgian law

Investor's attention is drawn to certain differences, which may be of material interest to investors, between Israeli law and Belgian law in general, and in particular, to certain differences between the corporate laws of such jurisdictions. For a summary discussion of the articles of association of the Company and the rights attached to the shares see Section *5.7* and Section *7.4*. Such summary discussion does not purport to provide a comprehensive analysis of the differences between Israeli law and the laws of other jurisdictions, nor is it intended, and therefore it should not be construed, as legal, professional or other advise.

In particular, the Company dawns investor's attention to the fact that Article 41 of the Belgian Royal Decree of November 8, 1989, which protects the rights of the minority shareholders in the case of transfer of control on the Company, is not applicable to the Company. Moreover, neither Israeli law nor the Company's articles of association provide for such manner of protection of the minority shareholders' interests.

However, specifically with respect to acquisition of Company shares, Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become shareholder with over 25% of the voting rights in the company. This rule does not apply if there is already another shareholder of the company with 25% or more of the voting rights. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser's shareholding would entitle the purchaser to over 45% of the voting rights in the company, unless there is a shareholder with 50% or more the voting rights in the company. These rules do not apply if the acquisition is made by way of a merger. Regulations promulgated under the Companies Law provide that these tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, according to the law in the country in which the shares are traded, including the rules and regulations of the stock exchange or which the shares are traded, either; there is a limitation on acquisition of any level of control of the company; or the acquisition of any level of control requires the purchaser to do so by means of a tender offer to the public.

Additionally, a person wishing to acquire shares or any class of shares of a publicly traded Israeli company and who would as a result hold over 90% of the company's issued and outstanding share capital or of class of shares which are listed is required by the Companies Law to make a tender offer to all the company's shareholders or such class of shares, as applicable. If the shareholders who do not respond to the offer hold less than 5% of the issued share capital of the company or off that class of shares, as applicable, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, the shareholders may petition the court to alter the consideration for the acquisition. If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company or of such class of share, as applicable, from shareholders who accepted the tender offer if following such acquisition the acquirer would then own over 90% of the company's issued and outstanding share capital or of the shares comprising such class, as applicable.

Israeli Law and Jurisdiction

The Company is subject to the laws of the state of Israel. Certain matters relating to affairs of Israeli companies, including liquidation and other matters specifically prescribed under the Israeli Companies Ordinance and/or the Israeli Companies Law, are subject to the jurisdiction of Israeli District Courts. Other matters are subject to the general laws applicable to legal proceedings under Israeli law pursuant to which, inter alia, the Company can sue or be sued in any court of competent jurisdiction in Israel or out of Israel.

It may, however, be difficult for investors to effect service of process, and/or enforce judgments, against the Company and/or its officers and directors, obtained in non-

Israeli courts and predicated solely upon non-Israeli laws. Subject to certain time limitations, Israeli courts may enforce a foreign final executory judgment for liquidated amounts in civil matters, obtained after due trial before a court of competent jurisdiction (as determined under Israeli laws), provided that (i) the courts of such jurisdiction would enforce similar Israeli judgments, (ii) due service of process with respect to the Israeli enforcement action has been effected upon the party against whom the foreign judgment is to be enforced, (iii) such judgment or its enforceability is not contrary to the law, public policy, security or sovereignty of the State of Israel, (iv) such judgment was not obtained by fraud and does not conflict with any other such judgment in the same matter between the same parties, and (v) an action between the same parties with regard to the same subject matter was not pending in any other court at the time the original proceedings were instituted in the foreign court.

Absence of Arbitrage Trading between Israel and Belgium

The Company's Ordinary Shares are traded on more than one market and this may result, among others, in price variations. Following the listing of the Ordinary Shares pursuant to this Prospectus, such Ordinary Shares will be traded on both the Tel Aviv Stock Exchange ("TASE") as well as the Euronext Brussels Stock Exchange. As indicated since the Company's Ordinary Shares commenced trading on the TASE, trading of the Company's Ordinary Shares on both markets is not identical and made in different currencies (Euros on the Euronext Stock Exchange and New Israeli Shekels on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in Belgium and Israel). Consequently, the trading prices of the Ordinary Shares on these two markets may vary materially from day to day as well as on the same trading day. Such gap may further develop, inter alia, due to the lack of simultaneous trading (arbitrage). In addition transferring Ordinary Shares from one stock exchange to the other may require time, which may not enable shareholders to adequately protect themselves from such gaps.

GLOSSARY OF CERTAIN LEGAL TERMS

The following terms shall, in this prospectus, have the meaning ascribed to them below, unless the text specifically indicates otherwise:

Companies Law	The Israeli Companies Law – 1999.
Companies Ordinance	The Israeli Companies Ordinance [New Version] – 1983 which, as of February 1, 2000, has in general been replaced by the Companies Law (other than certain specific sections thereof).
CPI	Israeli Consumer Price Index.
External Director	Under the Companies Law, Israeli companies whose securities are publicly traded are required to appoint at least two external directors (the "External Directors") to be nominated by a General Meeting of a company's shareholders (upon a prescribed majority intended to allow non-affiliates to influence such election). The Companies Law details certain standards for the independence of these directors and prescribes certain rights and duties applicable thereto. Under the Companies Law, an External Director shall be appointed for a period of three consecutive years and may be re-appointed for one additional three year period only and any committee of the Board of Directors must include at least one External Director, and the Audit Committee must include all External Directors.
Holder of Office (or Office Holder)	A director, general manager, chief business manager, deputy general manager, vice general manager, any holder of the above offices in a company even under a different title and other manager directly subordinate to the general manager.
Securities Law	The Israeli Securities Law – 1968.

1 INFORMATION CONCERNING THOSE RESPONSIBLE FOR THE PROSPECTUS AND THE AUDITING OF THE COMPANY'S FINANCIAL STATEMENTS, AND CERTAIN RELATED ISSUES

1.1 Declaration of Conformity

Unitronics (1989) (R"G) Ltd., represented by Mr. Haim Shani, Chairman of the Company's board of directors and its Chief Executive Officer, having its corporate seat at AirportCity (Israel) takes responsibility for the contents of this Prospectus. To the best of its knowledge, the information contained herein is factually accurate in all material respects, and there is no omission of any information that would make any statement herein materially misleading.

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

1.2 Audit of the Company

The Auditors of the Company are Amit Halfon, Certified Public Accountants in Israel and a member firm of DFK International, with office at 1 Yagea Kapayim Street, Tel Aviv, Israel, who audited the financial statements of the Company as of and for the years then ended December 31, 2000, 2001, 2002 and 2003.

1.3 Approval from the Belgian Banking and Finance Commission

This Prospectus has been approved by the Banking, Finance and Insurance Commission on July ___, 2004 in accordance with article 14 of the Law of 22 April, 2003 on the public offer of securities. This approval in no way implies an evaluation of the appropriateness or quality of the operation, or the situation of the Company. The notice prescribed by article 13 § 1 of the aforementioned Law has been published in the press.

1.4 Sponsor Market Maker; Financial and Paying Agent Commitment

In application of article 147, 11° and 12° of the Royal Decree of February 16, 1996, amended by the Royal Decrees of January 13, 1997 and of December 18, 1998 establishing the regulations of the Brussels Stock Exchange, the Company has appointed Leleux Associated Brokers SA/NV ("LAB") as Sponsor – Market Maker (*Introducteur-Teneur de Marché / Sponsor- Markthouder*) for the Belgian market of the Company's stocks. This implies that LAB has to assist the Company to perform certain obligations towards observing the EuroNext Rule Book procedure for introducing shares to listing, producing certain documentation (such as a prospectus, the by-laws, the business plan etc.). LAB is also obliged to perform certain obligations, including but not limited to promoting the liquidity of the Shares, commercially supporting and promoting the Company's shares, publishing a financial analysis at the occasion of the Listing and the following two annual financial statements. The agreement is for an unlimited period of time and has continued in full force and effect though the date hereof (see also Section 5.4.4 below). By execution hereof LAB hereby undertakes to fulfill its role as market maker for a period of three years following the Listing.

In the absence of trading facilities between Belgium and Israel, LAB has today no link with any specific Israeli financial counterpart in order to coordinate the trade of the Company's shares on both Brussels and Tel Aviv stock markets.

In addition, LAB, duly represented by Mr. Olivier Leleux and Mr. Guy Boulanger Kanter, has agreed that LAB will act as Financial and Paying Agent for the Shares in Belgium. The Company will bear the costs for distribution of dividends, if any. Should another Financial and Paying Agent be nominated in place of LAB, such change will be communicated through the Belgian financial press.

Mr. Guy Boulanger Kanter
Director

Mr. Olivier Leleux
Chief Executive Officer LAB.

2 INFORMATION CONCERNING THIS PROSPECTUS

2.1 General

On May 19, 2004, the Company consummated a public offering pursuant to an Israeli prospectus dated May 12, 2004, published in accordance with the requirements of Israeli law (the "Israeli Prospectus"). Pursuant to the Israeli Prospectus the Company offered 800,000 Ordinary Shares, together with a series of NIS 35 million in nominal value debentures (series 1), convertible into Ordinary Shares of the Company and 1,000,000 option deeds (series 1) convertible into Ordinary Shares of the Company (see Section 2.3 below for further details). All such securities of the Company, including the Company's shares underlying these and other securities convertible into Company shares, were listed for trade on the Tel-Aviv Stock Exchange in Israel, together with the listing on such stock exchange of all other outstanding shares of the Company (see Section 2.3.4 below for further details).

In order to allow all shareholders of the Company, including non-Israeli shareholders, to be privy to the information provided by the Company under the Israeli Prospectus, an English translation of such prospectus was made available to the public in Belgium, for information purposes only and not as a public offering of any Company securities in any jurisdiction, and specifically not in Belgium.

Within the framework of the Israeli Prospectus, the Company expressed its intention, following the publication of the Israeli Prospectus, to effect its best efforts to cause the listing of the shares offered thereunder, for trade also on the Belgian Stock Exchange. The current prospectus is being filed by the Company for such purpose.

2.2 Form and Contents of Current Prospectus

Due to the proximity in time of the publication of the Israeli Prospectus and the current prospectus, and since the Israeli Prospectus essentially provided for the information which is required to be included in a prospectus under Belgian law (with certain immaterial exceptions as further detailed below), the Belgian Banking, Finance and Insurance Commission approved the filling by the Company of the current prospectus, under Belgian law, using the form and contents of the Israeli Prospectus, with the following changes and amendments:

2.2.1 Sections 1 - 4 of the Israeli Prospectus, which address issues relevant to the offering which was effected pursuant to such prospectus (i.e. - details of the securities offered thereunder, use of proceeds and underwriting arrangements) have been deleted in their entirety for the purpose of the current prospectus.

2.2.2 The English translation of Sections 5 - 10 of the Israeli Prospectus, which address issues relevant to the Company, its business, activities, assets, securities, board of directors, related party transactions and certain additional relevant information, have been included in their entirety in the current prospectus, with the exception of certain sections relevant to the offering pursuant to the Israeli Prospectus.

2.2.3 In addition to presenting the relevant information provided under the Israeli Prospectus as detailed in Section 2.2.2 above, the current prospectus also includes the following additional sections and information:

2.2.3.1 *Risk Factors:* The business-specific and stock market risk factors inherent in and affecting the business of the Company, were included in the Israeli Prospectus and are detailed in Chapter 6 hereof however, certain additional risk factors are particularly relevant to non-Israeli investors in the Company's shares, as further detailed in the Section of this prospectus titled "Risk Factors".

2.2.3.2 *Chapter 1 - Information concerning those responsible for the Prospectus and the auditing of the Company's Financial Statements, and certain related issues:*

legal statements and declarations as required under Belgian laws with respect to the current prospectus have been provided in Chapter 1 of the current Prospectus.

2.2.3.3 *<u>Chapter 2 - Information concerning this Prospectus</u>:* General explanations concerning the background, form and contents of the current Prospectus, a more detailed presentation of the transactions effected pursuant to the Israeli Prospectus and details of the Company's shares being listed under the current Prospectus have been provided in Chapter 2 of the current Prospectus.

2.2.3.4 *<u>Chapter 3 - Information concerning Belgian Fiscality</u>:* General information concerning the applicable provisions of Belgian tax and other fiscal laws have been provided in Chapter 3 of the current Prospectus.

2.2.3.5 *<u>Chapter 4 - Recent Developments</u>:* An update to certain information provided under the Israeli Prospectus, as to which certain developments have occurred after the publication of such prospectus have been provided in Chapter 4 of the current Prospectus. With the exception only of the "Soft Drink Project" (as defined in Chapter 4 below), none of such developments are material however, such developments are being presented in order to provide an accurate and updated account of the information provided elsewhere under the current Prospectus.

2.3 Transactions effected pursuant to the Israeli Prospectus

2.3.1 The Offering pursuant to the Israeli Prospectus

Unitronics offered, pursuant to the Israeli prospectus 800,000 Ordinary Shares, registered on name, of the nominal value of NIS 0.02 each, together with a series of up to NIS 35 million in nominal value debentures (series 1), convertible into Ordinary Shares of the Company together with up to 1,000,000 option deeds (series 1) convertible into Ordinary Shares of the Company, in 100,000 units (the "**Units**"), by way of a tender with respect to each Unit's price.

The Units were offered at a minimum price per Unit of NIS 392.90, each Unit comprising of the following securities:

8 Ordinary Shares of the Company at a per share price of NIS 7.55 and an aggregate price of	NIS 60.40
NIS 350 nominal value debentures (series 1) at an aggregate price of	NIS 332.50
10 option deeds (series 1), for no consideration	<u>NIS 0.00</u>
Total minimal price per Unit	NIS 392.90

The share price of the Ordinary Shares included in the Units was based upon the average trading price of the Company's shares on the EuroNext Stock Exchange in Belgium during the course of 30 days preceding the date of the Israeli Prospectus. The price and terms of the series 1 convertible debentures and the series 1 option deeds included in the Units were determined at arm's length negotiations between the Company and the lead underwriters of the Israeli Prospectus.

In the tender, which was conducted on May 19, 2004, the Company received 153 orders to purchase 101,665 Units (including Institutional Investors' orders to purchase 50,000 Units in an aggregate amount of NIS 19,645 thousand), and the price per Unit was determined as NIS 392.90.

The gross consideration received by the Company for the securities offered in the Israeli Prospectus was approximately NIS 39,290 thousand (approximately EURO 7.139 million). The aggregate offering expenses, including underwriter's fees and expenses, stamp duty and other expenses were approximately NIS 4,172 thousand (approximately EURO 0.758 million), resulting in net proceeds to the Company from such offering of approximately NIS 35,118 thousand (approximately EURO 6.381 million).

2.3.2 *Summary terms of the securities offered pursuant to the Israeli Prospectus*

2.3.2.1 *<u>The Shares</u>:* The Company offered, pursuant to the Israeli Prospectus, an aggregate of 800,000 Ordinary Shares of the Company which are registered on name, of the nominal value of 0.02 New Shekels each at a per share price of NIS 7.55 (approximately EUR1.38 New Shekels per share, taking into account the average trading price of the Company's shares on the EuroNext Stock Exchange in Belgium during the course of 30 days which preceded the date of the Israeli Prospectus, which was 1.38 Euro).

These shares are equal in rights to the other ordinary shares of the nominal value of 0.02 New Shekels, which existed in the capital of the Company prior to the Israeli Prospectus, and they entitle their holders to all rights of holders of such shares, including the entirety of the dividends in cash or in bonus shares, and in every other distribution in respect of which the date which determines the right to receive it shall fall after the date of the Israeli Prospectus.

2.3.2.2 *<u>The Convertible Debentures (series 1)</u>:* The Company offered, pursuant to the Israeli Prospectus, an aggregate of NIS 35 million (approximately EUR 6.4 million) in nominal amount of series 1 convertible debentures, repayable in 4 equal annual instalments from May 2007 until May 2010, linked to the US dollar (i.e. the sums due are payable in New Israeli Shekels, multiplied by a fraction, the nominator of which reflects the representative rate of exchange between the NIS and the US dollar on the date of payment, and the denominator of which reflects the representative rate of exchange between the NIS and the US dollar published on May 19, 2004) and bearing interest at an annual rate of LIBOR + 2.5%, convertible during such period into Ordinary Shares of the Company at a conversion price of NIS 9.00 (approximately EUR 1.65) per share (subject to adjustments in the event the Company distributes cash dividends, issues bonus shares or effects a rights offering, all of which will affect the conversion price and/or ratio accordingly); the series 1 convertible debentures were offered at a price equal to 95% of their nominal value. Conversion of all of the principal amount of such debentures, at a conversion price of NIS 9.00, shall result in the issuance of 3,888,889 Ordinary Shares of the Company (after rounding-up fractional shares). These debentures are not secured by any lien or pledge however, the Company has undertaken, within the framework of the Israeli Prospectus, certain limitations on its ability to subject its assets to future pledges.

2.3.2.3 *<u>The Option Deeds (series 1)</u>:* The Company offered, pursuant to the Israeli Prospectus, 1,000,000 options, exercisable until May 2008, into 1,000,000 Ordinary Shares of the Company at a per share price of approximately NIS 7.55 (app. EUR 1.38) linked to the US dollar (i.e. the sums due are payable in New Israeli Shekels, multiplied by a fraction, the nominator of which reflects the representative rate of exchange between the NIS and the US dollar on the date of payment, and the denominator of which reflects the representative rate of exchange between the NIS and the US dollar published on May 19, 2004).

2.3.3 *Capitalization following Consummation of the Israeli Prospectus*

2.3.3.1 *<u>The Company's Share Capital</u>*

On the date hereof the Company's registered share capital is NIS 2,000,000 divided into 100,000,000 Ordinary shares of the nominal value of 0.02 New Shekels each ("Ordinary Shares").

On the date hereof the Company's issued and outstanding share capital is comprised of 11,676,546 Ordinary Shares, and on a fully diluted basis such issued share capital would be comprised of 19,413,997 Ordinary Shares, assuming exercise of all of the option deeds (series 1) and the conversion of all of the debentures (series 1) issued and/or issuable pursuant to the Israeli Prospectus and also all of the outstanding debentures and the issued and/or issuable options under the Company's Share Option Plans on the date of such prospectus (see Sections 5.6 and 4.2 in the current Prospectus) (hereinafter "Fully Diluted Basis").

2.3.3.2 The Company's Share Holders

Prior to the Israeli Prospectus, all of the Company's issued and outstanding share capital, amounting to 10,876,546 Ordinary Shares, NIS 0.02 nominal value each, was registered in the Company's shareholder's register under the name of Interprofessionelle Effeotendeposito en Girokas N.V. – Caisse Interprofessionelle de Depots et de Virements de Titres S.A. through which the trading of these shares on the EuroNext Stock Exchange is facilitated.

Following the consummation of the offering pursuant to the Israeli Prospectus, the Company issued 800,000 Ordinary Shares, NIS 35 million in nominal value convertible debentures (series 1), and 1,000,000 option deeds (series 1), to the registrar company of Bank Leumi Ltd., through which the trading of these securities on the Tel-Aviv Stock Exchange is facilitated.

The Company's controlling shareholder, Mr. Haim Shani, holds, directly and/or indirectly, an aggregate of 6,092,551 Ordinary Shares and options to purchase an additional 10,000 Ordinary Shares pursuant to the Company's 1999 Share Option Plan (See Section 5.6.1 below). Such holdings constitute, on the date hereof, approximately 52.2% of the Company's issued and outstanding share capital, and approximately 31.4% on a Fully Diluted Basis (including certain securities which have not been included for the Israeli Prospectus, as further detailed above).

2.3.4 Listing on the Tel-Aviv Stock Exchange following Consummation of the Israeli Prospectus

Following the consummation of the offering pursuant to the Israeli Prospectus, the following securities of the Company were listed for trade on the Tel-Aviv Stock Exchange in Israel, and commenced trading therein on May 24, 2004:

Description Of Securities		Number and class of Securities
Aggregate shares issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.1 above)		800,000 Ordinary Shares
Aggregate nominal amount of series 1 convertible debentures issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2 above)		NIS 35 million in nominal amount of series 1 convertible debentures
Aggregate amount of shares issuable upon conversion of all of the series 1 convertible debentures issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2 above)		3,888,889 Ordinary Shares
Aggregate amount of series 1 option deeds issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2 above)		1,000,000 series 1 option deeds
Aggregate amount of shares issuable upon exercise of all of the series 1 option deeds issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2 above)		1,000,000 Ordinary Shares
Aggregate amount of Company shares issued and outstanding prior to the Israeli Prospectus		10,876,546 Ordinary Shares
Aggregate amount of shares issuable upon exercise of outstanding debentures and options granted on the date of the Israeli Prospectus under the Company's 1999, 2001 and/or 2003 Share Option plans (see Section 5.6 below) i.e., options to purchase an aggregate of 164,251 shares of the Company under the Company's 1999 and 2000 Option Plans which		2,384,311 Ordinary Shares

have not yet been granted on the date of the Israeli Prospectus (see Section 5.6 below), as well as 300,000 series 1 option deeds issuable to certain underwriters of the Israeli Prospectus (see Section 4.2 below), are not included in this amount		

2.4 Company Shares to be Listed pursuant to the Current Prospectus

2.4.1 Shares

By means of the current Prospectus the Company intends to list for trade on the EURONEXT Belgium Stock Exchange, the following Ordinary Shares, NIS 0.02 of the Company:

Description Of Shares		Number of Shares
Aggregate shares issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.1 above)		800,000
Aggregate amount of shares issuable upon conversion of all of the series 1 convertible debentures issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2 above)		3,888,889
Aggregate amount of shares issuable upon exercise of all of the series 1 option deeds issued to the public pursuant to the Israeli Prospectus (see Section 2.3.2.2 above)		1,000,000
Aggregate amount of shares issuable upon exercise of series 1 option deeds issued to certain underwriters of the Israeli Prospectus (see Section 4.2 below)		300,000
Aggregate amount of shares issuable upon exercise of all of the options issued under the Company's 1999, 2001 and/or 2003 Share Option plans (see Section 5.6 below)[1]		1,892,000
TOTAL COMPANY SHARES TO BE LISTED HEREUNDER		7,880,889

The listing of the above Shares on EuroNext Belgium has been applied for. The Shares will be quoted in EUR and will be fully fungible with the Company's shares currently listed for trade on the EuroNext Belgium Stock Exchange.

No assurance can be given that the existing market for the Shares will be sustained, nor can sufficient liquidity be guaranteed. No prediction can be made as to the effect, if any, that future sales of shares, or the availability of shares for future sale, will have on the market price of the Shares prevailing from time to time.

2.4.2 Previous listing

The Company's Shares have been listed on the EURO.NM Belgium and thereafter on the EuroNext Stock Exchange since October, 1999. They were introduced at EUR 3.72. 10,876,546 shares of Unitronics are currently listed on EURONEXT Belgium. For information regarding Unitronics' share price and volumes of trading see Section 5.4.5 below (as updated in Section 4.10 below).

[1] This amount does not include options to purchase 498.000 Ordinary Shares granted under the Company's 2003 Plan to the Trustee for employees as referred to in section 5.6.4, nor options to purchase 164,000 Ordinary Shares which have not yet been granted but remain grantable under the Company's 1999 and 2001 Plans. The Company intends to request admission to listing on Euronext Brussels of these Ordinary Shares after having granted the respective options under such plans to employees and/or advisors to the Company (as applicable – see Section 5.6 below).

3 INFORMATION CONCERNING BELGIAN FISCALITY

3.1 Certain Fiscal Laws

The statements below represent a general and broad summary of certain provisions of current Belgian tax legislation.

To the extent that the discussion is based on new legislation yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. The following discussion does not address specific rules that may apply to specific classes of holders of shares and is not to be construed as extending by implication to matters not specifically discussed therein. The following discussion is not intended and should not be construed as legal or professional tax advice, and does not cover all possible tax considerations. Each investor should consult his own tax counsel as to the individual consequences to himself of investment in the Shares, including, but not limited to, cross-country tax issues and the effects of applicable national and foreign tax laws.

The company will not compensate investors for any withholding taxes.

3.1.1 Belgian Taxation

3.1.1.1 General

The following summary sets out certain Belgian tax consequences of the acquisition, ownership and disposal of shares in a non-Belgian corporation.
It is based on tax laws (and interpretations thereof) of the Kingdom of Belgium as in effect on the date of this Prospectus and is subject to changes in Belgian law (and interpretation thereof), including changes that could have retroactive effect. This summary does not discuss any tax legislation that may be pending. Neither does it discuss or take into account the tax laws of any jurisdiction other than the Kingdom of Belgium nor any specific tax treaty.
This summary does not purport to be a complete analysis of all potential tax effects relevant to a decision to invest in the shares, and prospective investors are urged to consult their own tax advisors regarding the applicable tax consequences of acquiring, holding or disposing of the shares based upon their particular circumstances. Furthermore, it does not address Belgian tax considerations relevant to potential investors, subject to taxing jurisdictions other than, or in addition to, the Kingdom of Belgium, and does not address all possible categories of securities holders, some of whom may be subject to special rules.

3.1.1.2 Income Taxation for Belgian Resident Individuals holding shares as private investment

Dividends

If an individual collects foreign source dividends through a Belgian paying agent, the agent must withhold Belgian tax at the rate of 25%. The 25% rate can be reduced to 15% for dividends from shares issued by Belgian or non-Belgian corporations as from 1st January 1994 (i) pursuant to a public issue in accordance with the Belgian Royal Decree of July 7, 1999, provided that the shares are non -preferred shares or (ii) pursuant to a private issue, provided that the shares are non-preferred, that they have been subscribed for cash and are, from the date of issue, either registered with the issuing company or given in open custody to a bank, to a public credit institution, to a stock broker or to savings bank submitted to the supervision of the Banking and Finance Commission ("VVPR shares"). Under some circumstances however, pursuant to anti-abuse rules, some dividends may be excluded from the reduced rate of 15%.

The Belgian withholding tax is the final tax. The shareholder may elect not to report the dividend in his personal income tax return. A taxpayer has no interest in reporting the dividends in his tax return, unless the income tax on his global taxable income is lower than the withholding tax on the dividends.

If the individual collects the dividends abroad, he should report such dividends in his personal income tax return. The dividends will then be taxed at the same rate as that of the applicable withholding tax (plus municipal surcharges generally varying from 5 to 8% of the tax due).

Capital Gains

In principle, capital gains realized on the sale of securities by a resident individual are not subject to income tax, unless the Belgian tax administration demonstrates that the capital gain is the result of speculation, in which case the individual investor shall be subject to a 33 % tax (to be increased by a municipal surcharge generally varying from 5 % to 8 % of the tax due and a crisis contribution of 3% of the tax due[2]).

3.1.1.3 Income taxation for Belgian resident non-profit organizations[3].

Dividends

If the entity collects foreign source dividends through a Belgian paying agent, the agent will withhold the Belgian withholding tax at the rate of 25% or 15%, as the case may be (see above Section *3.1.1.2 Income Taxation for Belgian Resident Individuals holding shares as private investment*). This withholding tax is the final tax. The dividend should not be reported in the income tax return.

If the entity collects foreign source dividends abroad, it should pay itself the Belgian withholding tax to the Belgian Treasury and file the proper forms within 15 days from the payment or the attribution of the dividend, which is supposed to take place on the last day of the beneficiary's fiscal year. This withholding tax is the final tax. The dividend should be reported in the income tax return and evidence of the payment of the withholding tax should be submitted at the same time.

Dividends paid to the Belgian State and some other state agencies and public institutions are, however, exempt from Belgian withholding tax.

Capital Gains

Capital gains realized on the sale of securities by non-profit organizations are normally exempt from Belgian income tax.

3.1.1.4 Income taxation for Belgian resident companies.

Dividends

Regardless whether a Belgian resident corporation collects foreign source dividends through a Belgian paying agent or directly abroad,

[2] Under certain circumstances the crisis contribution will be reduced to 2 or 1% on the tax due, depending on the global taxable income of the beneficiary.

[3] This chapter is not applicable to Belgian resident non-profit organizations that would be subject to the corporate tax.

such dividends are exempt from Belgian withholding tax, provided that the formal conditions of identification are fulfilled.

The dividends should be reported in the corporate income tax return and be included in the taxable income. In principle, they are subject to ordinary corporate tax at the rate of 33,99% (currently 33% plus a crisis contribution of 3% on the tax due).

However, if the Belgian corporation (i) owns in full ownership, as a financial intangible asset and during an uninterrupted period of one year (II) a participation of at least 10% in the share capital of a company or a participation in the share capital of a company with an acquisition value of at least 1,2 million EUR, the dividends will, in principle, qualify for the dividend-received deduction. The minimum participation requirement does not apply to shares held by financial institutions, insurance companies, stock brooking companies and investment companies. Pursuant to Belgian anti-abuse rules certain dividends may however be excluded from the dividend-received deduction. Generally speaking, these anti abuse provisions rule out dividends from companies which are not subject to tax, which are established in a low tax jurisdiction or which are receiving non taxable dividends from such companies. Corporations qualifying for the dividend-received deduction are entitled to deduct 95% of the dividend received from their taxable income (other than from certain disallowed expenses).

Capital Gains

Capital gains realized on the sale of shares that qualify for the dividend-received deduction are fully and unconditionally tax exempt. Such exemption applies regardless whether the vendor has a shareholding of 10% or a shareholding of at least 1,2 million EUR in the company.

3.1.1.5 Income taxation for Belgian branches of non-resident companies.

Dividends

Foreign source dividends will in principle be subject to Belgian withholding tax at the rate of 25% or 15%, as the case may be, if the dividends are collected through a Belgian paying agent.

The dividends should be reported in the Belgian non-resident income tax return and are to be included in the taxable income. They are taxable at the ordinary corporate tax rate (currently 33% plus a crisis contribution of 3% of the tax due, i.e. 33,99% in total). The dividend-received deduction applies to dividends received by Belgian branches under the same conditions as for resident corporations.

Capital Gains

Similarly, the exemption from capital gains tax on the sale of shares applies to Belgian branches under the same conditions as for resident corporations.

3.1.1.6 Tax on Stock Exchange Transactions.

Belgian residents are subject to the Tax on Stock Exchange Transactions in the amount of 0.17% - but limited to EUR 250 per transaction - on the purchase and on the sale in Belgium of existing shares through a professional intermediary. The tax is due on each purchase and sale separately. The subscription (through a professional intermediary) to newly issued shares is subject to this tax in the amount of 0.35% - but limited to EUR 250 per transaction.

The Tax on Stock Exchange Transactions is not due by professional intermediaries mentioned in article 2 of the Law of 6 April 1995 acting for their own account, insurance companies mentioned in article 2, § 1 of the Law of 9 July 1975 acting for their own account, pension funds mentioned in article 2, § 3, 6° of the Law of 9 July 1975 acting for their own account, collective investment institutions mentioned in the Law of 4 December 1990 acting for their own account, nor by non-residents acting for their own account (upon delivery of a certificate of non-residence).

3.1.1.7 Inheritance tax and gift tax

Belgian Inheritance tax is due on the fair market value of the securities held by individuals who were resident of Belgium at the time of their decease.

4 RECENT DEVELOPMENTS

4.1 General

Following are updates to certain information provided under the Israeli Prospectus (and in Chapters 5 - 10 hereof), as to which certain developments have occurred after the publication of such prospectus. With the exception only of the "Soft Drink Project" (as defined below), none of such developments are material however, such developments are presented in order to provide an accurate and updated account of the information provided elsewhere under the current Prospectus. The following should be read in conjunction with the information set forth in the respective sections of the current Prospectus as referred to hereunder.

4.2 Granting of Additional Series 1 Option Deeds to Underwriters

Pursuant to the Israeli Prospectus the Company undertook to grant each of the three lead-managers of the consortium of underwriters of the Israeli Prospectus, as soon as practicable after May 19, 2004, 100,000 series 1 option deeds of the Company (i.e. an aggregate total amount of 300,000 option deeds) for no consideration. Such option deeds are to be identical in all respects to the series 1 option deeds of the Company issued pursuant to the Israeli Prospectus. The Company undertook to file, within 30 days after May 19, 2004, an immediate report with respect to such issuance in accordance with the Israeli Securities Law's Regulations (a private issuance of securities in a registered company) 2000, provided that said private issuance will be approved by all the Company's organs and as required pursuant to any applicable law. As of the date hereof the Company completed the process required for the approval of such granting, and such options have been granted. On June 21, 2004 the Tel-Aviv Stock Exchange approved the listing on such stock exchange of these options as well as the shares underlying such options. Dispositions of such securities are subject to certain lock-up provisions prescribed under applicable Israeli law.

The information provided in Sections 2.3 and 2.4 above reflects, for the purpose of the calculations made thereunder, the completion of all procedural requirements and the receipt of all approvals required for granting such option deeds, and the actual granting of such option deeds.

4.3 Effectiveness of Agreement following Court Validation of Settlement Agreement

Following the validation as a court ruling of the Israeli District court in Tel-Aviv, in May 2004, of the settlement agreement referred to in Sections 6.4.2.4 and 10.4.2 below, the agreement underlying such settlement agreement (for the upgrading of an automatic storehouse system at an Air-force base in Israel) came into effect and the Company commenced performance of its undertakings thereunder.

4.4 OCS Approval of offering pursuant to the Israeli Prospectus

Further to the Company's application for the approval of the Office of the Chief Scientist of the Israeli Ministry of Commerce and Trade (the "OCS") referred to in Section 6.11.2 below in connection with the offering of the Company's securities pursuant to the Israeli Prospectus, in May 2004, the OCS approved the issuance of such securities pursuant to the Israeli Prospectus.

4.5 Nomination of Securities Committee of the Company's Board of Directors

Following the consummation of the offering pursuant to the Israeli Prospectus, the Company's board of directors nominated Messrs. Shraga Tzur, Haim Shani and Bareket Shani, as members of the Company's Securities Committee. The Securities Committee has been authorized to issue, on behalf of the Company's board of directors, any Company shares underlying convertible debentures outstanding on the date of the Israeli Prospectus, any options granted and/or grantable under the share option plans of the Company in effect on the date of the Israeli Prospectus and the shares underlying the series 1 option deeds and/or series 1 convertible debentures issued pursuant to the Israeli Prospectus, upon the exercise and/or conversion of such securities in accordance with their terms.

4.6 The "Soft Drink" Project

In addition to the Agreements with Main Customers detailed in Section 6.4.2 below, in June 2004 the Company entered into an agreement with an additional Main Customer in the framework of projects for mechanization, computerization and integration of production systems and/or computerized logistics systems. Such agreement provides for the supply and installation of a control system, production control software, and an automatic monorail conveying system, to be installed at an international soft-drink manufacturer's facilities in Israel (the "Soft Drink Project"). The systems to be installed in the Project are based on Unitronics PLCs and other control software tools developed by Unitronics. In consideration for fulfilling Unitronics' undertakings in the Project, such customer undertook to pay Unitronics a total amount of approximately Euro 550 thousand (approximately NIS 3 million) subject to the achievement of certain milestones. In order to assure its obligations, Unitronics undertook to provide certain guaranties, which are to be released in portions according to the progress of the work.

As at the date of this prospectus, the Company has not yet commenced performance under this contract nor have any payments as yet been received by the Company thereunder. This project is targeted for completion through the first quarter of 2005.

4.7 Business License

Further to the Company's application for a Business License in accordance with the Israeli Business Registration Law, 5728-1968, as detailed in Section 6.3.4.5 below, in June 2004, the Company was issued a Business License under such law with respect to its facilities at AirPort City, Israel.

4.8 Employees

The Company continues to expand and diversify its staff from time to time as it deems required. As an update to the information provided in Section 6.9.1 below regarding its Israeli employees, as of the date of this Prospectus the Company employs 65 employees in Israel, distributed on the basis of sector of occupation and profession, as follows:

Occupation	Number of employees
Sales and marketing	9
Research and development	16
Administration	7
Manufacturing and quality control	19
Integration and support	14
Total	65

Profession	Number of employees
Clerks – administration	4
Professional technicians	5
Programmers (academics)	17
Engineers	8
Technician, warehouse and mechanical assembly	11
Academic (general)	10
Practical engineer	10
Total	65

4.9 Guarantees and Pledges

As detailed in Sections 6.4.3 and 10.6.3 below, the Company provides bank guarantees from time to time within the framework of the agreements for the establishment of logistic and other systems, and also in connection with the legal proceedings detailed in Section 10.6.4 below.

As of the date of this Prospectus, the self undertaking and the bank guarantee provided by the Company as further detailed in Section 10.6.4 below have been cancelled and are of no further force or effect, following the validation as a court ruling of the Israeli District court in Tel-Aviv of the settlement agreement referred to in Section 4.3 above.

In addition, within the framework of the agreements for the establishment of logistic and other systems the Company issued certain additional guarantees in accordance with the terms of such agreements. On the date of this Prospectus, the Company provided bank guarantees as mentioned above, in a cumulative amount of approximately EUR 220,000 (approximately NIS 1,200,000).

As of the date of this Prospectus, four of the eight liens on certain Company vehicles as further detailed in Section 10.6.1 below, have terminated.

4.10 Updated Information Regarding Trading of Company Shares on the Stock Exchanges

As an update to the information provided in Section 5.4.5 below, the following are the figures with regard to the price and volume of the transactions in the shares of the company on the EuroNext Stock Exchange in Brussels and on the Tel-Aviv Stock Exchange during the periods which are stipulated below (data sources: Bloomberg):

EuroNext:

Period	Closing price in Euro		Volume	
	Low	High	Total	Daily average *
24/5/04 - 28/6/04	1.13	1.40	47,859	1.13

* Rounded to the most proximate amount.

Tel-Aviv:

Period	Closing price in Euro		Volume	
	Low	High	Total	Daily average *
24/5/04 - 28/6/04	1.09	1.35	260,778	26,645

* Rounded to the most proximate amount.

4.11 Updated Summary Details of Convertible Securities and Options

As an update to the information provided in Section 5.6.4 below, the following are the principal terms of options and convertible debentures which exist in the capital of the company as at the date of this prospectus:

Type of convertible security/ option plan	Total number of ordinary shares NIS 0.02 nominal value each which was reserved	Total number of shares underlying the securities which were actually allotted/issued until the date of this prospectus.	Total number of shares which are exercisable on the date of the prospectus	Exercise price (in Euro)	Date of expiry
Debentures[4]	158,562	158,562	158,562	4.73	7.8.08
Series 1 Debentures[5]	3,888,889	0	3,888,889	1.65	23.5.10
1999 Plan[6]	440,000	288,000	288,000	3.80	2.12.04
		35,000	11,667	0.82	30.6.07
		62,250	62,250	1.00	31.10.05
		50,000	50,000	1.00	30.6.07
2001 Plan[7]	950,000	376,500	125,501	2.70	28.6.06
		39,999	13,333	4.73	28.6.06
		15,000	5,000	4.75	28.6.06
		359,000	89,750	0.91	30.6.07
2003 Plan[8]	1,000,000	502,000	0	1.30	22.1.09
		498,000[9]			
Series 1 Option Deeds[10]	1,300,000	0	1,300,000	1.38	23.5.08
Total	7,737,451	2,384,311	5,992,952		

[4] Debentures issued under a private placement. See Section 5.5 below.
[5] Debentures issued under the Israeli Prospectus. See Section 2.3.2.2 above.
[6] Options underlying the Company's 1999 Plan. See Section 5.6.1 below.
[7] Options underlying the Company's 2001 Plan. See Section 5.6.2 below.
[8] Options underlying the Company's 2003 Plan. See Section 5.6.3 below.
[9] Options granted to a trustee as further detailed in Section 5.6.3 below.
[10] Options granted under the Israeli Prospectus, and thereafter, to certain underwriters of such prospectus. See Section 2.3.2.3 and Section 4.2 above.

5 THE SHARE CAPITAL OF THE COMPANY AND THE HOLDERS THEREOF; THE RIGHTS ATTACHED TO THE COMPANY'S SHARES

5.1 The Capital of the Company – General

The registered share capital of the company as at the date of the prospectus is 2,000,000 New Shekels divided into 100,000,000 ordinary shares of the nominal value of 0.02 New Shekels each. The issued and the paid up share capital of the company is 217,530.92 New Shekels and it is comprised of 10,876,546 ordinary shares of the nominal value of 0.02 New Shekels each. The issued shares of the company are registered for trading and they are traded on the EuroNext Stock Exchange in Belgium (see clause 5.4 in the prospectus).

5.2 The Changes in the Share Capital of the Company in the Three Years Which Preceded the Date of the Prospectus

5.2.1 Throughout three years up until the 13th of April, 2004, the registered share capital of the company stood at 500,000 New Shekels divided into 25,000,000 ordinary shares of the nominal value of 0.02 New Shekels each.

On the 13th of April, 2004, a special resolution was unanimously passed in the general meeting of the shareholders of the company, with regard to increase of the registered share capital of the company by 1,500,000 New Shekels by the registration of 75,000,000 ordinary shares of the nominal value of 0.02 New Shekels each. After giving effect to the aforementioned actions, the registered share capital of the company stands at 2,000,000 New Shekels, divided into 100,000,000 ordinary shares of the nominal value of 0.02 New Shekels each.

The following are details of the changes which took place in the issued and paid up share capital of the company in the three years which preceded the date of the prospectus:

5.2.2 On the 17th of January 2001, a total of 437,638 ordinary shares of the company of the nominal value of 0.02 New Shekels each were allotted in the framework of a private placement of the shares of the company to two investors who are not the holders of an interest in the company. In accordance with the above-mentioned private placement agreement, the shares were allotted at the price of 4.569 Euro per share (which reflected an average price on the Belgium Stock Exchange of the shares of the company at such time) and at a total consideration of 2,000,000 Euro. In accordance with the terms of the placement agreement, the company undertook to effect its best efforts in order to register the shares for trading on the Stock Exchange in Belgium, and these shares were actually registered for trading on the Stock Exchange in Belgium and they are not subject to any lock-up.

5.2.3 On the 29th of January 2003, a total of 109,410 ordinary shares of the company of the nominal value of 0.02 New Shekels each were allotted in the framework of a private placement of the shares of the company to one of the private investors of January 2001. In accordance with the above-mentioned private placement agreement, shares were allotted at the price of 1.022 Euro per share (which reflected an average price on the Belgium Stock Exchange of the shares of the company at such time) and at a total consideration of 111,817.02 Euro. In accordance with the terms of the placement agreement, the company undertook to effect its best efforts in order to register the shares for trading on the Stock Exchange in Belgium, and these shares were actually registered for trading on the Stock Exchange in Belgium and they are not subject to any lock-up.

5.2.4 On the 18th of December 2003, a total of 1,902,748 ordinary shares of the company of the nominal value of 0.02 New Shekels each were allotted to third parties who are not the holders of an interest in the framework of conversion of convertible debentures of the company (see clause 5.5 in the prospectus). These shares were actually registered for trading on the Stock Exchange in Belgium and they are not subject to any lock-up.

5.3 <u>Holders of an Interest who Hold Securities of the Company</u>

5.3.1 To the best of the knowledge of the company and its directors, the holders of an interest in the company who hold the securities of the company as at the date of the prospectus, are as follows (see also clause 8.1 of the prospectus):

Name of Shareholder	Ordinary shares of the nominal value of 0.02 NIS each one	Holdings in %			
		Before the issue		After the issue	
		Without dilution	fully diluted[11]	Directly after the issue	fully diluted
Haim Shani [12][13][14][15]	6,092,551	56	46.0	52.5	32.2
Other directors[16]	0	0	Less than 1%	0	Less than 1%

Assuming the exercise of all the option deeds (series 1) and the conversion of all the debentures (series 1) which are offered in accordance with this prospectus, and also all the debentures and the options in accordance with the options plans of the company which exist as at the date of the prospectus. With the exception of options for the acquisition of a total amount of 164,251 shares of the company in accordance with the 1999 and 2001 Option Plans which have not yet been granted at the date of this prospectus (see clause 5.6 of the prospectus).

[1] At the time of the prospectus the company has 158,562 convertible debentures (see clause 5.5 in the prospectus) and also options for shares of the company which have been granted to employees, advisors and directors in the total amount of 2,225,749 shares (see clause 5.6 in the prospectus).

[12] These shares, and also all the remainder of the shares in the issued share capital of the company, are held by Interprofessionelle Effeotendeposito en Girokas N.V. – Caisse Interprofessionelle de Depots et de Virements de Titres S.A (hereinafter: "**CIK**") which is registered in the register of the shareholders of the company as shareholder ; to the best of the knowledge of the company, in accordance with the Belgian practice and the articles of CIK, this body fulfills in Belgium the function of registry and clearing-house in the possession of which there are deposited in accordance a global power of attorney, shares of the companies which are traded on the Stock Exchange in Belgium, and the various trading movements which are carried out in shares on the stock exchange by banks, brokers and other agents, which are registered in its books. Thus the CIK fulfills a similar function in the nature thereof to that which registration companies fulfill in Israel, by means of which the registration is conducted of shares of the company which are traded on the stock exchange in Belgium; shareholders who acquire shares of the company on the stock exchange in Belgium carry out the acquisition transaction (or the sale transaction) by means of a securities account which is maintained on their name in financial institutions (brokers, banks, and so forth) which are directly or indirectly members of the CIK system. The company is not aware of other holders of an interest apart from those who are indicated above (see also clause 5.7.9 of the prospectus with regard to the obligation of sharholders to report to the company and to the Belgian authorities with regard to changes in holdings of 5% of the shares of the company or multiples of 5%

[13] Mr. Haim Shani serves as the chairman of the board of directors of the company and as the managing director of the company. In the framework of these shares, also 50 shares of the company are included which are held by means of the company Corpus Colossus Ltd., a private company which is registered in Israel where Mr. Haim Shani holds 100% of the share capital and the voting rights therein. Furthermore, in the framework of these shares there are also included 50,000 shares of the company which Mr. Shani made available for the purpose of "Market Making" in accordance with the "Market Maker" agreement as specified in clause 5.4.4 in the prospectus .

[14] In addition to the shares which are held directly or indirectly by Mr. Haim Shani, Mr. Haim Shani holds an irrevocable power of attorney to vote by virtue of 399,999 ordinary shares of the company which constitute approximately 3.68% of the share capital which is issued of the company as at the date of the prospectus. See clause 8.2.2.2 in the prospectus.

[15] In addition to the shares, Mr. Shani holds options for the acquisition of 10,000 shares of the company in accordance with the 1999 options plan of the company (see clause 5.6.1 of the prospectus). Furthermore, in accordance with the agreement for his employment, Mr. Shani is entitled to additional options (see clause 8.2.1.1 in the prospectus). The granting of additional options to Mr. Shani, is subject to all of the approvals which are necessary in accordance with any law, and including the approval of the Stock Exchange for the registration for trade of the shares underlying such options

[16] Mrs. Bareket Shani, the wife of Mr. Haim Shani, who holds office as a director in the company and as the deputy chief executive officer and the manager of human resources , and also Messrs. Zvi Livneh and Shraga Tzur who hold office as directors in the company, each hold options for the acquisition of 10,000 shares of the company in accordance with the 1999 options plan of the company (see clause 5.6.1 of the prospectus. Furthermore, in accordance with her agreement of employment, Mrs. Shani is entitled to additional options (see clause 8.2.1.2 of the prospectus.) The granting of additional options to Mrs. Shani, is subject to all of the approvals which are necessary in accordance with any law, and including the approval of the Stock Exchange for the registration for trade of the shares underlying such options

5.4 Issue of Shares of the Company on the Stock Exchange in Belgium

5.4.1 The IPO Prospectus

In September 1999 the company published for the first time a prospectus for the issue of its shares to the public (IPO) in Belgium. In accordance with the IPO prospectus 1,600,000 ordinary shares of the nominal value of 0.02 New Shekels each were allotted, at a price of 3.72 Euro per share, and at a total consideration of approximately 5.95 million Euro. In consequence of this prospectus and in accordance therewith the shares of the company were registered for trading on the Euro.NM Belgium Stock Exchange in Belgium. In the year 2000, upon the establishment of the EuroNext Stock Exchange in Belgium, consequent to the unification of several segments of trading in securities on certain European Stock Exchanges (including Stock Exchanges in Brussels, Paris and Amsterdam), the shares of the company were transferred for trading on this Stock Exchange.

5.4.2 Lock-Up Arrangements in Accordance with the IPO Prospectus

In the framework of the IPO prospectus, certain shareholders of that time, and this including Messrs. Haim Shani and Mrs. Bareket Shani, undertook not to sell, to assign, or to transfer 90% of the ordinary shares of the company which were held by them at such time, throughout the period of 12 months.

Although the lock-up period in accordance with the IPO prospectus has elapsed, the Belgium Stock Exchange and securities authorities informed Mr. Haim Shani, in an informal manner, verbally, and after the aforementioned period had expired, that they still view his holdings of shares in the company as being subject to lock-up as mentioned also after the said period. Although in consequence thereof the Stock Exchange and the securities authorities in Belgium were asked for clarification or a formal demand for this matter, as at the date of the prospectus no formal reference has yet been received in the matter.

5.4.3 Exemption from the Securities Authority in Israel in Connection with the IPO Prospectus: Reporting Obligations

On the 7th of March 1999, the Securities Authority in Israel (“**the Authority”)**, exempted the company, by virtue of its authority in accordance with clause 40(c) of the Securities Law, 5728-1968 (hereinafter – “**the Law”**) from the requirement to publish a prospectus with the permit of the Authority in accordance with clause 40(a) of the Law in connection with the offer of securities to the public outside of Israel by the company, subject to the fulfillment of particular conditions, which the company fulfilled.

Additionally, the Authority exempted the company from the requirements of the provisions of section f of the Law (the Reporting Obligations) which apply to the company in accordance with clause 40(b) of the Law, provided that a copy of every report which shall be submitted in accordance with the provisions of the Belgium Law shall be made available for the perusal of the public at the head office of the company in Israel. The Authority also determined that this exemption shall remain in force for so long as the company has an obligation to report to the Belgium Authorities in accordance with the Belgium Law.

Consequent upon the offer under this prospectus, the validity of such exemption from the reporting obligations shall expire, and the company shall be subject to all reporting obligations which apply to a public company in Israel in accordance with the law, and this in addition to the reporting obligations which apply to it as a company whose shares are traded on the stock exchange in Belgium.

5.4.4 “Market Maker” Agreement

In accordance with the requirements which apply to the company as a company whose shares are traded on the EuroNext Stock Exchange in Brussels, the company is obliged to appoint a Sponsor Market Maker for its shares. Commencing from the year 2001, Leleux Associated Brokers S.A. (“LLO”) serves in this function in accordance with the liquidity and market making agreement between the company and LLO. In accordance with the agreement, LLO undertook to effect all actions required of a market maker in accordance with every law, including for the purpose of guaranteeing the frequency and the liquidity of the trading in the shares of the company in accordance with the requirements of the Stock Exchange in Belgium. For the purpose of the fulfillment of this obligation and in accordance with the requirements which apply to the company as a company whose shares are traded on the Stock Exchange in Belgium, the company was required to make available to LLO 50,000 shares of the company, and also the facility to use the sum of 50,000 Euro, and all for the purpose of the purchase and the sale of the shares of the company in the framework of the fulfillment of the function of LL as market maker. The quantity which is required of the shares as mentioned was made available to LLO by Messrs Haim Shani and Bareket Shani (who was then also a shareholder in the company), the holders of an interest in the company (and are included in the list of holdings of Mr. Shani as specified in clause 5.3.1 of the prospectus). In pursuance of the agreement, LLO is obliged to return these shares to Mr. and Mrs. Shani, and to return to the company the above-mentioned amount in cash, within 6 months from the termination of the agreement. The agreement is for an unlimited period of time and it is terminable by mutual agreement and with the approval of the Stock Exchange Authorities in Belgium, and LLO is obliged to continue to fulfill its functions as market maker up until the appointment of an alternative market maker.

In the framework of this agreement, LLO has also undertaken to carry out, every six months during the course of two years after the agreement, a financial research of the company and to publish same, and also to publish researches in accordance with its discretion, to maintain connections with investors, to promote the trading in the shares of the company and to maintain a daily, weekly and quarterly reporting scheme to the company.

In accordance with the agreement LLO is entitled to payment in a fixed annual amount (at an immaterial rate), which is payable on a quarterly basis and is reviewable annually. The agreement is subject exclusively to Belgium Law and to the jurisdiction of the Belgian courts.

As at the date of the prospectus, LLO has fulfilled its obligations in accordance with the above-mentioned agreement.

5.4.5 Rates (prices) of Shares of the Company on the Stock Exchange in Belgium

The following are the figures with regard to the price and the volume of the transactions in the shares of the company on the EuroNext Stock Exchange in Brussels in the periods which are stipulated:

Period	Closing price in Euro		Volume	
	Low	High	Total	Daily average *
January – December 2002	0.25	1.91	1,109,760	4,352
January-December 2003	0.60	1.49	573,037	2,247
January – April 2004[17]	1.25	1.54	658,944	8,237

* Rounded to the most proximate amount.

5.5 Existing Debentures

In February 2001, in the framework of a private placement to third parties (2 offerees) who are not holders of an interest, (and who shall not become holders of an interest through the exercise of the convertible debentures as specified below, in reliance upon the information which is in the possession of the company regarding their holdings in shares of the company at the time of the prospectus). the company allotted debentures which are convertible until February 2006, into a total quantity of 634,250 ordinary shares of the company, at an exercise price of 4.73 Euro per share (hereinafter – "**the debentures**"). The debentures were allotted in accordance with acquisition of debentures agreements dated the 31st of the month of January, 2001 (hereinafter – "**the original debentures agreement**"). In accordance with the terms of the original debentures agreement, the holders of the debentures provided the company with a total principal sum of 3,000,000 Euro. The outstanding principal amount bears interest of 4% per annum (payable annually), and it shall be repaid in one payment at the rate of 115% of the principal sum on the 7th of February 2006, unless previously converted. In accordance with the terms of the original debentures agreement, the debentures are subject to early redemption by the company upon certain terms (mainly market price of the company's shares exceeding the price of the debentures' redemption price) and subject to early repayment in accordance with certain terms which are specified in the original debentures agreement (mainly one payment at a rate which ensures an annual yield to the holders of the debentures of 6.63% on the principal amount and an advance notice of 30 days). The original debenture agreement does not include adjustment clauses except in connection with a "**merger event**" which is defined as the merger of the company into another company or the acquisition of more than 51% of its issued share capital; the company must give notice in advance to the holders of the debentures with regard to the occurrence of the merger event, and the holders of the debentures are entitled to choose whether to convert them into shares or to choose compensation at the rate which accords to them an annual yield of 6.63%; in any event, immediately prior to the occurrence of the merger event, the debentures shall be converted into shares. In addition, the company has undertaken to effect best efforts to register the shares which are convertible from the debentures for trading on the EuroNext Stock Exchange.

During the course of the months of November and December 2003, the company and the holders of the above-mentioned debentures signed an appendix to the original debentures agreement in accordance with which such agreement was amended and the terms of the debentures were

[17] as at the 30th of April 2004

changed (hereinafter – "**the appendix to the original agreement"**). In accordance with the appendix to the original agreement, the exercise price of the debentures was amended in the ratio of 4 to 1, from a price of 4.73 Euro per share, to a price of 1.1825 Euro per share, which reflects the average market price in the period which preceded the amendment. In this framework, such holders of debentures converted an aggregate principal amount of the debentures of approximately 2,250,000 Euro into ordinary shares of the company at a price of 1.1825 Euro per share (in the stead of a price of 4.73 Euro per share) while waiving all the rights to receive interest or other payments in connection with the amount which was converted as mentioned. As a result of the above-mentioned conversion 1,902,748 ordinary shares of the company were issued which constituted approximately 17.5% of the issued and the paid up share capital of the company after the conversion. The balance of the principal amount of the debentures (in the sum of approximately 750,000 Euro), is still subject to payment / conversion in accordance with amended terms, which shall yield a total annual return of 6.63% (by continuing to be subject to payment at the rate of 115% of the principal amount, and this in addition to payments of interest at the rate of 4% per annum until February 2006, and subsequently the interest shall increase to the rate of 8.13% per annum) and they shall be paid in ten quarterly installments (principal plus interest) commencing May 2006. Every amount which shall not yet have been paid as mentioned shall be convertible into ordinary shares of the company at an exercise price of 4.73 Euro per share which reflects (in the event that all the balance of the amount shall be converted) a possible allotment of up to 158,562 ordinary shares (that also through their allotment the holders of the debentures shall not become holders of an interest, in reliance upon the information which is in the possession of the company regarding their holdings in shares of the company at the time of the prospectus). . All the above-mentioned shares have been registered for trading on the EuroNext Stock Exchange in Belgium and they are not subject to any lock-up. The appendix to the original agreement has been approved by the annual general meeting of the shareholders of the company which was held in December, 2003.

5.6 Options and Option Plans

As part of the policy of recruiting employees and advisers for the company, the company has from time to time adopted option plans for the employees of the company, the office holders therein and its advisers as specified below, with the object of inducing the employment in the company of skilled, trained, capable and experienced persons. Furthermore, the plans are designated to attract employees, holders of office and advisers, whose services are deemed of special value, and also to increase their feeling of belonging and their feeling of ownership and to increase their interest in the development of the company and in its financial success. The company perceives in these option plans an inseparable part of the benefits which are provided to employees, the holders of office and advisers in technology companies of the type of the company. The company considers that had it not adopted the option plans as specified below, this would have had the effect of negatively influencing its capability of recruiting employees, holders of office and advisers having experience and capability. The following is a summary of the terms of the option plans which the company has adopted (for details with regard to the entirety of the quantity of the options which have been granted by the company up until the date of the prospectus, see clause 5.6.4 in the prospectus):

5.6.1 The Options Plan for the Year 1999

In July, 1999, the board of directors of the company adopted an options plan (hereinafter – "**the 1999 options plan"**), in accordance with which it may grant to employees, to office holders and to advisers in the company or in subsidiary companies of the company, options for the acquisition of shares of the company. A total amount of 440,000 ordinary shares of the company shall be reserved for the purpose of allotment of shares under the 1999 options plan. Options which shall have been cancelled or which shall not have been exercised within the framework of the time which is allotted for their exercise shall be returned to be available for granting under the plan. The 1999 options plan shall terminate in the year 2009 unless it shall have terminated previously thereto in accordance with a resolution of the board of directors of the company.

The 1999 options plan is governed by the board of directors of the company or by the options committee which shall be appointed by the board of directors and which is authorized to recommend to the board of directors with regard to the identity of optionees, the quantity of the options which shall be granted to every offeree, the option period and the terms of the exercise of the option. The exercise price of the options which shall have been granted under the 1999 options plan shall not be less than the fair market value of the shares of the company at the time of the granting of the options. The expression "**fair market value**" is defined in the 1999 options plan as the average closing price of a share of the company on the Stock Exchange on which its shares shall have been traded during the last ten days of trading which preceded the approval of the granting of the options by the board of directors of the company.

Options which are granted under the 1999 options plan may be exercised in installments during the course of the period of the options (the vesting period). The period of the exercise of the option has been determined by the board of directors and it may vary from offeree to offeree. To such extent as shall not have been indicated otherwise , options may be exercised in the period of five years after they were granted. The options may not be transferred by the offeree except in accordance with a will or the laws of succession, and during the period of the lifetime of the offeree the options may be exercised only by the offeree or by his lawful representative. The options shall expire at the time and in accordance with the terms which shall be determined by the board of directors of the company. Generally (in the case of employees), not later than 12 months after the termination of the employment, except in the case of death or disability, when the option may be exercised throughout the period of three months. The options plan includes adjustment mechanisms for events of changes in the share capital of the company (such as the distribution of bonus shares, splitting or consolidation of share capital) and also amalgamations, acquisitions and re-organisation, in accordance with which the options shall grant to their holders rights to shares which are identical to those which have been allotted to the shareholders of the company in the framework of such events, subject to the provision that in cases of re-organisation, mergers and acquisitions the holders of the options shall be entitled to exercise their options into shares at the effective date of the above-mentioned events. In the event of liquidation the options are immediately exercisable without dependency upon the above-mentioned vesting arrangement.

As at the date of the prospectus, options have been granted for the acquisition of a total of 435,250 ordinary shares of the company under the 1999 options plan. Options for the acquisition of a total amount of 288,000 ordinary shares of the company have been granted to employees of the company and may be exercised into ordinary shares of the company up to December 2004, subject to a vesting schedule (one third of the quantity of the options commencing from the expiration of the first year, the second year and the third year from the time of the grant, respectively) at an exercise price of 3.80 Euro per share. Options for the acquisition of a total amount of 35,000 shares have been granted under the 1999 options plan, to an office holder who is not the holder of an interest and they may be exercised into ordinary shares of the company up to June 2007, subject to a vesting schedule (one third of the quantity of the options commencing from the expiration of the first year, the second year and the third year from the time of the grant, respectively), at an exercise price of 0.82 Euro per share. Options for the acquisition of a total amount of 50,000 shares have been granted under the 1999 options plan to five directors of the company (one of them has since then concluded his term of office on the board of directors of the company), 10,000 for each one (including for Mr. Haim Shani and Mrs. Bareket Shani). These options may be exercised into ordinary shares of the company up until June 2007 at an exercise price of 1.00 Euro per share. Options for the acquisition of 62,250 ordinary shares of the company have been granted under the 1999 options plan to the legal advisers of the company who also serve as the legal advisers in this issue. These options may be exercised into ordinary shares of the company up until October 2005, at an exercise price of 1.00 Euro per share.

With regard to options for the acquisition of 4,750 shares of the company in accordance with the 1999 Option Plan which have not yet been granted at the time of the prospectus, an approval of the stock exchange for the registration for trade of such shares has not been requested and has not been received. The granting of these options is subject to all of the approvals which are required in accordance with any law and including the approval of the Stock Exchange for the registration for trade of the underlying shares of such options.

5.6.2 Options Plan for the year 2001

In the month of May 2001 the board of directors of the company adopted an additional options plan (hereinafter – "**the 2001 options plan**") in accordance with which it may grant to employees, office holders and advisers in the company or in subsidiary companies of the company, options for the acquisition of shares of the company. A total amount of 950,000 ordinary shares of the company shall be reserved for the purpose of allotment of shares under the 2001 options plan. Options which shall have been cancelled or which shall not have been exercised within the framework of the time which is allotted for their exercise shall be returned to be available for granting under the plan. The 2001 options plan will terminate in the year 2011 unless it shall terminate prior thereto in accordance with the resolution of the board of directors of the company.

The 2001 options plan is governed by the board of directors of the company or by the options committee which shall be appointed by the board of directors and which is authorized to recommend to the board of directors with regard to the identity of optionees, the quantity of the options which shall be granted to every offeree, the option period and the terms of the exercise of the option. The terms of the 2001 options plan substantially resemble the terms of the 1999 options plan. The adjustment arrangements in accordance with the 2001 options plan in the framework of acquisition, amalgamation, reorganization, changes in the share capital and liquidation, also substantially resemble those of the 1999 options plan, and in addition, the board of directors of the company is entitled to include provisions in the options agreements which facilitate expediting the vesting period of the options to a time shortly before the amalgamation or the acquisition as mentioned.

As at the date of the prospectus options had been granted for the total sum of 793,499 ordinary shares of the company under the 2001 options plan, of which options exercisable into 3000 shares had been cancelled in accordance with their terms. From out of this quantity, options for the acquisition of a total amount of 735,500 ordinary shares of the company, had been granted to employees of the company and holders of office (who are not holders of an interest in the company) and which may be exercised into ordinary shares of the company up until June 2006 or 2007 (in accordance with the date of the grant) subject to a four years vesting schedule (one third of the quantity of the options commencing from the expiration of the second year, the third and the fourth years from the time of the grant, respectively), at a per share exercise price of between 0.91 Euro to 2.70 Euro. Options for the acquisition of a total amount of 54,999 shares were granted under the 2001 options plan to several advisers of the company, who are not holders of an interest in the company. These options may be exercised into ordinary shares of the company until June 2006 subject to a four year vesting schedule (a third of the quantity of the options commencing from the expiration of the second year, the third and the fourth years from the time of the grant, respectively) at the exercise price of 4.73 - 4.75 Euro per share.

With regard to options for the acquisition of 159,501 shares of the company in accordance with the 2001 Option Plan which have not yet been granted at the time of the prospectus, an approval of the stock exchange for the registration for trade of such shares has not been requested and has not been received. The granting of these options is subject to all of the approvals which are required in accordance with any law and including the approval of the Stock Exchange for the registration for trade of the underlying shares of such options.

5.6.3 <u>Options Plan from the year 2003</u>

In November 2003 the board of directors of the company adopted an additional options plan (hereinafter – "**the 2003 options plan**") which accords with the Israeli reform in tax and the provisions of clause 102 of the Israeli Income Tax Ordinance (New Version) including as amended by amendment number 132 dated the 1st of January 2003 (hereinafter – "**the Ordinance"**). In accordance with the 2003 options plan, the company may grant options for the acquisition of ordinary shares of the company to employees and/or office holders of the company, subsidiary companies of the company and/or a parent company of the company, provided that employees and/or office holders as mentioned are not holders of control in the company, or will not become holders of control as a result of the exercise. The amount of 1,000,000 ordinary shares of the company will be reserved for allotment under the 2003 options plan. Options which shall have been cancelled or which shall not have been exercised within the framework of time which is allotted for their exercise shall be returned to be available for granting under the plan. The 2003 options plan shall terminate in the year 2013, unless it shall have terminated previously in accordance with a resolution of the board of directors of the company.

The board of directors of the company elected the "**capital course**" (as defined in clause 102(b)(2) of the Ordinance) for the granting of options under the 2003 options plan. Generally and subject to certain requirements, options granted under the capital course shall be held in trust (by a trustee who shall have been approved by the tax authorities in Israel) for a period which shall not be less than 24 months from the termination of the tax year in which the options shall have been granted. Any profit which shall have arisen from the sale of shares underlying the options shall be subject to tax at the rate of only 25% (in the stead of the marginal rate of tax which applies to the offeree), on the other hand, the company shall not be able to record options as an expense. The company and the offeree shall not be charged with social taxation upon the sale of shares underlying the options.

The 2003 options plan is governed by the board of directors of the company or by the options committee which shall be appointed by the board of directors and which is authorized to recommend to the board of directors with regard to the identity of optionees, the identity of the trustee, the quantity of the options which shall be granted to every offeree, the option period and the terms of the exercise of the option. The exercise price of the options which shall have been granted under the 2003 options plan shall be determined by the board of directors of the company or the committee on condition that it shall not be less than the nominal value of the shares underlying the options at such time.

Options which are granted under the 2003 options plan may be exercised in installments during the course of the period of the options (hereinafter – **"the vesting period"**). The period of the exercise of the option has been determined by the board of directors of the company or the options committee and may vary from offeree to offeree. To the extent not otherwise indicated, options may be exercised in the period of five years after they were granted. The options may not be transferred by the offeree except in accordance with a will or the laws of succession, and during the period of the lifetime of the offeree the options may be exercised only by the offeree or by his legally appointed representative. The options plan includes adjustment mechanisms for events of changes in the share capital of the company and also mergers, acquisitions and re-organization, (and also cases of liquidation) which are similar in their nature to those of the options plan, 2001.

As at the date of the prospectus, options have been granted to employees of the company (who are not the holders of an interest) for the acquisition of a total of 502,000 ordinary shares of the company under the 2003 options plan. These options may be exercised into ordinary shares of the company up until January 2009 at an exercise price of 1.30 Euro per share, subject to a four years vesting schedule (a third of the quantity of the shares may be exercised commencing from the expiration of the second year, the third and the fourth years from the time of the grant respectively), with the exception of 105,000 options from this quantity, which have been granted subject to a five years vesting schedule (one third of the quantity of the options which may be exercised commencing from the expiration of the third year, the fourth and the fifth years from the time of the grant, respectively) and which may be exercised in the period of six years after the time of their being granted.

The remainder of the options which can be granted as at the date of the prospectus in accordance with the 2003 options plan, which may be exercised into 498,000 shares of the company, have been granted to a trustee on behalf of the company, and they are intended for transfer, from time to time, to employees who are not holders of an interest by virtue of their holdings (only) of the company and/or subsidiary companies of the company, as the board of directors of the company shall direct, which shall also be authorized also to determine and to change at the time of any transfer as mentioned, the exercise price, the vesting period, the period of the exercise and the remainder of the terms of the option which shall apply with regard to every option which shall be transferred as mentioned.

5.6.4 Convertible securities and Options – summary

The following are details of the holders of options for the acquisition of shares of the company which have been granted up to the date of the prospectus.

Holder	Number of Options (on the basis of a 1:1 ratio of option/share)	% of shares on a fully diluted basis[18]
Employees and advisors[19]	1,677,749	12.5%
Directors[20][21]	50,000	Less than one percent
Trustee for employees[22]	498,000	3.8%
Total	2,225,749	

The following are the principal terms of options and convertible debentures which exist in the capital of the company as at the date of the prospectus:

Type of convertible security/ option plan	Total number of ordinary shares NIS 0.02 nominal value each which was reserved	Total number of shares underlying the securities which were actually allotted/issued until the date of this prospectus.	Total number of shares which are exercisable on the date of the prospectus	Exercise price (in Euro)	Date of expiry
Debentures	158,562	158,562	158,562	4.73	7.8.08
1999 Plan	440,000	288,000	288,000	3.80	2.12.04
		35,000	11,667	0.82	30.6.07
		62,250	62,250	1.00	31.10.05
		50,000	50,000	1.00	30.6.07
2001 Plan	950,000	376,500	125,501	2.70	28.6.06
		39,999	13,333	4.73	28.6.06
		15,000	5,000	4.75	28.6.06
		359,000	89,750	0.91	30.6.07
2003 Plan	1,000,000	502,000	0	1.30	22.1.09
		498,000[23]			
Total	2,548,562	2,384,311	804,063		

[18] On the basis of 13,102,295 shares, upon complete dilution, of which 10,876,546 shares are issued and paid up on the date of the prospectus and an amount of 2,225,749 shares which may be exercised in accordance with all of the debentures and the options in accordance with the option plans of the company which are granted on the date of this prospectus, meaning, this amount does not include the options for the acquisition of an amount of 164,251 shares of the company in accordance with the 1999 and 2001 option plans of the company which have not yet been granted on the date of this prospectus (see details of clause 5.6 in the prospectus.

[19] The number of advisors to which options were offered or allotted in actual fact does not exceed 35, cumulatively. See clause 5.6 in the prospectus with regard tot eh option plans which were adopted and which were issued in actual fact.

[20] Each one of the Messrs. Haim Shani, Bareket Shani, Zvi Livneh and Shraga Tzur (serving directors) and also the previous board of directors holds options for the acquisition of 10,000 ordinary shares of the company under the 1999 options plan, see clause 5.6.1 in the prospectus.

[21] In accordance with their employment agreements, Messrs. Haim Shani and Bareket Shani each are entitled to additional options (see clause 8.2.1.1 and clause 8.2.1.2 in the prospectus) .

[22] Options in accordance with the 2003 Option Plan which have been granted to the trustee in accordance with clause 5.6.3 of the prospectus.

[23] Options in accordance with the 2003 Options Plan which have been granted to the trustee in accordance with clause 5.6.3 of the prospectus

5.7 <u>The Rights Attached to the Shares of the Company in Accordance with the Articles of the Company</u>

The following is a description of the rights attached to the shares of the company in accordance with the articles of the company:

5.7.1 <u>Participation in the Distribution of Dividends and Bonus Shares</u>

Every ordinary share grants to the holder thereof the right to participate in the distribution of the profits of the company proportionately to the amount which has been paid up with regard to every share. The company is entitled to declare in a general meeting a dividend which shall be paid to the shareholders in accordance with their rights and their share in profits and to determine the time of the payment. No dividend is to be declared which is larger than that which shall have been recommended by the board of directors, but the company is entitled to declare in a general meeting a dividend which is less than that which shall have been recommended by the board of directors.

5.7.2 <u>The Rights at the Time of Liquidation</u>

Every ordinary share entitles its holder to participate in the distribution of its surplus property in the event of its liquidation, proportionately to the amount which has been paid up with regard to every share.

5.7.3 <u>Charging of the Shares</u>

(a) The company shall have a first and chief charge over all the shares which shall not have been paid up in their entirety, which are registered on the name of any shareholder, whether in his own name or jointly with any other person, with regard to his debts, his liabilities and his engagements, whether alone or jointly with any other person, towards or with the company, whether the time for the payment, the discharge or the deletion thereof shall have arrived or shall not have arrived and such charge shall include all the dividends which are declared from time to time which are connected with these shares: but the directors may declare any share at any time to be exempted, in its entirety or in part from the provisions of this clause.

(b) For the purpose of the exercise of such a charge, the directors are entitled to sell shares which shall have been forfeited or shares which shall have been released or such shares as are subject to charging as mentioned in the articles of the company at such time or such times and or by such method as they shall view as being correct and provided that no sale shall be carried out until the monies in respect of which the charge was effected, or part of the monies, are payable or that the liability or the obligations connected with the charge can lead to their fulfillment or their cancellation and until a demand and a notice in writing indicating the amount which is due or which specifies the liability or the engagement and which requires payment, fulfillment of the obligations or the cancellation thereof and which gives notice of the intention to sell in the event of failure to fulfill terms has been submitted to the shareholder or the persons (in the event that they are such persons) who have received a right over the share and he, or they, have failed to fulfill the demands throughout 14 days from the day of the notice.

(c) The net consideration from such a sale shall serve as payment of the amount which is due to the company or the amount of the obligation or of the engagement, as the case may be, and that which remains (in the event that anything does remain) shall be paid to the shareholder or to the person (in the event that there is such a shareholder or person) who shall have received a right over the share.

5.7.4 Appointment of Directors

For the matter of the appointment and the dismissal of directors in the company, see clause 7.4 of the prospectus.

5.7.5 The General Meeting

(a) Annual general meetings shall be convened at least once per calendar year at such time as shall not exceed fifteen months from the previous meeting and at such location as shall be chosen by the directors[24]**.** These annual general meetings shall be called "**ordinary meetings"**. The remainder of the meetings of the company shall be called **"extraordinary meetings"**.

(b) The annual general meeting shall receive and shall discuss the report of the directors, the profit and the loss report, the balance sheet, it shall appoint the accountants auditor, it shall appoint the directors in accordance with the articles of the company and it shall discuss all the other matters which must be discussed at the general meeting of the company, in accordance with the articles of the company or in accordance with the law.

5.7.6 Notices of General Meetings and Notices to the Shareholders

(a) The directors are entitled to convene, at any time that they shall deem it correct to do so, an extraordinary meeting, and the directors are obliged to convene an extraordinary meeting in accordance with a demand in writing as specified in clause 63(b) and 64 of the Companies Law. Every such demand must specify the objects for which the meeting must be called and it shall be signed by the parties who are demanding the meeting and it shall be deposited at the offices of the company. It is possible that the demand shall be comprised of several documents in identical text with each one of them signed by one party who is making the demand or more than one party making the demand. In the event that the directors do not summon a meeting within 35 days of the date of the publication of the demand as mentioned, the parties who are making the demand – or some of them who represent more than one half of the voting rights of everybody are entitled themselves to convene the meeting, but a meeting which shall have been convened as mentioned shall not be held after the expiration of three months from the day of the submission of the demand.

(b) The directors shall give advance notice of at least twenty one days with regard to the location, the date and the hour of the meeting and the matters for discussion for the purpose of which the meeting shall have been convened. The notice shall be given to such shareholders as are entitled in accordance with the articles of the company to receive notice from the company. Notices shall be given in accordance with the Israeli Law and in accordance with the relevant legal requirements in Belgium and provided that no discussion at the general meeting shall be invalidated as a consequence of failure to receive notice unwittingly, and also, with the agreement of all the shareholders who are entitled at such time to receive notices, it is possible to summon a meeting by shorter notice or without notice. Such agreement may be given at meetings or *aposteriori* after the meeting.

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[15] Although the company has not been so required formally since the registration of its shares for trading on the Stock Exchange in Belgium, the company has held all the general meetings of the shareholders, in Belgium. It could be that also in the future the company shall hold general meetings of its shareholders in Belgium.

(c) Notice with regard to a general meeting shall be deemed to be correct and adequate in the event that it contains the matter which shall be dealt with at the meeting or, without turning the next proceeding to obligatory, in the event that it indicates that a draft of the resolution which is proposed at this meeting is available for perusal at the place which shall have been determined at a given time.

(d) The company is entitled to deliver notice to the shareholders, whether personally, or by way of dispatch by registered post, paid in advance (by airmail in the event of dispatch from outside of Israel), from the sender in accordance with the address which is recorded of such shareholder in the register of shareholders of the company or as is determined in the Israeli Law and in accordance with the Belgium requirements which are applicable, which shall be deemed to be delivery commencing from the day of their publication in accordance with these requirements.

(e) A notice in writing and any other document shall be deemed to have reached its destination 12 hours after dispatch by facsimile, 48 hours after dispatch by post (7 days in the event that it shall have been sent from outside of Israel), or at a time at which it shall actually have been received by the addressee shareholder (or the secretary or the president of the company) in the event that the said time is earlier than these, on condition that a notice as mentioned or document may be sent by means of telegram with certificate by registered post as mentioned above and then it shall be deemed to have been delivered 24 hours after the telegram and/or the telex have been sent or upon their actual receipt by the addressee shareholder or the company), whichever the earlier. In the event that the notice shall have actually been received by the addressee, it shall be deemed to be a notice which was lawfully delivered upon its receipt also in the event that it shall have been sent in a defective manner or other than in accordance with the provisions of the articles of the company.

(f) The company is not obliged to give notice of general meetings to a person who is entitled to shares of the company, unless he is lawfully registered as a shareholder in the company.

(g) In relation to shares which are jointly held, notice shall be given to such person whose name is first mentioned in the register of shareholders as the holders of such share, a notice which shall be given in this manner shall be adequate notice to the holders of such share.

(h) A shareholder whose address is not registered in the register of the shareholders of the company and who shall have failed to indicate in writing some other address for the receipt of notices, shall not be entitled to receive any notice from the company by personal delivery, by post, by facsimile, telegram or telex.

(i) A notice which shall have been delivered or shall have been sent to a shareholder in accordance with the articles of the company – shall be deemed to have been lawfully delivered and sent with regard to the shares which are held by him (whether with regard to the shares which are held by him alone or with regard to shares which are held by him jointly with others), also in the event that such shareholder shall have passed away, or that he was a bankrupt (whether or not the company knew of his passing away or his bankruptcy), until some other person shall be registered in his stead as the holder of the shares or as their holder jointly with others, and delivery or dispatch as mentioned shall be deemed to be adequate delivery or dispatch to the successors, to the trustees, to the guardians, to the managers or to the recipients of a transfer and all other persons (in the event that there are other such persons) who have a right in the shares.

(j) Where advance notice is required of a fixed period of time which is stipulated in a number of days or in a period, the day of the delivery shall be deemed to be part of such days or period.

(k) Failure to deliver unwittingly, to a shareholder, of a notice with regard to a general meeting or non-receipt of a notice as mentioned shall not prejudice the validity of the resolution which shall have been passed at such meeting.

(l) A person shall be deemed to have received a notice, a document or some other communication in the event and/or that which is stated came to his knowledge or was received by him or at the address indicated by him in accordance with the articles of the company.

5.7.7 Discussions at General Meetings

(a) A discussion is not to be commenced in any matter whatsoever at a general meeting unless a legal quorum shall be present at the time that the general meeting shall have commenced discussion. Two members who are present in person or by way of a proxy and who hold or who represent 30% of the voting rights of the company shall constitute a legal quorum.

(b) In the event that within half an hour of the time which shall have been determined for a meeting the legal quorum shall not be present, the meeting shall automatically be adjourned by one week to the same time and to the same location, or to any other location or time as the board of directors shall determine by notice to the shareholders. In the event that at the expiration of half an hour from the time which shall have been determined for the adjourned meeting as mentioned, a legal quorum is not present, two members who are present in person or by proxy shall constitute a legal quorum without connection to the rate of their holding in the voting rights.

The only matters which may be discussed at an adjourned meeting shall be the matters which it would have been lawfully possible to discuss and/or to handle at the original general meeting in the event that the required legal quorum would have been present therein.

(c) The chairman of the board of directors (in the event that there is such a chairman) who shall have been elected from out of the director shall sit as chairman in any general meeting. In the event that there is no chairman or the chairman is absent from the meeting for 15 minutes from the time which shall have been determined for the meeting or in the event that he shall refuse to sit as chairman of the meeting, the shareholders who are present shall choose one of the directors, or in the event that a director shall not be present or in the event that all the directors who are present shall refuse to sit as chairman – one of the shareholders who are present shall be elected to sit as chairman of the meeting.

(d) With the agreement of the meeting at which a legal quorum is present, the chairman is entitled, and in accordance with the demand of the meeting he is obliged, to adjourn the meeting from time to time and from location to location, as the meeting shall determine. In the event that the meeting shall be adjourned for seven days or more, notice shall be given of the adjourned meeting in the same manner that notice is given of the first meeting. With the exception of that which is stated above, a shareholder shall not be entitled to receive any notice of adjournment or of the matters which are to be discussed at the adjourned meeting. At the adjourned meeting, no matter shall be discussed other than the matters that it would have been possible to discuss at the meeting at which the adjournment was decided upon.

5.7.8 Voting Rights

(a) At every general meeting the resolution which is to be voted upon shall be passed by a raising of hands. The declaration of the chairman that the resolution shall have been passed or shall have been passed unanimously or by a certain majority, or shall have been dismissed or shall not have been passed by a certain majority shall be decisive and its registration in the minutes book of the general meetings of the shareholders of the company shall serve as conclusive evidence thereof, and there shall be no need to prove the number of the votes or the ratio of the votes which were counted in favour of such resolution or against such resolution.

(b) An ordinary resolution at the general meeting shall be deemed to have been lawfully passed, in the event that it shall have received an ordinary majority of the votes of the participants in the vote who are entitled to vote. A special resolution[16] shall be deemed to

[16] As per the meaning thereof in the Companies Ordinance; in accordance with the articles of the company, a special resolution is required in connection with changes in the share capital of the company (increase of registered capital, change of rights attached to shares, consolidation of share capital into shares with a larger nominal value and/or splitting thereof into shares with a smaller nominal value and so on and so forth) and the

have been lawfully passed in the event it shall have received a majority of not less than 75% of the votes of those who participate in the vote who are entitled to vote.

(c) In the event that the votes in a meeting shall have been equal, the chairman of the meeting shall have an additional vote or a casting vote.

(d) The board of directors is entitled to determine a date in accordance with which the shareholders shall be determined who are entitled to notice and/or to participate and/or to vote at a meeting or at an adjourned meeting and provided that the date shall not precede the date upon which the resolution of the board of directors is passed as mentioned, and it shall not be more than the maximum period of time which is permitted in accordance with the law prior to the meeting or less than the minimum period of time which is permitted in accordance with the law prior to the meeting. In the event that a date shall not have been determined as mentioned, the determining date for the determination of the right of a shareholder to receive notice and/or to participate and/or to vote in the meeting shall be the maximum date which is permitted in accordance with the law prior to the meeting. Determination as mentioned shall apply to every adjourned meeting save in the event that the board of directors shall have determined a new date for the adjourned meeting.

(e) In the event that a shareholder is not of sound mind, he is an idiot, or he is not competent to bear legal responsibility, he is entitled to vote by a member of his trustees, a member receiver of his assets, his natural guardian or some other legal guardian and they are entitled to vote in person or by a proxy.

(f) In a situation where two or more persons are the joint holders of a share only the vote of the head of the joint holders shall be accepted in a vote upon any question, whether in person or by proxy, without taking into account the remainder of the joint holders of the share who are registered, and for this purpose the head of the joint holders shall be deemed to be the person whose name is first registered in the register of shareholders of the company.

(g) In any vote every shareholder shall have the number of votes in accordance with the number of the shares which he holds. It is possible to vote in person or by way of proxy. A proxy does not have to be a shareholder in the company.

(h) Every document of appointment of a proxy (whether for a particular meeting or otherwise) shall be in the customary text or any text which shall be approved by the directors and it shall be prepared in writing with the signature of the party who is making the appointment or his authorised legal representative for such purpose in writing. In the event that the party who is appointed is a corporation, the corporation shall vote by means of its representatives who shall have been appointed by a document which shall be lawfully signed by the corporation.

(i) A vote in accordance with the terms of the power of attorney shall be lawful also in the event that prior thereto, the party making the appointment shall have passed away or shall have become bankrupt or shall have cancelled the deed of appointment or shall have transferred the share in relation to which it shall have been given, unless notice in writing shall have been received at the office of the company prior to the meeting or the adjourned meeting at which use is made of the power of attorney, that the member has passed away, has become bankrupt or has cancelled the deed of appointment or has transferred the share.

(j) The deed of appointment of the proxy and power of attorney or other authority (in the event that there is such other form of authority) from some other authorized body (if at all) or a copy which is certified by a notary or an office copy shall be deposited at the office or at some other location or at other locations in Israel or outside of Israel, as the board of directors shall determine from time to time whether generally or in relation to a case or a particular type of case – at least forty eight hours prior to the time which shall have been determined for the meeting or for the adjourned meeting at which the person who is mentioned in the document intends to participate and to vote in accordance therewith; otherwise the person who granted the power of attorney shall not be entitled to vote. A document of appointment of a proxy shall not be of any validity after the expiration of 12 months from the day upon which it shall have been signed.

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distribution of assets upon liquidation. Amendment of the articles of the company is also subject to a special resolution as are decisions in connection with liquidation proceedings in accordance with the clauses of the Companies Ordinance which deal with such matters.

(k) A shareholder in the company shall be entitled to vote at meetings of the company by means of a number of proxies, who shall be appointed by him and provided that every proxy shall be appointed in respect of different parts of the shares which are held by the shareholder. Every proxy who shall have thus being appointed by such shareholder shall be entitled to vote in accordance with however he shall deem to be proper.

(l) No person shall be entitled to vote in any general meeting or to be taken into account in the determination of those who are present unless all the payment demands designated for him upon his shares in the company shall have been discharged.

5.7.9 Restriction Upon the Transferability of Shares

In the articles of the company there is no restriction whatsoever upon the transfer of shares of the company which have been paid up in full.

In accordance with the requirements of the Belgian Authorities in the framework of the issue of the shares of the company to the public and their registration for trading on the Stock Exchange in Belgium, a provision was added to the articles of the company, according to which any party (whether or not he is a shareholder) who acquires or who sells shares of the company, shall inform the board of directors of the company and the steering committee of the Stock Exchange in Brussels (the Brussels Stock Exchange) with regard to the number of the shares which he holds in the event that the proportion of the voting rights which he has of the total of the voting rights in the company is higher than 5%, 10%, 15%, 20% and so on with differences of 5%. [25].

5.7.10 Forfeiture of a Share and Lien

a. In the event that a shareholder shall not discharge any payment demand or interest, in whole or in part, upon time or prior to the time which is determined for their discharge, the directors are entitled at any time afterwards and throughout the period that the payment demand or the interest or part of them shall not have been discharged, to deliver notice to the shareholder or to the person who is entitled to the share and to require him to discharge the amount of the payment demand or the interest or part thereof, which has not been discharged, together with all the expenses which the company has undertaken, as a consequence of the non-payment as mentioned.

b. The notice, as mentioned above shall determine some other day and place (which is not earlier than thirty days from the date of the notice) upon which or prior to which the payment demand or the rate or part thereof must be discharged together with interest and all the expenses which shall have been occasioned as a result of the non-payment. The notice shall also specify that non-payment at the time which is determined or prior thereto at the place which is specified, can bring about the forfeiture of the shares in relation to which the payment or the rate shall have been demanded. Prior to the expiration of this period, the board of directors shall be able to postpone the date of the payment which is in the notice or to cancel it. Cancellation of the notice shall not prevent the board of directors from passing a new resolution upon the forfeiture which arises from non-payment of the debt.

c. In the event that the demands which are contained in the above-mentioned notice shall not have been fulfilled, every share in respect of which the notice was sent can, at any time from the expiration of the time and prior to the payment of the liability as contained in the notice, turn into a forfeited share by a resolution of the board of directors to such effect. Share forfeitures shall include all the dividends of such shares which have not been paid prior to the forfeiture also in the event that they have been declared.

[17] It is hereby made clear that the obligations of reporting to the company and to the Belgian Authorities as mentioned above shall also apply to Israeli shareholders of the company, and this in addition to the reporting and the notice obligations which apply to them in accordance with clause 37 of the Securities Law, 5728-1968, and the Regulations which have been enacted in accordance therewith. To the best of the knowledge of the company, in accordance with the Belgian law, a report is required as stated in connection with the changes in the holdings within 48 hours from the time of the change; furthermore, to the best of the knowledge of the company, in accordance with the Belgian law there is no specific sanction in respect of non-compliance with this requirement.

d. The directors are entitled at any time prior to the time at which a share which has been forfeited shall have been allotted again or shall have been transferred in some other manner to a third party, to revoke the forfeiture in accordance with the terms of the discharge of any payment demand and interest which are due in respect of the shares and the expenses which shall have been occasioned in respect of the shares and in accordance with such additional terms (in the event that there are such additional terms) as they shall decide on condition that revocation as mentioned shall not restrict the board of directors from again exercising the forfeiture rights which are accorded to it in accordance with the articles of the company. The company, by a resolution of the board of directors, is entitled to voluntarily accept the disclaimer of any shareholder in respect of his shares or any part of them.

e. Every share which shall have been forfeited shall become the property of the company and it is possible to revoke it, to sell it, to allot it again or to transfer it, whether to the person who was the holder thereof previously, or entitled to it or to any other person, all in accordance with the terms which shall be determined by the board of directors of the company, whilst every amount which shall have been received on account of the share as mentioned shall belong to the company.

f. A shareholder whose shares have been forfeited or have been disclaimed shall cease to be the holder of the shares which have been forfeited or which have been disclaimed but this notwithstanding he shall be obliged to pay to the company all the payment demands which have been issued and which shall not have been paid in relation to these shares at the time of the forfeiture or the disclaimer together with interest up until the day of the payment and expenses in respect of such shares in the same manner from every point of view as though the shares had not been forfeited and to fulfill all the claims and the demands which the company could have enforced in relation to the shares at the time of the forfeiture without deduction or discount for the value of the shares at the time of the forfeiture and the board of directors, in accordance with its discretion, is entitled to enforce payment of monies as mentioned in respect of every part thereof.

g. Forfeiture of a share shall occasion the cancellation at the time of the forfeiture any right, claim or demand against the company in relation to the share and of all the remainder of the rights and the obligations in connection with the share between the shareholder whose shares have been forfeited and the company, with the exception of such rights and obligations which are excepted in accordance with the articles of the company or in respect of which the Israeli Law accords exemption to the former shareholder or which it imposes upon him.

5.8 Data Regarding the Price of the Securities which have been Offered in this Prospectus

5.8.1

a. The shares have been offered by the company at the price of 7.55 New Shekels for every share which reflected the average trading price of shares of the company on the Stock Exchange in Belgium during the course of the 30 days which preceded the date of the filed prospectus.

b. The adjusted shareholders equity of the company for every 0.02 New Shekels nominal value issued share capital as at 31st of December, 2003, is 1.13 New Shekels.

c. The adjusted net loss for every 1 New Shekel nominal value share for the year which ended on the31st of December 2003 was 19.61 New Shekels, for the year which ended on the 31st of December 2002, was 49.55 New Shekels, and for the year which ended on the 31st of December 2001 was 95.27 New Shekels.

5.8.2

a. The debentures (series 1) have been offered to the public by the company at a total price of 332.50 New Shekels nominal value for every unit. The option deeds (series 1) have been offered to the public by the company without consideration, and they may be exercised into ordinary shares of the nominal value of 0.02 New Shekels each of the company up until the 31st of May, 2008 (inclusive), as against payment of the exercise price in the sum of 7.55 New Shekels per share, linked to the representative rate of the dollar as at the 19th of May, 2004

b. The effective price of an ordinary share with the nominal value of 0.02 New Shekels is 5.40 New Shekels. The economic value of the option deeds (series 1) which has been offered to the public was approximately 1.72 New Shekels. The stated value was based upon the calculation formula which was determined in the directives of the Stock Exchange in Tel Aviv, When a share is issued together with option deeds and when the weekly standard deviation is 7.31%, the annual dollar rate of amortization is 1%, and all without taking into consideration the component of the debentures in the unit.

5.9 Lock-Up of Securities

No lock-up arrangements apply to the trading in the shares of the company on the Tel Aviv Stock Exchange.

6 DESCRIPTION OF THE COMPANY AND ITS ACTIVITIES

6.1 General

Unitronics (1989) R"G Ltd. (hereinafter: "**the company")** is engaged in the design, the development, the production, the marketing and the sale of industrial automation products, mainly PLC's – Programmable Logic Controllers (hereinafter: "controllers"). Controllers are computer based electronic products (hardware and software) which serve for the control of systems and machines for production, storage, retrieval and industrial logistics. The company is also engaged in design, construction and maintenance services in the framework of projects for mechanization, computerization and integration of production systems and/or computerized logistics systems, mainly automatic warehouses.

The company was incorporated in August 1989 as a private company in accordance with the Companies Ordinance (New Version), 5743 1983 **"the Companies Ordinance"**. In July 1999 the company became a public company per the meaning thereof in the Companies Ordinance and in September 1999, it first published a prospectus of the issue of its shares to the public in Belgium, in pursuance of which its shares were registered for trading on the Euro.NM Belgium Stock Exchange in Belgium (see clause 5.4 in the prospectus). In the year 2000, upon the establishment of the EuroNext Stock Exchange in Belgium, the shares of the company were transferred for trading on this Stock Exchange.

The company effected several private placements of its shares (which were also registered for trade on the Stock Exchange in Belgium) in January of 2001, and January of 2003. In February of 2001 the company effected a private placement of convertible debentures, the main part of which was converted into the shares of the company in the month of December 2003, in the framework of agreements with the holders of such debentures for the amendment of their terms (see clause 5.5 of the prospectus).

The products of the company include a series of programmable controllers of various models (nano controllers, micro controllers and small controllers – see clause 6.3.1 of the prospectus) which integrate an operation panel as an integral part of the control and advanced communication technologies including Internet communication, intra-net and cellular telephone communication (upon various communication networks, such as CDPD, GPRS, CDMA, GSM and others). A combination of the communication capabilities in controllers is intended to facilitate follow-up, control and supervision of systems and processes not only from the site at which the controller is installed (the production floor, the logistic warehouse and so forth), but rather also other locations in the organization, including from the management offices and also from outside the premises of the organization.

The products of the company and its services are marketed and are sold through an internal marketing department of the company and the systems department, a network of distributors spanning approximately fifty countries throughout Europe, Asia, South America and Central America, North America and Africa, and a wholly owned subsidiary incorporated in the United States. The customers and/or the users of the products of the company include, amongst others, manufacturers of industrial machines, OEM Manufacturers, production and industrial enterprises, and also businesses which run automated storage, retrieval and logistic systems.

The company operates from facilities in an area of approximately 1600 square meters at "Unitronics House", an offices and industrial building part of which is leased by the company (and the remainder of which is leased by holders of an interest in the company – see clause 6.10.1 of the prospectus). Unitronics House is located in Airport City which is adjacent to the David Ben Gurion airport, and the offices of the company are located therein together with all of its other facilities in Israel.

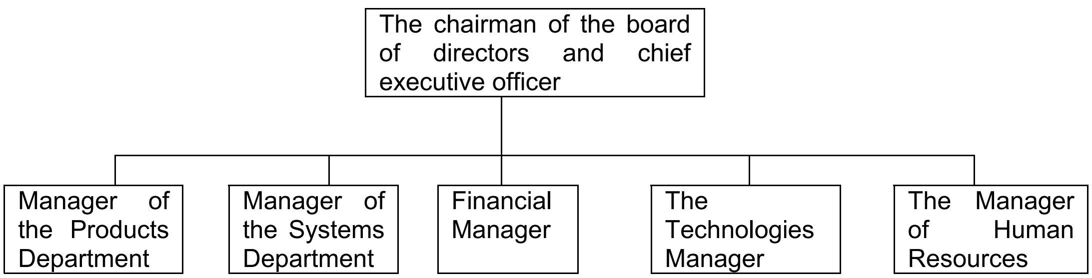
The company has an active, wholly owned subsidiary, Unitronics Inc., which is incorporated in the United States (Delaware) and which is engaged mainly in the coordination of the marketing and distribution activities of the company in the United States (see clause 6.7.2 of the prospectus). The company has an additional active, wholly owned subsidiary, Unitronics House Management and Maintenance (2003) Ltd., which is engaged mainly in the management and the maintenance of Unitronics House (see clause 6.7.1 in the prospectus).

6.2 **The Organizational Structure of the Company**

The controlling shareholder of the company, Mr. Haim Shani, serves as the Chief Executive Officer of the company and as the chairman of the board of directors of the company (see clause 7.1 of the prospectus). There are several senior professional managers who are subject to the chief executive officer, as specified in the following schematic diagram, in the technological, the financial and the human resources fields. The commercial activities of the company are carried out through two business departments, each headed by a senior professional manager who is subject to the chief executive officer: a products department, in which the design, development, production, marketing and sale of products of the company's activities are conducted and the systems department, in which the company's activities in the sphere of design, establishment and maintenance of the storage and/or logistic systems services of the company are conducted.

With regard to the details of the employment agreements of Mr. Haim Shani, the chief executive officer of the company and the chairman of its board of directors (who also serves as the senior office holder in the company's active subsidiaries and as a member of their boards of directors), see clause 8.2.1.1 in the prospectus. With regard to the terms of the employment of Mrs. Bareket Shani, Mr. Haim Shani's wife, who serves as deputy to the chief executive officer and the human resources manager in the company (in addition to her being a member of the board of directors of the company and certain of its subsidiaries), see clause 8.1.2 in the prospectus.

The following is a schematic diagram of the organizational structure of the company.



6.3 **The Company's Activities in the Field of the Products**

The main products of the company are controllers which integrally combine, in one unit, the components of the control (the software and the hardware which constitute the operational part of the controller, the “brain” which operates the controller) and the HMI (Human - Machine Interface) which are intended to enable the operator to control the controller, and through it, the machinery subject to control and supervision of the controller, without prior programming knowledge. Integration of the controller component and the interface component in one unit is a characteristic which to the best of the company's knowledge became prevalent in the field of the industrial controllers only in the nineties of the 20th century. To the best of the company's knowledge, until then, the controllers market dealt mainly with controllers without an operating and control interface which constitutes an integral part of the controller and also controllers with complex integral interfaces and a limited capacity for calculation and data processing. These controllers required complex technical means and also a certain expertise, in order to program and operate them in light of their complexity (hereinafter: “**heritage products**”). The heritage products constitute a continuously decreasing share of the controllers market in general and of the company's activity in particular, and they are being replaced, at an exceedingly rapid pace (mainly commencing from the year 2000), by new generation integrated controllers as stated above (hereinafter “**the new generation products**”). The heritage products constituted in the years 2000, 2001, 2002, 2003 18% 26% 8% and 3% respectively of the income of the company in those years.

Following is a description of the main products of the company from the lines of the new generation products.

6.3.1 **Controllers**

The company develops, manufactures, distributes and sells several lines of controllers from the new generation products. These controllers are based upon a central processing unit (CPU) which is intended for embedded industrial systems, which consolidates the range of activities of control, supervision and communication with the controller. These controllers include an integral interface component, which varies from product line to product line with regard to the nature of the interface and its complexity. This interface includes an alpha-numeric and/or graphic display, and keypad and/or keyboard and/or touch screen. These typing and display components serve the operator for the purpose of loading data onto the controller and control of the execution of the required actions, and by way thereof of receiving the performance indications and the reports which the controller was programmed to display.

The controller communicates with external components, such as the components of the production elements themselves (including sensors, active parts of the machines and the instruments of the system being controlled, other controllers in the system, the general communication network in the enterprise and so forth) by means of physical built-in connectors (by means of "**plug**"-like features, similar to the plug used for telephones or computer network) which are intended to enable input and output of data. The input/output capacities which the controller is intended to support determine its dimensions as nano PLC, micro PLC, small PLC, medium PLC, or large PLC. Specialized extension units enable the increase of the input output capacity of the controller beyond its build in capacity (and to supplement the number of plugs built in to the controller) by means of an external expansion unit (which in itself includes additional plugs) and in this manner to upgrade its functionality (see clause 6.3.3 of the prospectus). Following are certain main characteristics which distinguish between the controllers in these categories:

	Nano controller	Micro Controller	Small Controller	Medium Controller
Principle relative advantages	Very compact; low cost; suitable for basic control and automation only.	Efficient price/performance ratio; suitable for control of simple tasks and operation of relatively simple equipment	Larger input/output capacity and more powerful support software; enclosed in relatively compact case; suitable for control and supervision of complex automation tasks	Large input/output processing capability and control over a number of interconnected automation components.
Principle industrial uses	Simple industrial automation tasks, timed construction works, environmental systems (sprinklers, air-conditioning, etc.) and security systems.	micro PLC, small PLC and medium PLC generally serve for controlling simple and complex automated tasks in the majority of the industrial applications, including the vehicle industries, food processing, chemical industries, medicine, metal industries, mining, paper industries, plastic, transport systems, packaging and more.		

The company's new generation products focus on the field between nano-controllers and small controllers. In the future the company may broaden its business into the field of medium controllers, although at the time of this prospectus, the company does not have defined plans or timetables in connections therewith.

The company's new generation products are designed for compatibility with various communication protocols, thus intended to enable communication through various means including the internet, intranet, and cellular telephone. Internet communication enables access and remote control of industrial systems from various sites in the organization or outside the organization by means of a computer, without the need for direct physical contact with the controller or the equipment which it operates. Intranet communication enables controller to controller communication and/or communication of a controller with the computers of the organization whilst utilizing the existing communications network in the organization, and thus enabling access to data and/or control to various levels of the organization, from the level of the operators of the production elements in the organization through to the level of planning and supervision of the organization (including inventory, raw material and finished product planning etc.) and to the executive management level. Cellular telephone communications broadens even further the possibilities of access to information or control without the need for direct physical contact, even without a computer, through the use of a cellular phone, for example through SMS messages.

The following are the principle characteristics of the company's new generation products lines:

6.3.1.1 Alpha-numeric controllers: nano/micro controllers from the M90 / M91 series:
A line of palm sized products, with an interface unit which includes programmable 15 push-keys, and a 16 character mini-screen LCD display. These controllers have 16 to 38 built in input/output points (plugs) and they are expandable to up to 64 additional input/output points by means of an external expansion unit (see clause 6.3.3 in the prospectus).

6.3.1.2 Graphic controllers: micro and small controllers from the Vision™ series:
A line of products with a graphic display and advanced communications capabilities which are marketed at low prices in relation to the prices of similar graphic products on the market. This line includes the following controllers: (1) the Vision230™ with the backlit LCD screen including graphic display, 24 key programmable adjustable keyboard and built in input/output points which can be expanded by means of an external expansion unit; (2) the Vision260™ with the enlarged backlit LCD including graphic display, 33 key programmable adjustable keyboard and built in input/output points which can be expanded by means of an external expansion unit; the Vision120™, in a palm-sized case, with a small backlit LCD enabling graphic display, a programmable adjustable 16 push-key pad, built in input/output points which can be expanded by means of an external expansion unit.

6.3.1.3 Graphic controllers with touch-screen: controllers from the Vision280™ series:
A line of products with an enlarged backlit LCD screen enabling graphic display and touch-screen operation. The operator interface is particularly user-friendly and includes also a 27 key programmable adjustable keyboard, and built in input/output points which can be expanded by means of an external expansion unit. The increased computing and data processing power of the controllers of this series together with their advanced display capabilities and user-friendliness to the operator who is inexperienced in computer subjects, were intended to enable the use of these of controllers mainly for large machines and systems, with consideration of the comfort and efficiency of the operation and the input of data directly by means of the screen itself.

6.3.2 Software

6.3.2.1 The Software of the Controllers: The company develops and markets as a package together with its controllers, software for the operation of the controllers. These software programs enable the programming of the operating interfaces of the controller itself and of its operation, and also the activities of control and supervision of the controller over machinery to which it is connected. The company's U90™ software serves the M90/M91 series of controllers and the company's VisiLogic™ software serves the Vision™ series of controllers. These programs function in a Microsoft Windows environment and were intended to enable those without professional programming experience, the capacity to intuitively and accessibly program both the operating interface of the controller itself and the tasks of the controller with the system components in a machine or in equipment which the controller is to control. These programs enable the operator access to the program tools by means of logic stepped flow-charts, within which the operator will be able to, in accordance with his wish, program by himself or import from an external source graphic icons, text messages, variously formatted menus, and to adjust the display to the changing conditions of the controlled process (for instance, the changing displays in accordance with the progress of an industrial assembly line.)

In addition to the designated software programs of the controllers (U90™ or VisiLogic™ according to the product model) the company also provides additional software tools which are intended to enable the customer to handle additional needs such as data retrieval from the controller to an electronic spreadsheet, connection of the controller to the specific communications networks and a software tool intended to enable remote control of the controller. The software package which the company offers also includes a soft-copy of the operation and programming instructions of the controller and of the technical specifications documentation of the product and accompanying documentation data.

6.3.2.2 Software for Managing Logistics Systems and Production Floors: The company develops and markets software programs for warehouse management as a package together with its services of the construction of logistics systems, and also as stand alone products, under the name UniStock™, and also a program for the management of production floors which is marketed under the name UniTrack™. The Unistock™ software is intended to enable control, supervision and management of automated and/or manual storage systems, including inventory management, the operation of automated transport systems and the handling of miniature portable terminals. The Unitrack™ software is intended to enable control, supervision and the management of the production elements, including data collection from the production elements, their processing and coordination of the production resources. These software programs operate in a "Microsoft Windows" environment in a server-client architecture, and are designed to support a number of languages (including Hebrew) and communications with the ERP systems of the organization.

These software programs can be installed and applied As-Is, like any other application program without modifications for special needs however, it can also be modified for defined and unique needs of each customer.

6.3.3 External Expansion Units

The company develops and markets external in/out expansion units which were intended to enable the expansion of the input/output capabilities of the controllers beyond their built in capacity (by means of increasing the number of plugs for data input/output) and thus to expand the activities and the means under the control of such controllers, and as a result thereof to expand the variety of tasks, processes and means which are conducted, controlled and reported by means thereof. The external expansion units of the company enable the addition of up to 128 input/output points (plugs) in addition to the built in capacities of the controller. Thus for example, it is possible to expand the input/output points of a nano-controller to 128 and of a micro controller to 256, and by means of such expansion to upgrade their functional capabilities and render them functionally equivalent to the small and medium controllers respectively.

The company's products focuses in the field of up to 256 input/output points. In the future the company may expand its activities also to the field of the larger controllers which enable the operation of a larger number of input/output points, notwithstanding that at the date of this prospectus the company does not have plans or defined time-tables in connection therewith.

These means of expansion are intended to increase the flexibility and suitability of the various controllers to the varied and specific needs of each user, and thus to assist in the decrease of the costs involved in acquisition, installation and maintenance of the larger and more costly controllers and/or in larger quantities of controllers.

6.3.4 The Manufacturing Process

The company by means of its internal staff, engages in the design and development of its products at its facilities in Airport City, which include hardware design and engineering, certain organizational and setting tasks of electronic circuits, development of the various software components, and the testing of the final products including quality control, software tests and tests for specific compatibilities which are required of the hardware and the software of its products, including by means of manual and/or automatic testing instruments for certain of the company's products, which are developed and manufactured in the company, and which are intended for the testing of the functionability and the quality of the products.

Upon completion of the process of development of a working prototype of a product of the company's products, the majority of the process of the manufacture of the hardware components therein is outsourced to sub-contractors. The company purchases part of the components of its products from the ready-made, as components which are generally available without the need for special modification to the requirements of the company. The majority of the components of the company's products are standard components which do not require special modification and can be purchased off-the-shelf, however in the majority of the products of the company there are also certain items which are manufactured according to the company's specification or plan (custom made) (see clause 6.3.4.2 in the prospectus)

6.3.4.1 Manufacture through Sub-Contractors

The company has, mainly since the year 2001, been ever increasing its manufacturing activities through sub-contractors whilst decreasing the independent manufacturing activity at its facilities. This process is intended mainly for the purpose of enabling the company to decrease production costs and investment in unique manufacturing elements, and thus enable the company to decrease delays which arise from the operation, modification and maintenance of manufacturing systems for the varying needs of the different products. The company transfers to sub-contractors mainly the manufacture of the plastic components of its products (such as the cases for the controller and the expansion units) and the automatic placement of approximately 98% of the components on the electrical circuits (PCB)

The company itself assembles, by means of its staff in its facilities in Airport City approximately 2% of the components on the electrical circuits (PCB), and also it generally carries out the final assembly of the product, its electrical examination, its calibration and its packaging.

The company does not generally have written agreements with its sub-contractors, it is not bound by framework arrangements with these contractors and hires their services as required and on an ad-hoc basis (even though in practice the company has been working with certain of the sub-contractors continuously for periods of 12-36 months up to the date of this prospectus) and this after a process of examination and approval of each contractor which includes examination of compliance with various conditions such as quality, compliance with supply schedules and various commercial conditions. The commercial conditions which generally apply between the company and manufacturing sub-contractors are open credit without guarantees, payment on the basis of current +60 days, a predetermined supply schedule (in general one to two weeks, as needed) and discount bearing prices in accordance with the quantity for manufacturing in each order. The payments of the company to the main sub-contractor from which the company obtains manufacturing services during the years 2001-2002 were 6.7%, 5.5% and 3.8% of the total expenses of the company in respect of raw materials and sub-contractors for the above-mentioned period. Payments to other sub-contractors as stated above in these periods are in insignificant amounts.

The company is not dependant on specific sub-contractors and for the purpose of sub-contracted manufacturing services required by the company, the company can hire many and various contractors. However, replacement of an existing sub-contractor with a new one is likely to involve delays arising from the learning curve and the assimilation of the requirements of the company and/or use of unique manufacturing components modified for the needs of the company (for example molds for the hardening of the plastic cases of the controllers).

6.3.4.2 **Acquisition of Raw Materials**

A variety of raw materials and mechanical and electronic components are used in the manufacture of the company's products, such as electronic circuits and their components, key-pads, alpha-numeric and/or graphic display screens, and various auxiliary materials which serve in the manufacturing process of the company's products. On average, the company's products comprise approximately 80-150 different components. Approximately 88% of the components used in the majority of the company's products are off-the-shelf components, manufactured by various manufacturers and can be purchased from a number of various suppliers, and a supplier can be replaced without the need for changes in the product. The company is not dependant upon a unique source for the supply of these raw materials; approximately 6%-7% of the components in the majority of the company's products are custom made. These components include mainly the plastic cases for the products, the key-pads, the printed circuits (PCB), various connectors, metal parts and the touch layer of the touch screen. These components, which are especially manufactured for the company in accordance with its order, are of central importance to the company's products however, they can be ordered from a number of suppliers/manufacturers in Israel and abroad, and generally without this involving modifications to the products and therefore, there is no dependency on any one supplier/manufacturer for their supply. Although, in certain cases (approximately 4% of the off the shelf components in the majority of the company's products) the company can also purchase the components from a number of various suppliers, the replacement of one supplier of these raw materials with a new one may involve delays (of up to three weeks) which arise from the learning curve and the assimilation of the needs of the company by the alternative supplier.

With regard to solely an isolated number of items which constitute 1%-2% of the components in the majority of the company's products (with an immaterial scope of acquisitions from the a fiscal point of view in the years 2001, 2002, and 2003), mainly in certain electronic components, even though standard off the shelf components which can be purchased from suppliers in Israel and abroad, there exists a dependency on a single manufacturer for their provision (the manufacturer is Infineon Technologies A.G., a company in the Siemens A.G. group). Although such components from other manufacturers can be integrated into the company's controllers, this may involve structural and functionality changes, as well as various modifications of the software and hardware which could cause a delay in the supply of the products to customers, and one-time modification expenses. In order to minimize this dependency, the company engages in orders with supply times for the duration of one year in advance (on a quarterly basis,) and in isolated cases enters into minimum inventory holding agreements with certain suppliers (as is specified below), for the purpose of the ensuring the availability and continuous supply of these components. In order to minimize further the above-mentioned dependency, the company customarily enters into such contracts with regard to these components with a number of separate suppliers.

The company does not have a single supplier of raw materials from which it acquires 5% or more of the annual cost of raw materials and sub-contractors.

Following is a summary of the forgoing data in a tabular format:

	Off the shelf	Custom made
Many manufacturers/suppliers without need for modification	88%	6%-7%
Many manufacturers/suppliers; minor need for modification (possible delay of up to 3 weeks)	4%	
Single manufacturer; number of suppliers; replacement of manufacturer likely to cause substantial delays and is likely to involve changes in products and in costs.	1%-2%	

The company does not generally have written agreements with the suppliers of raw material which it uses in the manufacturing process, it is not bound by framework arrangements with these suppliers (save for annual orders and minimum inventory holding agreements with regard to certain components as is specified below) and orders materials as needed and on an ad-hoc basis. In general the company approaches its suppliers with a request for price quotes with regard to a specific order. On the basis of the price quote the company issues purchase orders for an indicated amount of raw materials. The purchase orders are intended to ensure the company's entitlement to the quantities of the materials which were ordered throughout the period indicated in the order, and its right to receive replacement materials or compensation in the event of the supply of faulty or unsuited raw materials.

The commercial conditions which generally apply between the company and suppliers of raw material are open credit without guarantees, payment on the basis of current +60 days (after confirmation of receipt examination), a predetermined supply schedule (which in several cases includes the ability of the company to alter quantities and/or supply schedules), discount bearing prices in accordance with the quantities of the raw materials in each order, supply and delivery at the expense of the supplier and responsibility of the supplier for the replacement of goods, at the expense of the supplier, in the event that they do not accord with the order or in the even that they do not comply with the quality specifications.

In isolated cases (in connection with raw materials originating from a single manufacturer) the company engages several of the suppliers of the components in a minimum inventory maintenance agreement in accordance with which the supplier undertakes to maintain in his inventory a certain percentage of the company's annual consumption (subject to quarterly or monthly adjusted assessments), which is intended exclusively for supply to the company at indicated prices. In accordance with these agreements <u>Unitronics</u> undertakes to acquire the minimum inventory even if it is not supplied in accordance with its order or at the termination of the agreement and it is exempted from this undertaking with regard to items the price of which has risen. These undertakings are in respect of amounts which are immaterial to the company. Certain of these agreements are not limited by time and the termination of activity in accordance therewith regarding certain items is subject to advance notice.

6.3.4.3 <u>Inventory of Raw Materials and Finished Products</u>

The company maintains on a continuous basis approximately 60-75 days inventory of components and raw materials which are intended for manufacture of the anticipated requirements for the period of approximately two months.

Additionally, the company maintains an inventory of finished products which enables the supply of ongoing orders for the duration of 30 – 45 days.

The policy of the company in general is to maintain finished products inventory on the basis of actual orders. From time to time the company is likely to deviate from this policy, mainly in connection with preparation for irregular events. The company has an inventory of replacement parts which it believes sufficient for the needs of its customers.

6.3.4.4 <u>Support in Manufacturing</u>

The main manufacturing processes described above, are supported by a number of auxiliary departments for the provision of auxiliary services such as: computerization, quality control and safety at work. The following is a brief description of these auxiliary departments.

6.3.4.4.1 <u>Quality Control Laboratory</u>

The company operates a laboratory equipped with instrumentation intended to enable it to test the condition adequacy of the finished products, including their mechanical and operative characteristics, and including the software components therein. This laboratory maintains contact with other testing laboratories in Israel and abroad.

The company's controllers of the M90/M91 and the Vision™ series and also part of the company's external expansion units comply with EN50082-1 and EN50082-2 Standards in connection with their electromagnetic compatibility. Electromagnetic compatibility refers mainly to the functioning of electronic components in an electromagnetic radiation saturated environment (the source of which is other equipment or natural phenomena such as lightning) without causing significant interference to the equipment in its surroundings. In accordance with this approval, the company marks such products with the “CE” mark.

The company's controllers of the M90 series as well as part of the components of the company's external expansion units have been found by the Underwriters Laboratories Inc. (UL) to comply with the UL/cUL 508 safety standard requirements, which deals with the certain safety aspects (including fire, withstanding of temperature, and electrical safety) of industrial control equipment. In accordance with this approval, the company marks such products and also products which are substantially based thereupon with the UL/cUL mark.

The activity of the company's systems department in supply, installation, maintenance and upgrading of transport, automated warehouse and control systems was found to comply with the ISO 9001 requirements by the SGS International Certification Services EESV standardizing company in Belgium.

6.3.4.4.2 **Computerization**

The company manages the processes of manufacturing, acquisition of raw materials which serve it and the inventory of the raw materials and of the finished products by means of a general management software which serves the acquisition, manufacture and inventory systems in the company, this alongside the money management and the book-keeping (ERP – Enterprise Resource Planning)

6.3.4.4.3 **Safety at Work**

The company has a safety supervisor at its facilities, who is responsible for compliance with the safety at work instructions. Every year the company holds instruction assemblies for its employees on the subject of safety at work.

6.3.4.5 Business License

In March of 2004 the company applied to the Licensing Department of the District Committee of the Modi'in Area for a Business License in accordance with the Business Registration Law, 5728-1968 for the facilities of the company in Airport City. The company is not aware of any impediment to the receipt of the license. On the date of the prospectus, the company does not yet have a business license. In this matter the company is exposed to sanctions in accordance with the Business Registration Law 5728-1968 and the Regulations which were enacted thereunder, including the cessation of work in the e company's facilities.

6.3.5 Products Under Development

The company by means of a staff of 16 engineers, technicians and other employees in its research and development staff is engaged also in the development of new technologies and new products and in the upgrading and improvement of existing technologies and products. There can be no assurance that the development of these technologies or products shall be completed, or in the event that it shall be completed or that if completed, that a market will be found therefor. Following is a brief description of the main technologies and products which are currently under various stages of development in the company.

6.3.5.1 **WilCo™ – Control and Supervision through decentralization of controllers.**

The majority of the research and development activities of the company are focused, at the time of the publication of the prospectus, in a line of products which are designed to enable control and supervision by means of a decentralized network of controllers which are located within a defined area and which are connected by means of physical or wireless communications networks. These products are intended to enable flexible and modular configurations of industrial control and supervision systems, the main components of which are as follows:

6.3.5.1.1 **Wireless Controllers**

Controllers with built in short range wireless communications capability, which are based on Mesh topology (which is a communications network configuration comprised of a number of stations or points which are dispersed in a certain area and each of which is directly connected with all of the others) or another communications topology. This network is designed to enable an independent organization of the network through the stations which comprise it, whilst utilizing communication frequencies which are not subject to licensing, in such manner that each station identifies each of the other stations and identifies itself to them, in an automatic independent manner, whilst creating and defining a network automatically upon its deployment.

6.3.5.1.2 **D-Cent™ - a Central/Decentralized Control and Supervision System**

A central control and supervision system comprised of decentralized separate units, each of which is actually a controller on its own, with computing and data processing capabilities of its own, designed to perform control and supervision activities which it was programmed to implement, independently of the other controllers in the system, however, together with the other controllers with which each controller is connected in such network, all of the units together constitute a virtual control and supervision network which is connected through physical or wireless medium. These systems are intended to enable the user to develop complex applications which are planned for a number of controllers and not just one individual controller, without the user being required to program each controller separately. From the user's perspective, the controller system is designed to constitute one virtual controller, which requires central programming without the need for distinguishing between its units, and once the process of global programming of that virtual system has been completed, to the specific needs of the user, the system shall be intended to enable the distribution of tasks and definitions between its various units in an independent manner and transparent to the user, as if it were one controller.

6.3.5.1.3 **WebAx-Control™ - Network Accessibility Platform**

A network accessibility platform which is intended to enable the development of control and supervision applications by means of a network without the need for unique professional knowledge in the field of programming or communications networks. This tool is intended to be a means of communication between controllers, based on the internet, which is user-friendly to the non-professional. This tool is meant to enable, amongst other things, real-time transfer of messages and information, transfer of data files, and loading and removal of software programs as needed, and remote access.

It is the company's intention that the architecture and the components of the WilCo™ System shall enable user-friendly, simple and comfortable operation of small control and supervision applications which are based on individual controllers, as well as large control and supervision applications which are deployed through decentralized multi-controller systems which are located in a defined area, each of which operates independent of the others, although, through the connection between them by physical and/or wireless channels, will function together as one multi-component system.

The company is currently in the initial stages of the development of the WilCo™ technology. The company has submitted in September 2003 a provisional patent application to the Office of Patents and Trademarks in the United States in connection with this technology (see clause 6.6.2 in the prospectus). The company also received an approval from the Office of the Chief Scientist in the Ministry of Industry and Commerce, for its participation in the finance of the development plan related to this technology (see clause 6.11.2 in the prospectus).

The following are the main details regarding amounts which the company expended in the periods which are specified below on research and development activities.

	For the Year ended 31st of December			
	2003	2002	2001	2000
	In Thousands of New Shekels Adjusted to December 2003			
Salary and related payments	2,184	2,199	3,514	2,810
Sub-contractors	509	610	3,559	1,168
Other Expenses	609	646	1,014	553
After deduction of Chief Scientists participation in expenses Chief Scientist	(247)	-	-	-
Total Research and Development Expenses	3,055	3,455	8,087	4,531

For details in the matter of the contribution of the Office of the Chief Scientist of the Ministry of Commerce and Industry in the financing of research and development activities see clause 6.11.2 in the prospectus.

6.4 **Operation of the Company in the Field of the Systems**

6.4.1 **General**

Together with the business operation of the company in the field of the products, the company also engages in services of the planning, the establishment, and the maintenance in the framework of projects for mechanization, the computerization and the integration of production systems and/or computerized logistics, in the main automated storehouses. These services are provided by means of the systems department of the company, in the main for customers in Israel, and in a minority of cases also for customers outside of Israel. The company makes these services available generally as main contractor, in the framework of projects in which it serves as integrator of all the components of the system, including the industrial equipment itself and its components and so forth), the electricity systems, installation of the controllers, the software and the hardware, in direct engagement between itself and the party who orders – the user. In these cases the company enters into an engagement with sub-contractors for the carrying out of the assignments which relate to the components of the system apart from the software and the controllers, in which the company deals directly. In some of the cases, the company serves as sub-contractor in connection with defined assignments only, in the main in connection with the management software, the electricity systems and the installation of the controllers in the system which is the subject of the service.

The services of the systems department includes planning and engineering of production systems and/or computerized logistics, in the main, automatic storehouses, the establishment of new systems and/or upgrade and the repairing of existing systems, up to the stage of the commercial operation. After this stage the company also offers the service of maintenance for these systems on the basis of framework arrangements or on an on-call basis. The systems department also markets the Management software of the company (the UniStock™ program and the UniTrack™ program – see clause 6.3.2.2 in the prospectus) under use licenses, mainly in the framework of the projects for the establishment of systems as is specified in this clause.

In the plant of the company at Airport City, the company runs a technical office for the purpose of service and maintenance of various systems which have been installed by the systems department of the company, including a mechanical maintenance team, an electrical maintenance team and also a software team.

The services of the systems department are provided in accordance with agreements, the terms of which differ from case to case, and generally they include a list of defined and specified assignments, technical and functional specifications with which the local system will be required to cope, timetables (which generally range between 3-15 months for the establishment of a system, in accordance with its complexity and other data which differs from case to case) and payments by installments in accordance with the progress of the work. In accordance with these agreements the company is generally required to produce bank guarantees (and/or other guarantees) for the purpose of guaranteeing the performance of its obligations. The company also undertakes to train the employees of the ordering party in the operation of the system, and it presents a period of warranty for the main components of the system of approximately 12 months on average, an undertaking for paid service at the expiration of the period of the warranty and an undertaking for the availability of spare parts for periods of up to 10 years.

The income of the company from its operation in the sector of systems constituted approximately 52%, 28%, 33% and 47% of the entirety of its income in the years 2000, 2001, 2002 and 2003, respectively. The main component of the income from this operation is income from one time customers who engage the company for the purpose of the establishment of only one system. The sale of the services of the company in the sector of the systems involves a long sales cycle which requires a substantial expenditure of time and effort, including participation in presentations and in tenders, together with other participants.

6.4.2 **Agreements with Main Customers**

Substantial parts of the income of the company in the sector of the systems arises from a limited number of main customers of the company in this field (see clause 6.5.2.5 of the prospectus; marking of the agreements below with the letters below refers to the marking of the equivalent customer in the table of main customers there; marking of the agreements below with Roman numbering relates to customers who are not specified there). The following are the main terms of the agreement between the company and such main customers:

6.4.2.1 **Main Agreement C'**

On the 3rd of November 2002 the company signed an agreement with main customer C' (hereinafter in this clause 6.4.2.1 – "**the customer**") in accordance with which the company undertook to plan, to create, to produce and to establish a system of storage and handling of loads (which includes, amongst other things, a storage system which is fed by means of cranes, tracks and conveyor belts). In consideration, the customer has undertaken to pay to the company the total amount of approximately 3.1 million Euro, with the addition of value added tax (hereinafter – "**the amount of the contract**") subject to the completion of certain milestones. As guarantee for the fulfillment and the completion of its obligations, the company has undertaken to make available certain bank guarantees, which are released in portions in accordance with the progress of the work. With the agreement of the customer, some of the above-mentioned guarantees have been supplied by SSI Schafer Noell GmbH (hereinafter – "**SSI**") which serves as sub-contractor of the company in this project (see the specification below). In accordance with the agreement the company provided a warranty for the sound order of the system in the framework of which the company undertook the commencement of dealing with faults within time schedules defined in advance from the receipt of notice. Upon the termination of the period of the warranty and also with regard to repairs which are not under the warranty, the parties undertook to enter into a maintenance agreement the contents of which was agreed between the parties, commencing from the day of the completion of the system and its transfer into the possession of the customer in accordance with the terms of the agreement.

For the purpose of the carrying out of part of the works in accordance with the agreement with the customer the company entered into agreements with certain sub-contractors, the main one of which is SSI. The principal terms of the sub-contracting agreement with SSI is the adoption of the obligations of the company in accordance with the agreement with the customer (back-to-back) in connection with certain components of the system (principally cranes, tracks of the cranes , conveyor belts and shelving), in order to enable the company to supply services and work with regard to these components in accordance with the agreement with the customer.

As at the date of the prospectus, the system has been delivered to the customer and it has been operated in its entirety for several months, and the customer has paid approximately three million Euro (with the addition of value added tax) from out of the amount of the contract. It remains to carry out immaterial mechanical completions and final acceptance tests which are planned for the second quarter year of 2004.

6.4.2.2 **Main Agreement I**

On the first of September, 2003, the company entered into a contracting agreement with main customer I (hereinafter in this clause 6.4.2.2 – "**the customer**") for the purpose of the supply and the installation of an automatic storage and retrieval system (AS/RS) of raw materials which are required for the production processes at the pharmaceutical enterprise. In consideration, the customer undertook to pay to the company the total amount of approximately 0.6 million Euro, with the addition of value added tax (hereinafter – **"the amount of the contract")** subject to the completion of certain milestones and to specifications as specified in this agreement. In accordance with the terms of the agreement, the company provided a warranty for the sound order of the system in the framework of which the company undertook to repair certain faults which would be revealed in the system, at its cost and at its liability within a time schedule defined in advance for the purpose of guaranteeing the fulfillment of its obligations in accordance with the agreement, the company produced certain guarantees which are released in portions in accordance with the progress of the work.

As at the date of the prospectus, the production stage was concluded and the operation has commenced of the installation at the site of the customer, and the customer has paid approximately 230 thousand Euro (with the addition of value added tax) of the amount of the contract. The installation of the system is planned to be completed in accordance with the terms of the agreement during the course of the forth quarter year of 2004.

6.4.2.3 **Main Agreement II**

On the 8^{th} of the month of February 2004, the company entered into an agreement with main customer II (hereinafter in this clause 6.4.2.3 – "**the customer**"). In the agreement, in accordance with which the company undertook to plan, to develop, to produce and to establish an automatic storehouse system including cranes, tracks and conveyor belts) at the pharmaceutical enterprise. In consideration, the customer undertook to pay to the company the total amount of approximately 3.3 million Euro, with the addition of value added tax (hereinafter – **"the amount of the contract")**. The amount of the consideration will be paid to the company by payments subject to the completion of certain milestones as specified in the main agreement. In addition to the indemnity arrangements which were included in the agreement, and as guarantee for the fulfillment and the completion of its obligations, the company undertook to produce certain bank guarantees, which are released in portions in accordance with the progress of the work. In accordance with the terms of the agreement, it was determined that the guarantees will be supplied by SSI which serves as the sub-contractor of the company in this project. Furthermore, SSI has produced to the customer a self guarantee for the fulfillment of the obligations of Unitronics in accordance with the agreement with such customer. In addition, the company has produced a warranty for the sound order of the system and for its maintenance in accordance with the terms of the service agreement which has been agreed upon and which shall be signed between the parties.

For the purpose of the carrying out of part of the works in accordance with the agreement with the customer the company entered into agreements with certain sub-contractors, the main one of which is SSI. The principal terms of the sub-contracting agreement with SSI is the adoption of the obligations of the company in accordance with the agreement with the customer (back-to-back) in connection with certain components of the system (principally cranes, tracks and shelving), in order to enable the company to supply services and work with regard to these components in accordance with the agreement with the customer (hereinafter – **the sub-contracting agreement"**). In the framework of the sub-contracting agreement the company has undertaken to provide in favor of SSI a guarantee as against the guarantee which SSI provided to the customer in accordance with the agreement with the customer (see clause 10.6.2 of the prospectus). In addition, agreed control mechanisms have been determined with SSI for financial consideration (with the exception of value added tax) which shall be paid to the company in accordance with the agreement with the customer, in order to guarantee the payments which are due from the company to SSI for its services.

As at the date of the prospectus, the stage of the initial planning of the system has been completed and the stage of the detailed planning has commenced; by this stage, the customer has paid approximately 0.95 million Euro (with the addition of value added tax) of the amount of the contract. The installation of the system is planned to be completed in accordance with the terms of the agreement with the customer during the course of the first quarter year of 2005.

6.4.2.4 **"Siemens" Agreement**

On the 12th of February 2004, and in accordance with the settlement agreement which was signed between the company Siemens Dematic Corp. (hereinafter – "**Siemens**") and the company Hortel Engineering (1988) Ltd. in connection with the injunction which was issued in favour of Unitronics as specified in clause 10.4.2 of the prospectus, the company entered into a sub-contracting agreement with Siemens. In accordance with the agreement, the company undertook all the obligations of Siemens in accordance with the agreement between Siemens and the Ministry of Defense – the Israeli Air-force, for the upgrading of the automatic storehouse system at the Air-force base in Israel. In consideration Siemens undertook to pay to the company the total of approximately 200 thousand dollars which shall be paid to the company in payments subject to the completion of certain milestones as specified in the agreement.

6.4.2.5 **Main Agreement E'**

In March of 2001 the company entered into an oral agreement for the provision of services, as main contractor, with main customer E' (hereinafter in this clause 6.4.2.5 – "**the customer"**) for the purpose of the supply and the installation of an automatic storage and retrieval system. In consideration, the customer undertook to pay to the company the total amount of approximately 400 thousand dollars, with the addition of value added tax, subject to the compliance with agreed milestones and specifications. In accordance with the terms of the agreement, the company provided a warranty for the sound order of the system and for the repair of certain faults within time schedules determined in advance.

In this framework no guarantees were either demanded or given by the company. The company completed the installation of the system and received the full consideration in accordance with the terms of the agreement in the year 2002.

6.4.3 In the framework of the agreements for the establishment of logistic and other systems (including the agreements which are mentioned in clause 6.4.2 of the prospectus), the company provides bank guarantees for guaranteeing its obligations in accordance with such agreements. These agreements are released in accordance with the terms of such agreements, in portions, in accordance with the progress of the work. As at the date of the prospectus, the company has provided bank guarantees as mentioned above in the accumulative total amount of approximately 700 thousand New Shekels (for details with regard to additional guarantees which the company has provided, see clause 10.6 of the prospectus).

6.5 The Marketing

6.5.1 The Market of the Controllers and the Competition Therein

To the best of the knowledge of the company, and mainly on the basis of a market survey of the year 2001 which was carried out by Frost & Sullivan World Programmable Logic Controllers #7450-10) (hereinafter: **"the Frost & Sullivan Report"**), the world industrial controllers market was estimated in the year 2001 to the extent of approximately 6.7 billion dollars, with average potential increase (between the years 2001 – 2007) estimated at approximately 4.9% per annum, which is expected to lead it to a market of approximately 9 billion dollars in the year 2007. To the best of the knowledge of the company, and mainly based upon the Frost & Sullivan report, the Nano controllers and the micro controllers world market has the most substantial increase pace in the field of the industrial controllers, with average growth potential (between the years 2001 – 2007) which is estimated at more than 10% per annum.

The controllers market is a most competitive market, which is characterized by frequent technological developments, the entry of new products and technologies and frequent changes in requirements and demands of customers and the company anticipates that this competitiveness will also continue in the future. There can be no assurance that the company will succeed in competing in this market and it may be that its competitors shall succeed in grabbing a share in the market.

The main competitors of the company are companies which are larger and more established than the company, and they have at their disposal financial and other means which substantially exceed those which are at the disposal of the company, including means of research and development, marketing and sale and name recognition in the market. These competitors can react more expeditiously than the company to the changing needs of the market, and they can also offer terms of financing to customers which are more flexible and easygoing than those which are offered by the company. All of the above is likely to restrict the ability of the company to compete with its competitors in efficiency. To the best of the knowledge of the company and mainly on the basis of the Frost & Sullivan report, it is possible to define three groups of principal competitors in the world market of the industrial controllers:

6.5.1.1 The leaders of the market, who are generally multi national companies which operate in most of the international and the global markets and with a variety of different products, including also the industrial controllers sector, and who compete simultaneously in several different segments of the market, frequently with connections and partnerships with various local companies. In this group it is possible, to the best of the knowledge of the company, to include the names, inter alia, of the following companies: Mitsubishi Electric Automation Inc., Rockwell Automation / Allen Bradley Company Inc., GE Fanuc, Schneider Electric, Omron Corp., Siemens AG.

6.5.1.2 Large multi national companies which engage mainly or only in industrial controllers and accompanying products. In this group, to the best of the knowledge of the company, it is possible to include the names, inter alia, of the following companies: Bosch Rexroth AG, Koyo, Yokogawa Corp, Philips Components, Toshiba International Corp, Festo Group.

6.5.1.3 Smaller companies which operate in limited geographical areas or which offer unique niche products. In this group, to the best of the knowledge of the company, it is possible to include the names, inter alia, of the following companies: Kim Controls, Honeywell Safety Management Systems, B&R Industrial Automation, Horner Electric APG and PILZ.

The company believes that its operations can be included in the third group above. The company is not aware of other Israeli companies in this category.

In the field of the systems, the company is competing with several Israeli and multi national companies which offer services of planning, installation, upgrading and maintenance of industrial systems, and in the main warehouses and automatic logistic systems, including companies of the Siemens group and of the Swisslog Group.

The company is not aware of statistical data upon which it can base itself with regard to the need and/or sales in Israel of programmed controllers and accordingly the company cannot assess the proportion of sales of these products in the local market. With regard to its share in the world market, the company estimates, in reliance upon on international market researches in the sector and this including the Frost & Sullivan report, that its share in the programmable controllers world market stands at below one per cent.

The systems marketing includes a variety of fields of operation in connection with planning, supply of equipment, establishment and maintenance of systems in the logistic sphere, and this including transport systems and conveyor belts, automatic storage plants (of various types), automatic store houses, sorting and distributing systems and management and logistic software programs. In the estimation of the company, although it is not in possession of statistical data thereupon it can base itself with regard to the size of the market in Israel, this market has revolved over the last years in dimensions of between twenty to forty million dollars a year. In the estimation of the company, and based upon the above-mentioned estimation with regard to the size of the market, its shares in sales of systems and services in the sphere of these operations is approximately 15%-30%.

The company competes with its competitors in the market and it intends to continue to compete with them in the main on the basis of the combined advanced technology in its products, cost-benefit ratio of its products relative to that of its competitors (and this including the functionality of its products, their performance, their reliability, their mobility, their integration capabilities in the existing systems of the users, compatibility and ease of their installation, their operation and their maintenance, and the quality of the technical support and the customer service which the company makes available). Nevertheless, there is no certainty that the existing markets or customers or the potential markets or customers shall view the products of the company as proper competitors in relation to the products of its competitors. Furthermore, there can be no assurance that the competitors of the company shall not develop products and technologies which shall cause the products of the company to be less competitive or to be obsolete.

6.5.2 **Marketing and Sales**

The products of the company and its services are marketed and sold by means of the internal marketing department of the company, a network of distributors which includes more than a hundred distributors (which include approximately 60 in the United States) in approximately fifty countries (including Israel) throughout Europe, Asia, South and Central America, North America and Africa, and a wholly owned subsidiary incorporated in the United States.

6.5.2.1 The Marketing Department of the Company

The staff of the internal marketing of the company, which at the date of the prospectus includes 8 employees, coordinates and directs the operation of the network of the distributors of the products of the company. These coordinations are conducted on a continuous basis by means of post, telephones and Internet communication, and also by means of central events such as conferences/congresses, courses and instruction meetings which the company conducts in its plant or in the distributors' premises. The marketing people also maintain direct contact with the body of the existing users and which is designated for the products of the company and for its services, for the purposes of follow up and the repeat feed back, development of customer contacts, and the tracing of business opportunities.

The company also operates a technical support team which includes several employees of the marketing department, who are each responsible for a desk attending to several countries. The support teams offer the support services prior to and for the purpose of the acquisition of the products of the company (in the main consultancy for the purpose of making the products compatible for the unique requirements of every party who makes an approach), including instructions amongst the distributors of the products of the company and also technical support services after the acquisition and for the purpose of assimilation of the use in products and/or dealing with communication problems for products. The references to the support team, which generally arrive from the distributors of the company, from direct final customers and from indirect final customers (who shall have required the products of the company from distributors in Israel or outside of Israel), mainly arrive by means of telephone and electronic posts. These approaches are dealt with by the support people, whilst the development and the marketing teams of the company are involved as needed.

6.5.2.2 Distributors

The products of the company are marketed by means of distributors in Israel, Europe, (Austria, The Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Holland, Hungary, Iceland, Italy, Latvia, Luxembourg, Norway, Poland, Portugal, Russia, Slovenia, Spain, Sweden, Switzerland, Turkey and Yugoslavia), Asia (Australia, China, Hong Kong, India, Malaysia, New Zealand, Taiwan, Thailand, Singapore and South Korea), South Africa, South America and Central America (Argentina, Brazil, Chili, Columbia, Mexico, Peru and Venezuela), and North America (the United States and Canada).

The agreements with distributors of the company generally accord exclusive distribution rights to defined territories for limited periods (generally a year), renewable subject to certain minimum sales. Generally, distributors acquire the products of the company in accordance with the price list of the company, and they are sold at prices which are subject to their discretion. The company generally makes 30 to 60 credit days available to distributors, and demands securities such as a bank guarantee or deeds of credit (with the exception of in the United States). The distributor is generally required to provide for final clients a warranty for the period of 24 months, which is supported by the obligation of the company to him for the same period of time. These agreements can generally be terminated at any time by notice of each one of the parties, generally subject to the Israeli Law, and to the apparatus for settling disputes by arbitration.

The income of the company from one of the distributors of its products constituted more than 5% of its total income in each one of the years 2002 and 2003 (however, the proportional share of such distributor in the income of the company is in decrease in such years because of the increase in absolute values in the income of the company). In accordance with the agreement with such distributor from November 2001, he serves as exclusive distributor of certain products of the company (in the main the new generation of controllers) in a defined territory, for the period of 12 months, which is automatically extended to four additional periods of 12 months subject to the provision of certain minimum orders. In accordance with the agreement, the distributor is obliged to hold a minimum quantity of stock, to provide a bank guarantee or a letter of credit for the purpose of guaranteeing the payment of his orders, to refrain from the sale of competing products during the period of the agreement (and in certain cases also for a limited period after the termination thereof) and for obligations of confidentiality in the period of the agreement and thereafter. The distributor is also obliged to make service available throughout 24 months to the acquirers of the products of the company from him, in return for a corresponding undertaking of Unitronics towards him. The agreement is mutually terminable in cases of breach and liquidation and in the absence of breach and liquidation, by notice of 9 months in advance.

6.5.2.3 Sales Promotion

The company adopts several means for the purpose of the promotion of the sales of its products and of its services, the main ones of which are:

6.5.2.3.1 Internet Site: The company has an Internet site (http://www.unitronics.com) which serves as a tool for the promotion of sales, and by means of the Internet site customers of the company can obtain other tools of assistance for use with products of the company, and also obtain comprehensive details with regard to the company in general and its products and its services in particular.

6.5.2.3.2 Public Relations: The company actively promotes public relations and contact with the market, existing customers and potential customers, with updates in innovations and developments with the products of the company, a follow up of their satisfaction and/or lessons for implementation and for elicitation, and similar activities.

6.5.2.3.3 Accessories and Activities for Marketing and Sale: The products of the company are described in catalogues which are intended to assist customers in the choice of the product which is suitable to their particular requirements, from the point of view of calculation power and the ability to process data, size, input/output capacities and other attributes. The company routinely distributes to existing customers and to potential customers updates of products and marketing material. Demonstration kits which facilitate the presentation of the products of the company and their operation at the site of the customer can also be acquired. The company holds instruction meetings from time to time for customers and distributors at their various sites.

6.5.2.3.4 Participation in Exhibitions: The company participates regularly in several national and international exhibitions, whether directly or by means of its distributors.

6.5.2.3.5 Publication and Professional Literature: The company publishes on a permanent basis its products and its services in the customary professional publications in the sector of the industrial controllers in the world.

6.5.2.4 Customers

The direct customers of the products department of the company are in the main distributors. The final customers are generally producers of industrial machines, in the main controller controlled machines which are designated for the automatic carrying out of defined assignments such as the packaging of products, specific operations in the assembly line and so forth. The producer of the machines acquires a suitable series of controllers for the particular machine which he produces, he installs the controllers of the company therein and he markets to his customer the machine which he produced containing also the controllers of the company. This machine shall be installed at the premises of the user who acquired the machine from the producer of the machines, and it shall serve there for assignments which have been designated for it in the framework of the production line or other automatic applications which are required by the acquirer of the machine, which shall be controlled and which shall be conducted by means of the controllers of the company which are installed therein.

The final users of the products of the company are, for example, the producers of machines for a variety of applications in various industries, including plastic industries, textile industries, spare parts for vehicle industries, food industries, petrol chemical industries and others. Other examples are use of the products of the company for control and supervision of energy consumption, air conditioning, systems for building control, conveyor belts, security systems and other things.

The direct customers of the systems department of the company are generally the final users of these systems, which are predominately industrial and/or logistic businesses which require an automatic storehouse, automatic dispatch systems and/or automatic logistic centers. These customers generally retain the services of the company for the planning of the automatic system. Predominately, the services of the company also include the establishment of a system at the site of the customer, and the provision of service and support for the system after it shall have been used. In certain cases the services of the company are retained for the purpose of the handling, the improvement, upgrading or elaboration of an existing system at the site of the customer (which was not originally installed by the company). These services are provided in the main in Israel, to customers in extensive fields of operation, including the processing of food, the production of medicaments, import/export warehouses, logistic centers, and other things. In some of the cases, the customer who communicates with the company is in fact a main contractor who has been retained by the final user as the integrator of a complete system, and retains the services of the company in sub-contracting for the purpose of carrying out only defined assignments, for instance, only the planning of the system, or only the installment of controllers in the system.

6.5.2.5 Sales

The following table details the income of the company, consolidated, from the sales and services for the periods which are indicated and also the rate of gross profit

	Income from the sales and services for the year December 31st			
	2003	2002	2001	2000
	In thousands of New Shekels adjusted to December 2003 (and percentages from general income, approximated)			
Products (1)	21,181 (53%)	13,818 (67%)	9,044 (72%)	12,099 (48%
Percent of Gross Profit (2)	49%	44%	31%	63%
Systems	19,125 (47%)	6,916 (33%)	3,525 (28%)	13,078 (52%)
Percent of Gross Profit (3)	18%	14%	34%	40%
Total Sales	40,306	20,734	12,569	25,177

(1) Along with complete products (controllers) the customers of the company occasionally acquire products with the addition of various components of the controllers and occasionally only parts and components, such as electronic cards, panels, expansion units, and various other accessories which are not in the framework of the acquisition of a complete product, and which serve them in connection with a specific product or other of the company (of any series of the series of its products), in order to modify it to the unique needs of each customer. Sale of a product together with a component includes the sale of the additional components in the framework of the sale of the product of the various series, this in contrast with a situation of the sale of components and accessories separately. There are no substantial differences between the manner of the execution of the sales, the demands, the manufacturing processes and/or the types of customers, with regard to the different series of the products of the company and/or with regard to the acquisition of complete products as opposed to components as stated.

(2) The different series of new generation products of the company contribute to its profits in a manner which is not substantially different between series and series. The changes in the rate of the profitability of the activity of the products department of the company between the years 2000 and 2003 arise in the main from a drop in direct sales to customers in the year 2000 as compared to an increase in sales by means of distributors in the years 2001 to 2003. Furthermore, upon the completion of a particular development of the new generation products of the company in the year 2001, one time expenses were required of the company in respect of adjustments (including with sub-contractors) which are required for the purpose of the production of such products, which influence the rates of the profitability in the year 2001, as compared to the rates of the profitability in the years 2002 and 2003.

(3) The contribution to the profitability of the operations of the company in the sector of the systems varies from transaction to transaction accordingly. In the main, for the status of the company as head contractor (which is generally characterized in the larger monetary extent and the lower profitability mainly as a consequence of the requirement for sub-contractors) or as sub-contractors (which is generally characterized by the lower financial extent and the higher profitability mainly consequent upon the use of independent resources), in the technical requirements and the unique functional requirements for each and every transaction and in the results of the negotiations with parties ordering the service in each and every case.

The products of the company are sold mainly in Europe, Israel, North America, South and Central America, Asia and Africa. Services of the systems department of the company are located in the main in Israel. Below, are set out proportions of the income of the company from the sales of the products department in the main geographical areas in the periods which are indicated, both in relation to the income of the company only from the products department operations, and also in relation to the general income of the company:

	Geographic dispersion of the sales of the products department for the year ended December 31st							
	2003		2002		2001		2000	
	In Percentages							
	Percent of the total sales of the products department	Percent of the total general sales of the company	Percent of the total sales of the products department	Percent of the total general sales of the company	Percent of the total sales of the products department	Percent of the total general sales of the company	Percent of the total sales of the products department	Percent of the total general sales of the company
Europe	49%	26%	42%	28%	48%	34%	56%	27%
Israel	13%	7%	25%	17%	33%	24%	25%	12%
North America	18%	10%	17%	11%	5%	4%	0%	0%
South and Central America	9%	4%	7%	5%	8%	6%	5%	2%
Asia	8%	4%	6%	4%	1%	1%	10%	5%
Africa	2%	1%	1%	1%	2%	1%	2%	1%
The remainder of the world	1%	1%	2%	2%	3%	2%	2%	1%

5% and more of the combined income of the company in the recent years derives from each one of the main customers as follows (their proportional share is presented in the following table both from the income of the products department or the systems department, as the case may be, and they are from the general income of the company):

	Income from principle customers for the year ended December 31st							
	2003		2002		2001		2000	
	In percentages of total income							
	From sales of products /systems departments	General sales of the company	From sales of products /systems departments	General sales of the company	From sales of products /systems departments	General sales of the company	From sales of products /systems departments	General sales of the company
Customer A' (systems department)	0%	0%	2%	1%	24%	7%	64%	33%
Customer B' (systems department)	1%	1%	1%	0%	12%	3%	21%	11%
Customer C[26]' (products department)	75%	36%	42%	14%	05	0%	0%	0%
Customer D[27]' (systems department)	10%	5%	18%	12%	11%	8%	6%	3%
Customer E[28]' (systems department)	1%	0%	18%	6%	12%	3%	0%	0%
Total sales of products department to the principle customers of the department	10%	5%	18%	12%	11%	8%	6%	3%
Total sales of systems department to the principle customers of the department	77%	37%	63%	21%	48%	13%	85%	44%

The customers of the systems department are generally, because of the nature of the business activity of this department, customers who make contact with the company for the purpose of carrying out a sole transaction; the company has no guarantee whatsoever that the places of customers who have completed their business connections with the company will be filled by new customers to a similar extent, or at all. The main customers of the products department are generally distributors who are connected by distribution agreements which are limited in time and which are capable of being revoked at any time (see clause 6.5.2.2 of the prospectus). For details of the terms of the agreements with these main customers see clause 6.4.2. and clause 6.5.2.2 of the prospectus.

6.5.2.6 Accumulation of Orders

As at the date of the prospectus the company has binding agreements in connection with the supply of the services of the systems department, in the total amount of approximately 27,036 thousand New Shekels. The said amount has not yet been credited as income in the financial reports (see clause 6.4.2 of the prospectus). The accumulation of the orders is for execution up to and including the first quarter of the year 2005. The company has no accumulation of orders for the products department.

[26] See clause 6.4.2.1
[27] See clause 6.5.2.2
[28] See clause 6.4.2.5

6.6 Intellectual Properties

6.6.1 General

The company claim unregistered copyrights and usage rights in technology, know how, commercial secrets and certain commercial trademarks. There can be no assurance as to the extent of the protection for the company which is based on these claims. The company has no intellectual rights which are registered (both because of the election of the company to refrain from the registration of rights and because of legal and other restrictions in connection with the registration of rights in certain cases) and with the exception of a provisional patent application as specified below, no patent, trademark, copyrights or other intellectual properties have been registered. There can be no assurance that the application which has been submitted by the company shall be accepted and that the patent shall actually be registered in pursuance of it, furthermore, there is no certainty as to the extent or the measurement of the protection afforded to the company by virtue of a patent which shall be registered, in the event that it shall be registered.

The company protects its commercial secrets and its intellectual property in the main by means of confidentiality agreements with its employees and its advisors, and also with some of its customers. There can be no assurance that these means supply appropriate protection of its commercial secrets and/or the commercial property of the company and they do not have the effect of protecting the company against competing developments which shall be developed by competing third parties.

6.6.2 Provisional Patent Application

In September of 2003, the company submitted a provisional patent application to the Office of Patents and Trademarks in the United States in connection with certain aspects of the WilCo™ Technology in the development of which it is engaged (see clause 6.3.5.1 of the prospectus). As at the date of the prospectus, a patent has not yet been registered in accordance with this application.

6.6.3 Internet Domain Names

The company has acquired usage rights in "domain names" which are the names of Internet sites, in similarity to the telephone number or the address, are intended to lead the browser in the Internet to certain sites in which the company presents data with regard to itself, its products and accompanying matters. The company makes use of these sites for the purpose of communication with customers and with potential customers. In accordance with the customary practice, the company shall have the right to continue to exclusively use the sites for so long as it shall pay annual usage fees (in insubstantial amounts) to the company which maintains the site. The domain names which serve the company are as follows:

- http://www.unitronics.com
- http://www.unitronics.co.il
- http://www.unitronics.net
- http://www.webplc.com
- http://www.webplc.net
- http://www.webplc.org
- http://www.unitronic.com
- http://www.oplc.net

6.7 Subsidiaries

The company has a wholly owned active subsidiary , Unitronics Inc., which is incorporated in the United States (Delaware) and which is engaged in the main in the coordination of the marketing and the distribution operations of the company in the United States. The company has an additional operating subsidiary company under full proprietorship, Unitronics House Management and Maintenances (2003) Ltd., which engages in the main in the management and in the maintenance of Unitronics House and which commenced business operations in the month of March 2004.

In addition, the company holds 100% of the issued capital of Unitronics Industrie Automation GmbH, a company which is registered in Germany, and 30% of the issued capital of Unitronics S.A. (Proprietary) Limited, a company which is registered in South Africa. These companies were established in the years 1995 and 1997 respectively, in the main for the purpose of the marketing activity of the products of the company in such countries. These companies have not been active for several years (the German subsidiary since the year 1997 and the South African subsidiary since the year 2000), and since then they have not had assets, employees, or obligations.

The following is the main data in connection with the active subsidiaries of the company:

6.7.1 Unitronics House Management and Maintenance (2003) Ltd.

6.7.1.1 General Description

Unitronics House Management and Maintenance (2003) Ltd. **("Unitronics Management**") was incorporated on the 29th of April, 2003, as a wholly owned subsidiary.

Unitronics Management is engaged, commencing from the month of March 2004, in the main in the provision of the maintenance services, upkeep services and other services in connection with the use of Unitronics House (part of which has been taken on rent by Unitronics, and part of which has been taken on rent by holders of an interest in Unitronics as specified in clause 6.10.1 of the prospectus). In accordance with the resolution of the audit committee and the board of directors of the company of May, 2003, Unitronics Management provides maintenance and upkeep services also for the remainder of the areas in Unitronics House which are not used by the company or which have not been leased by it, on condition that: (a) Unitronics Management shall grant equal terms to all the lessees in Unitronics House which shall be similar to the terms which are granted by other management companies in the surroundings of Unitronics House, and (b) the effects of these services on Unitronics' profitability, assets or, its obligations shall remain insubstantial. In accordance with the resolution of the board of directors of Unitronics, any deviation from the above-mentioned resolutions shall require the approval of the board of directors of Unitronics and every other approval which is required in accordance with the law.

Unitronics Management operates from Unitronics House without offices, assets or designated employees of its own. The operation of Unitronics Management is carried out by means of the directors/managers and the employees of Unitronics, with the use of the assets of Unitronics, where all the occupiers of the building pay for the services of the company on the basis of a similar pricing mechanism which applies to everybody in an identical manner, and which requires payment proportionately to the area which is in the use of each one. For details with regard to the nature of the services which Unitronics Management makes available and with regard to the payments which are collected by it (which are in amounts which are not substantial for the company) see clause 8.2.2.3 of the prospectus.

6.7.1.2 The Registered and the Issued Capital, the Share of Unitronics

As at the date of the prospectus, the registered capital of Unitronics Management is 100,000, New Shekels, which is divided into 100,000 ordinary shares of the nominal value of 1 New Shekel each, and out of which 1000 shares have been issued, which are held in their entirety by Unitronics.

6.7.1.3 Costs of the Shares of Unitronics Management to the Company and the Price at Which they are Registered in its Records

As at the date of the prospectus, the cost to the company of the shares of Unitronics Management which the company holds, is 974 New Shekels.

6.7.1.4 Loans, Credit, Guarantees, Investments in the Company

As at the date of the prospectus Unitronics Management does not have any debts to the company and the company has not issued any guarantees whatsoever in favour of Unitronics Management.

Furthermore, as at the date of the prospectus, the company does not have investments in Unitronics Management.

6.7.1.5 The Holders of More than 25% of the Capital

As at the date of the prospectus, and since it was established, Unitronics Management is under the full proprietorship and control of the company.

6.7.1.6 Management Fees, Interest, Dividend, and Other Payments from Unitronics Management.

In the period which is reported in the prospectus Unitronics Management has not paid and has not undertaken to pay to the company any management fees, interest or dividend.

6.7.1.7 Directors and Senior Office Holders in Unitronics Management

The directors in Unitronics Management are: Messrs. Haim Shani, Bareket Shani and Zvi Livneh, who all hold office also as directors in Unitronics.

In Unitronics Management no general manager has been appointed; Mr. Haim Shani, who also holds office as chief executive officer of Unitronics and the chairman of its board of directors, holds office in practice as a senior office holder in Unitronics Management.

6.7.1.8 Profits/(Losses) of Unitronics Management

Unitronics Management commenced operation in the month of March, 2004, and accordingly, as at the date of the prospectus, it still does not have financial reports.

6.7.2 **Unitronics Inc.**

6.7.2.1 General Description

Unitronics Inc., was incorporated on the 25th of June 2001 as a wholly owned subsidiary of the company.

Unitronics Inc. is engaged in the main in the coordination of the marketing and the distribution operations of the company in the United States, and it operates a network of approximately 60 distributors spread out through the majority of the states of the United States. The offices of Unitronics Inc. are located adjacent to Boston, Massachusetts, USA. Unitronics Inc. has three employees who are engaged in the main in coordination and support of the marketing operations of the distributors of the company in the United States.

6.7.2.2 The Registered and Issued Capital, the Share of the Company

As at the date of the prospectus, the registered capital of Unitronics Inc. is $10, which is divided into 1000 shares of the nominal value of $0.01 New Shekels each, which have all been issued to Unitronics and which are held by it.

6.7.2.3 The Cost of the Shares of Unitronics Inc. to the Company and the Price at Which they are Registered in its Records

As at the date of the prospectus, the cost to the company of the shares of Unitronics Inc., which the company holds, is 44 New Shekels.

6.7.2.4 Loans, Credit, Guarantees, Investments in the Company

The adjusted balance sheet value of Unitronics Inc., totals, correct as at the 31st of December 2003, the negative sum of approximately 1,524 thousand New Shekels. The current negative balance of Unitronics Inc. to the company totals the amount of 2,504 thousand New Shekels as at the 31st of December, 2003.

6.7.2.5 The Holders of More Than 25% of the Capital

As at the date of the prospectus, and since its establishment, Unitronics Inc. is under the full proprietorship and control of the company.

6.7.2.6 Management Fees, Interest, Dividend, and Other Payments of Unitronics Inc.

In the period which is reported in the prospectus, Unitronics Inc. has not paid and has not undertaken to pay to the company any management fees, interest or dividend.

6.7.2.7 Directors and Senior Office Holders in Unitronics Inc.

Haim Shani serves as sole director and president of Unitronics Inc.

6.7.2.8 Profits/(Losses) of Unitronics Inc.

For the period which ended on the 31st of December	Profit before tax	Profit after tax
	Adjusted to the month of December 2003 (in thousands of New Shekels)	
2003	(505)	(505)
2002	(490)	(490)

6.8 **Charges Over the Assets of the Company and Obligations in Connection with Loans and Credits:**

6.8.1 **A Charge in Favor of the Industrial Development Bank of Israel with Limited Liability (hereinafter – "the Bank") in the Framework of the Acquisition of the Floors of Unitronics (As Per Their Definition in Clause 6.10 Below)**

As a condition of obtaining financing for the acquisition of Unitronics floors (see clause 6.13.2 of the prospectus), on the 22nd of August 2000, the company charged by way of permanent and floating charge of the first degree:

(1) Part of the plot of land number 3 in accordance with the town building plan cg/mk/566/1 which constitutes part of the land which is located in the north eastern part of the El-Al junction in the Modiin Region;

(2) Documentary bills and securities which are deposited and/or which shall be deposited at the bank; and also

(3) Rights of the company to receive any monies in accordance and in connection with any guarantees including guarantees in accordance with the Sale Law (Apartments) (Guaranteeing of investments of Acquirers of Apartments), 5734-1974, including, without prejudice to the generality of that which is stated in mortgage number 07/842500/00 of 6.8.2000 in the sum of 2,549,137 New Shekels which has been issued by Bank Leumi of Israel Ltd. in favor of the company in accordance with the above-mentioned law in connection with the acquisition of rights in Unitronics floors.

Furthermore, in addition to the charge which is mentioned above, the company has undertaken, inter alia:

(a) To insure the property which is charged and to keep it insured at its full real value with such insurance company or such insurance companies and in accordance with such terms, or as the bank shall agree to.

(b) To maintain and to deal with the property which is charged, to keep it in good and usable condition, and to immediately repair any damage and/or defect. Furthermore, not to carry out any disposition with the property which is charged without the agreement of the bank, with the exception of the sale of current property in the ordinary course of business.

(c) Not to charge and not to mortgage in any form whatsoever the property which is charged, without the agreement of the bank.

(d) To ensure that no change whatsoever shall apply and not to permit any change whatsoever in the composition of the percentages in shares in the capital of the company or in the number of the shares where each one of them is held (directly or indirectly) in the capital of the company or in the rights which these shares or any part thereof grant to the holders of them, with regard to “the existing situation” (as at the date of the making of the charge) without the agreement of the bank in writing and in advance, with the exception of cases of transfer of shares by way of succession.

As at the date of the prospectus the company is fulfilling its obligations to the bank with regard to the details and the terms of the financing which the bank has made available to the company for the purpose of the acquisition of the Unitronics floors, see clause 6.13.2 of the prospectus.

6.9 **<u>The Employees in the Company and its Subsidiaries</u>**

6.9.1 **<u>Distribution of the Employees of the Company</u>**

As at the date of the prospectus the company employs 62 employees in Israel. The following is the distribution of the employees of the company on the basis of sector of occupation and profession:

Distribution of Employees in Accordance with the Sector of Occupation

Occupation	Number of employees
Sales and marketing	8
Research and development	16
Administration	8
Manufacturing and quality control	18
Integration and support	12
Total	62

Profession	Number of employees
Clerks – administration	4
Professional technicians	3
Programmers (academics)	19
Engineers	6
Technician, warehouse and mechanical assembly	11
Academic (general)	9
Practical engineer	10
Total	62

As at the date of the prospectus, three employees are employed in the subsidiary Unitronics Inc., (without personal employment agreements in writing), and in the subsidiary Unitronics House Management and Holdings (2003) Ltd. no employees are employed.

The majority of the employees of the company work on the basis of personal agreements in writing. The contracts include the customary obligations with regard to confidentiality, refraining from competing and maintenance of the intellectual property of the company, which exist or which is produced in the company or during the course of the work of the employee in the company.

The obligation of the company with regard to the termination of employer-employee relationships are covered in part by means of payments for directors insurance policies and for the Central Compensation Funds Adjoined to Hapoalim Bank; the obligations of the company with regard to the termination of the employer-employee relationships which are not covered by means of the payments as mentioned, are covered by means of an allowance in the financial reports.

6.9.2 **Collective Bargaining Agreements**

The provisions of the general collective bargaining agreement for the metal, electricity and electronic professions apply by virtue of an extension order in the metal, electricity and electronic sector (hereinafter – "**the collective agreement**"). The provisions of the collective agreement relate in the main to the maximum hours of work, minimum wages for professional employees, allowances for pension funds, cost of living supplements (in accordance with the consume prices index), various insurance companies (in the event of illness or accident at work), modes of dismissal, severance pay which is due and other provisions in relation to the terms of the employment. The company generally provides terms of employment which are equal to or better than the minimum terms which are determined in the collective agreement.

6.9.3 **Description of the Main Provisions in the Personal Labour Contracts with Certain Senior Directors/Managers**

The company has entered into a personal labor agreement with Mr. Haim Shani (who is also the holder of the control in the company and the chairman of its board of directors) and Mrs. Bareket Shani (the wife of Mr. Haim Shani who also serves as a member of the board of directors of the company) for the period of five years commencing from the first of January 1999. The employment agreements were extended in the month of December 2003 (with the unanimous approval of the inspection committee, the board of directors and the general meeting of the shareholders in the company) for the period of five additional years which may be extended by additional periods of five years each. In accordance with the above-mentioned employment agreements, Mr. Haim Shani serves as the chief executive officer of the company and Mrs. Bareket Shani serves as deputy to the chief executive officer and the manager of human resources. Mr. Haim Shani and Mrs. Bareket Shani are entitled to monthly remuneration in the sum of $15,000 and $7,500 respectively. In accordance with their employment agreements each one of them shall be entitled, after adoption of the option plan of the company, to a quantity of options in an amount which shall not be less than 115% of the amount which shall have been granted to the most senior employee in the company after Mr. Shani and Mrs. Shani, respectively, in addition, the employment agreements provide customary social benefits, for instance managers/directors insurance, use of a vehicle of the company and refund of expenses. The conclusion of the employment agreement of Mr. Haim Shani is subject to the approval of 75% of the members of the board of directors. Mr. Haim Shani and Mrs. Bareket Shani have agreed (voluntarily) to a drop of 5% in their remuneration for the period of 12 months commencing from the first of January 2003 (for additional details see clause 8.2.1 of the prospectus).

The deputy chief executive officer and the manager of the products department of the company is entitled, in accordance with his employment agreement with the company, in addition to fixed remuneration, to a bonus at the annual rate of 3.5% to 5% of the annual increase of the sales of the new generation products of the company (after deduction of certain third party commissions).

The deputy chief executive officer and the manager of the systems department of the company is entitled, in accordance with his employment agreement with the company, in addition to the fixed remuneration, to a grant at the annual rate of 4% of the operating profit of the systems department (but in any event not more than $30,000) subject to the fulfillment of certain minimum requirements of operating profit as mentioned, and also to an additional grant at the annual rate of 3% of the net profit of the company up to a net profit of one million dollars and at reduced rates in accordance with the increase in the net profit exceeding such amount, up to a payment at the yearly rate of 0.5% of the maximum net profit of 5 million dollars.

The technologies deputy chief executive officer of the company (in this section, "**the party providing the services"**) is employed in accordance with a management services agreement according to which he provides services to Unitronics by means of a company which is under his control ("**the services company**") in consideration of management fees in a fixed amount, in return for a tax invoice. The services company is obliged to provide for social benefits in respect of his employment, and all the obligatory payments in accordance with every law, and to compensate Unitronics in respect of any damage or loss which shall be occasioned to it in respect of the determination that employer/employee relations exist between Unitronics and the party providing the services as mentioned above. Furthermore, the party providing the services has personally guaranteed the obligations of the services company.

6.10 The Company's Real Property and the Leasing of Land by the US Subsidiary

6.10.1 Real Property Acquired and Used by the Company

The company has leasing rights in the ground floor with basement and the first floor (hereinafter – "**the floors of the company"**) in the building which is called "**Unitronics House**" the area of which (not including the basement) is approximately 1600 square meters gross, which is known as part of block 6832, parcel 27 (after the carrying out of initial parcellation of the plot which is marked as 3 in accordance with the town building plan which is known as 1/566) and the address of which is: the Airport City, P.O.B. 300, Ben Gurion Airport, 70100, Israel, (hereinafter – "**Unitronics House").** Furthermore, the company has leasing rights in an additional plot in an area of approximately one dunam which is located adjacent to the Unitronics Building and which serves as a parking space for the employees and the visitors of the company.

In the remainder of the floors in Unitronics House, the second floor, the third floor and the fourth floor leasing rights have been acquired by the holders of the control in the company which serves as the chairman of the board of directors and the chief executive officer of the company by means of a company which is under the full control of himself and his wife (hereinafter – **"the private floors"**). The rights in the private floors were acquired approximately one month prior to the acquisition of the rights of the company in the floors of the company, through a separate agreement which is not connected to the company or to the agreement in accordance with which the company acquired its rights in the floors of the company, and at prices per square meter which are bases on the same pricing basis in accordance with which the company acquired its rights.

The floors of Unitronics serve as offices of the company and its enterprise. The private floors are rented out to third parties. For details with regard to the maintenance and management services which are provided by Unitronics Management, a subsidiary of the company, for the Unitronics floors and for the private floors, see clause 8.2.2.3 of the prospectus.

The rights of the company in the Unitronics floors are registered in the records of Airport City Ltd., as a mortgage company. The company acquired these rights in accordance with an agreement of the 21st of August 2000, between the company and Airport Campus Ltd. In accordance with the agreement a capitalized leasing right (91%) was granted to the company on the Unitronics floors for the period of 49 years from the day of the approval of the transaction at the Israel Lands

Administration and its registration on the name of the company at the Israel Lands Administration. In accordance with the contract the leasing right shall be registered on the name of the company in the books of the administration not later than the 14th of November 2007. On the date of the prospectus, the rights of the company have not yet been registered with the Israel Lands Administration.

The balance of the adjusted reduced costs of the floors of the company as at the 31st of December 2003 is approximately 19,175 thousand New Shekels.

6.10.2 **Real Property Held/Used by the US Subsidiary**

Unitronics Inc., takes offices on lease near to Boston, Massachusetts on a total area of approximately 550 square feet (approximately 50 square meters). These offices are rented for the period of 12 months which terminates in January 2005, at an annual rent of approximately $12,000.

6.11 Government Benefits

6.11.1 Approved Enterprise

In the month of June 2000, the company received approval for the investments plan (hereinafter: "**the plan"**) in the alternative track from the Investments Center and the Ministry of Industry and Trade in accordance with the provisions of the Encouragement of Capital Investments Law, 5729-1959 (hereinafter: **"the Encouragement of Capital Investments Law**"). The nature of the approval: an investment in the sum of $108,000 for the extension of the plant at Lod for the production of industrial controllers, the production process of the plants. In accordance with the approval, and subject to the fulfillment of the terms which are set out in the approval (in brief, financing of at least 30% of the investments in fixed assets shall be financed by additional paid up share capital, execution of marketing plan as specified in the letter of the company of the 15th of May 2000 including comprehensive maintenance of the sales and the ratio between them in accordance with such marketing plan, compliance with the laws of intellectual property and submission of reports to the Investments Center and to the Assessment Clerk 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 tax benefits aspects see clause 6.14.1 of the prospectus). In the month of December 2001 the company received approval for a supplement for this plan in the sum of $257,000 in the manner that the investments in the said plan shall total approximately $365,000.

The time of the execution of the plan was by June 2002, and it was extended until September 2002. The last report of execution was submitted in April 2003. In February 2004, the company received the approval of the execution of the plan, in accordance with which it complied with the terms of the plan, save for the term of the marketing plan in the years 2001-2003 (see clause 6.14.1.2 of the prospectus). The company believes that when such benefit shall be relevant to the company, it will also conform with the terms of the marketing plan.

In the month of January 2003, the company received approval for the additional investments plan: "**the second plan**". In the track of the Investments Center alternatives, in accordance with the Encouragement of Investments Law. The nature of the approval: an investment in the sum of $683,600 for the extension of the enterprise of the company in Lod for the protection of industrial controllers for automation systems. In accordance with the approval, and subject to the fulfillment of the terms which are 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 tax benefits aspects, see clause 6.14.1 of the prospectus).

The time of the execution of the plan is as at January 2005. By the 31st of December 2003, the company had made investments in accordance with the second plan in the total amount of approximately $530,000.

The basic year for the period of the benefits in accordance with the plan is 1999 and for the second plan a basic year has not yet been determined. As at the date of the prospectus the company has no taxable income and accordingly the benefits in accordance with the plan or the second plan have not yet been exploited.

Subject to that which is stated above, as at the time of the prospectus, the company has fulfilled its obligations towards the Investments Center.

6.11.2 **The Chief Scientist**

The company submitted to the Chief Scientist at the Ministry of Trade and Industry, in the years 1992-2003, request for approval of the receipt of a grant – financing for the research and development plans of the company in accordance with the Encouragement of Research and Development in Industry Law, 5744-1984 (hereinafter: **"The Research and Development Law")**.

The following are details of the plans which were approved by the Office of the Chief Scientist which are being carried out today and/or those to which the company is still committed (in New Shekels adjusted to the New Shekel of December 2003):

Plan Subject	Date of Approval	Research and Development expenses approved	Rate of grant	Amount of grant	Period of execution according to approval document
New controller *Combi -2	24/6/92	914,355 New Shekels	50%	457,276 New Shekels	1/2/92 31/1/93
*New Controller Minicon410	20/6/95	829,589 New Shekels	50%	414,795 New Shekels	1/10/94 30/9/95
Industrial controller Minicom410 part b*	15/5/96	653,363 New Shekels	50%	326,682 New Shekels	1/11/95 31/5/96
Industrial controller M330*	18/8/97	2,298,228 New Shekels	30%	689,469 New Shekels	1/3/97 31/1/98
Wilco Programmable controller with wireless connections and internet	1/7/03	2,480,165	40%	992,066 New Shekels	1/5/03 **30/4/04

* A controller from the heritage products of the company, which constitute 18%, 26%, 8%, and 3% of the general income of the company for the years 2000, 2001, 2002, 2003, respectively.

** The company has applied to the office of the Chief Scientist on the 15th of April for the extension of the execution phase of this plan for an additional four months. On the date of this prospectus, it has not yet been replied to.

In addition to the plans which are specified above, in the year 1989 the office of the Chief Scientist approved for the company participation in the financing of development plans in the matter of "engine controller 101-MC for glass greenhouses". In respect thereof, the company received a grant in the sum of 102,319 New Shekels ($44,818). In the year 1991 the company ceased to be engaged in the development of the product and the sale thereof, it did not continue any activity in this field and it also does not base any of its products upon the benefits of this development.

The company is required to pay royalties to the office of the Chief Scientist in payments of 2% to 5% of the sales of the products which were developed with the assistance of the monies of the Scientist, until the full return of the amount of the grants which were received (and with regard to the grants which were received commencing from the first of January, 1999, with the addition of interest at the Libor rate).

By the 31st of December, 2003, grants had been approved for the company in accordance with the above-mentioned plans in the total amount of 2,880 thousand New Shekels (including a development plant in connection with the Wilco™ series from 2003 which has still not yet been received in its entirety because the development plan is still at its initial stage). In the years 1993-2003, the company paid royalties to the Chief Scientist in the total amount of 98,523 New Shekels) which included approximately 7 thousand New Shekels in the years 2001-2003.

The balance of the obligations of the company to the Chief Scientist in respect of royalties as at the 31st of December 2003, is approximately 2,133 thousand New Shekels.

In accordance with the deeds of approval, the approvals are subjected to the condition of fulfillment of the provisions of the Research and Development Law, the amendments and the regulations by virtue thereof and thus so that the plans shall be carried out as specified in the applications within the execution period and with provision of reports and/or receipt of approvals as required in the deeds of approval in connection with changes in holdings and means of control in the company, and the transfer of means of control in the company to a foreign resident or to a foreign company. In this framework additional restrictions also apply to the company, and including that the company must refrain from producing outside of Israel products which are based upon technology which was developed with the assistance of the financing of the Chief Scientist, and from the transfer of such technology to somewhere outside of Israel, other than with the approval in advance of the Chief Scientist. The company is also prevented from transferring know-how which shall have been developed with the assistance of financing from the Chief Scientist, to third parties, without the approval of the Scientist as mentioned. Subject to that which is stated below, as at the date of the prospectus the company is fulfilling its obligations to the office of the Chief Scientist.

The company has submitted an application to the office of the Chief Scientist for the extension of the period of the execution of the development plan of the Wilco™ series as mentioned above and also an application in connection with changes in holdings and control in the company consequent upon the publication of this prospectus and the allotment of securities in accordance therewith. As at the date of the prospectus, the company has still not received the approval of the Chief Scientist and in the absence of approval as mentioned, the Chief Scientist shall be able to impose a financial sanction upon the company and/or to cancel the deeds of approval and to obligate the company in the return of the grants, with the addition of linkage differences and interest, without derogating of obligations of payment of royalties of the company.

Additionally, in the framework of the deed of approval for the participation of the Chief Scientist in the financing of the development plan of the company in connection with the WilCo™ series products, the company is required to pay royalties not only in connection with sales of WilCo™ series products but rather also in connection with sales of all the controllers of the company which include the wireless modem and/or connections to the Internet and/or Intra-net and all software and tools for the installation and the operation of such networks which are included in controllers. In February 2004, the company informed the office of the Chief Scientist that the company had many products which make use of short range radio communication and/or cellular communication and also products which facilitate connection of the industrial controllers which are produced by the company to the Internet and to the Intra-net networks, and that these products do not make use of the new technology which forms the subject matter of the plan which is approved, and accordingly amendment was requested of the definition of the products which are liable for royalties in accordance with this plan. In April 2004, the office of the Chief Scientist gave notice to the company of the fact of the amendment of the definition of the royalties in this connection in such manner that the royalties would be paid from any income in respect of (1) all the controllers of the company which include the short range internal radio modem which is built as an integral part in the controller and which is used in Mesh topology and also (2) all the controllers of the company which have a communication facility which is based on TCP/IP on Ethernet as an integral part of the controller, for the purpose of creating a designated communication channel making use of a central server which functions as an intermediary for the location and the mapping of the locations of the controllers on the Internet.

6.12 **Insurance**

The company and the subsidiaries are insures with insurance policies which, in the estimation of the company, provide it appropriate insurance coverage, as is specified below.

6.12.1 **Insurance of Assets**

The company is insured by extensive fire insurance which provides insurance against the customary risks in such insurance including fire, earthquake and other nature damages and also extension of the “all risks” cover. Furthermore, the company is insured by “all risks” electronic equipment insurance. The above-mentioned insurance policy provides insurance coverage for property in amounts as specified below: rights of the company in building in the sum of $50,000, contents insurance in the sum of $1,000,000, electronic insurance in the sum of $400,000. Insurance of the rights of the company in the building Unitronics House, extended from April 2004 to the sum of $3,000,000.

6.12.2 **Insurance of Expenses and Leasing**

The company is insured by insurance of additional leasing expenses including damages of nature, which provides insurance cover in insurance amounts of $50,000.

6.12.3 **Third Party Insurance**

The company is insured by insurance of liability to third party up to the sum of $1,000,000 for one occurrence and in total in respect of the damages which are likely to occur during the period of the insurance.

6.12.4 **Insurance of Liability of Office Holders**

Office holders in the company are insured against claims in respect of liability of office holders up to the sum of $2,000,000 per one occurrence and in total in respect of the damages which are likely to occur during the period of the insurance (and additionally - $400,000 expenses of legal defense in Israel.) The basic cover has been extended to judicial consideration throughout the world including the United States and Canada.

6.12.5 **Insurance for Unitronics Inc.**

For the subsidiary company in the United States, Unitronics Inc., separate insurance company to that of the company. These insurances include building insurance in the sum of $1,000,000 per occurrence and $2,000,000 in total; employers liability insurance and compensation of employees in the sum of $100,000 for bodily damages as the result of an accident, $100,000 per employee for bodily damages as a result of illness, and in total $500,000 for bodily damages in respect of illness; and insurance of storehouse in the sum of $1,000,000.

6.12.6 **Additional Insurances**

In addition to the polices which are specified above, the company is insured under the following policies:

Contracting works insurance – in the case of necessity (in accordance with the demand of the party who orders the work).

Employers liability insurance in the limits of liability of $5,000,000 for the injured party and in total for the duration of the period.

Combined insurance of product liability and professional liability in limits of liability of $2,000,000 per occurrence and in total throughout the period.

Insurance of consignments of export import up to $400,000 which are not insured by the supplier, the dispatcher/the recipient (as the case may be), with the exception of import from denominated companies with whom the company is connected generally in connection with the carrying out of projects of systems department.

Insurance of travel to outside of Israel and obligatory and comprehensive insurances for vehicles.

6.13 **Financing**

6.13.1 **Sources of Financing – General**

The sources of the external financing of the company (in thousands of New Shekels adjusted to the month of December 2003) are as follows:

	To the 31st of December 2003	To the 31st of December 2002
Short term credit from banking corporations	-	-
Long term credit from banks (dollar)	5,826	3.66%
Long term credit from banks (shekel)	6,515	8.2%
Index linked leasing loans	216	6-11.23%
Convertible debentures	4,413	4% (6.63% weighted)

The company has current credit facilities (not including acquisition of rights of the company in Unitronics floors) in a total amount of approximately 500 thousand New Shekels which are not exploited as at the 31st of December 2003, and as at the date of the prospectus.

6.13.2 **Financing Sources for the Acquisition of Rights of the Company in the Unitronics Floors**

In accordance with the terms of the financing which have been agreed between the company and the bank on the 12th day of the month of July 2000, the bank made available to the company a credit facility in the sum of 13,735,000 New Shekels as specified below:

(a) The sum of up to 11, 685,000 New Shekels long term loan for the period of up to 15 years with the facility for grace of 3 years for payments of principal, with the making of current payments of interest. The credit has been made available for the acquisition of Unitronics floors at the rate of 95% of the cost of the acquisition and the expenses of the adaptation.

(b) The sum of up to 2,050,000 New Shekels in the framework of commercial credit for the period of one year in the format which shall be determined between the parties.

The cost of the credit is determined as follows:

(1) Long term credit shall be determined at the time of the execution on the basis of net spread which shall not be less than 0.75% of the cost of borrowing of the bank.

(2) Cost of the short term credit as shall be determined by the parties.

As at the date of the prospectus, the company has partially exploited the credit framework as specified below:

On 24.7.2000 the sum of $630,000 was withdrawn at Libor interest + 1% for discharge in accordance with the clearing schedule by 1.5.15;

On 15.9.2000 the sum of $105,400 was withdrawn at Libor interest + 1% for discharge in accordance with the clearing schedule by 1.5.15;

On 24.12.2000 the sum of $302,438 was withdrawn at Libor interest + 1% for discharge in accordance with the clearing schedule by 1.5.15;

On 29.10.2001 the sum of $200,000 was withdrawn at Libor interest + 1.25% for discharge in accordance with the clearing schedule by 1.5.15;

On 10.2..2002 the sum of $200,000 was withdrawn at Libor interest + 1.25% for discharge in accordance with the clearing schedule by 1.5.15;

On 8.4.2002 the sum of 2,873,500 New Shekels, the principal of which would be discharged on 30.7.03.

On 18.6.2002 the sum of 2,214,544 New Shekels at basic interest in debitory accounts which prevail at the bank +0.5%, where the principal thereof would be discharged on the 30.7.03;

On 9.10.2002, the sum of 1,667,000 New Shekels at basic interest in debitory accounts which prevail at the bank +0.5%, where the principal thereof would be discharged on the 30.7.03;

On the 3rd of June 2002, an amendment to the letter of credit dated the 7th of June 2000 as mentioned above was signed, in accordance with which it was determined that the exploitation balance of the credit framework would be made available to the company at a rate which would not exceed 95% of the investment in the project which the supervisor on behalf of the bank would approve to be actually carried out by the company and that the balance as mentioned would be exploited not later than 31.12.2003. In the event that the balance which would not be exploited by this time, the company would not be entitled to request its exploitation.

With regard to the loan which would be made available in Shekels not later than 31.12.2003, and the company would request that it would bear “prime plus” interest, it would be made available for the period of up to two years at annual interest of prime + 0.5%. The category of the continuing loan (up to the maximum period for discharge in accordance with the clearing schedule by 1.5.15) and the rate of the interest which it would bear, would be determined by agreement between the bank and the company.

On the 18th of February, 2004, an additional amendment was carried out to the terms of the Shekel loans which the bank had made available. In accordance with this amendment, the following loans were extended to 30.7.06.

Principal balance	Loan terms	Date of termination
2,057,616	Basic interest* + 0.5%	30.7.06
1,509,244	Basic interest + 0.5%	30.7.06
2,717,631	Basic interest + 0.5%	30.7.06

* The basic monthly debitory interest which is prevalent with the bank.

On account of the payments of the principal in respect of these loans, the company undertook to discharge, in addition to the entirety of the payments in respect of interest, also the amounts which are specified below and on the following dates:

a. The sum of 210,000 New Shekels on account of the principal shall be paid on 30.7.05.

b. The sum of 210,000 New Shekels on account of the principal shall be paid on 30.1.06.

c. The sum of 210,000 New Shekels on account of the principal shall be paid on 30.7.06.

Furthermore, it was agreed that the loan in the sum of 240,000 New Shekels which was repayable on 30.4.04 would be extended until 30.1.05.

The balance of the liabilities of the company to the bank as at the date of the prospectus in respect of the financing which was provided to it for the purpose of the acquisition of the Unitronics floors is approximately 12,341 thousand New Shekels.

6.14 Taxation

6.14.1 Benefits in Tax by Virtue of the Encouragement of Capital Investments Law, 5719-1959 (in this Clause: "the Law")

Subject to clause 6.14.1.2 below, in accordance with the Law the company is entitled to various tax benefits, by virtue of the status of a "approved enterprise" in accordance with the investment plan and the supplement to the investment plan, which was approved by the Investments Center (see clause 6.11.1 of the prospectus).

The benefits from which the company shall be able to benefit in connection with the approved enterprise are as follows:

6.14.1.1 Reduced Rate of Tax

In the period of the benefits – which is a period of seven years, which are counted commencing from the year in which there shall be tax which is liable for the first time from the approved enterprise, the income of the company from the approved enterprise shall be exempt from companies tax throughout the first two years and afterwards, the income of the company of the approved enterprise shall be liable for companies tax at the rate of 25% (or less, in accordance with the rate of the foreign investments in the share capital of the company) in the stead of tax at the ordinary rate, and provided that fourteen years shall still not have passed from the year in which the deed of approval was given to the company or twelve years from the year of the operation, whichever the earlier. The above-mentioned tax benefits shall apply to the increase in the turnover over and above the turnover in the basic years.

Dividend which is paid within the period of the benefits, from monies which are attributed to the approved enterprise are subject to income tax at the reduced rate of 15%. In cases in which dividend shall be distributed in cash from out of the income of the company which has derived from the approved plan and in respect thereof the company was entitled to an exemption from tax, the company shall be liable for companies tax at the rate of 25% on the amounts of the dividend which shall have been paid.

6.14.1.2 Conditions for Receipt of the Benefits

The benefits which are mentioned above are dependent upon the fulfillment of the conditions which have been determined in the law, in the regulations which have been enacted in accordance therewith and in the deeds of approval in accordance with which the investments were carried out in the approved enterprise. Absence of fulfillment of the conditions is likely to cause the cancellation of the benefits, in their entirety or part of them (see clause 6.11.1 of the prospectus).

6.14.2 Measurement of the Results for Tax Purposes in Accordance with the Income Tax Law (Adjustments in Respect of Inflation), 5745-1985 (in this Clause: "the Adjustments Law")

In accordance with the Adjustments Law, the results for tax purposes are measured on a real basis, taking into account increase of the index. The company is assessed in accordance with the above-mentioned Law.

In accordance with amendment number 14 to the Adjustments Law of the 14th of November 2001, it is determined in the provision of clause 32(b1) of the Adjustments Law that the Minister of Finance, with the approval of the Finance Committee of the Knesset (the Parliament of Israel), is entitled to determine by order, with regard to some particular tax year, during the course of the tax year or by the 28th of February thereafter, that in the event that the rate of the increase of the index in which there shall not be or there was not, as the case may be an increase of more than 3%, the provisions of the Adjustments Law shall not apply with regard thereto, in their entirety or part of them, as he shall determine, or the rate of the increase of the index in such tax year shall be viewed as 0%, and also the adjustments which are required because of the determination as mentioned. In the month of February 2004, it was decided by the Minister of Finance and the Finance Committee of the Knesset (the Parliament of Israel) that the Adjustment Law would be implemented in the year 2003.

6.14.3 <u>The Encouragement of Investment Law (Taxes), 5729-1969</u>

The company is an “industrial company” as per its meaning in the above-mentioned law. By virtue thereof, the company is entitled to tax benefits such as: reduction of expenses of issue for the purpose of tax at the time of the registration of the shares for trading on the Stock Exchange and amortization of patents and know how which has been acquired from third parties.

6.14.4 <u>The Rates of the Tax Which Apply to Income Which Does Not Arise From “the Approved Enterprise”</u>

The income in respect of which the company is not entitled to tax benefits by virtue of the status of “approved enterprise”, as indicated in clause 6.14.1 above, and the income of the subsidiary company, Unitronics Management, are liable for tax in accordance with the ordinary rate of 36%.

6.14.5 <u>Tax Assessments</u>

The company has tax assessments which are deemed to be final up until and including the tax year of 1999.

For the subsidiary companies Unitronics Management and Unitronics Inc., final tax assessments have not yet been issued from the day of their establishment.

6.14.6 <u>Losses for Transfer</u>

The balance of the losses for transfer for tax purposes as at the 31st of December 2003, of the company total the sum of approximately 31,000 thousand Shekels.

6.15 <u>Dividends</u>

The company has not distributed dividends since the day that it was established, and the company has no plans to distribute dividend in the foreseeable future.

6.16 <u>Risk Factors</u>

A party who seeks to invest in the company in reliance upon this prospectus, ought properly to consider, together with the other data which appears in this prospectus, the additional risk factors which are connected with the company, as set out below:

6.16.1 Exposure to Fluctuations in Markets

The company is exposed to changes in economic factors which influence the main markets in which it operates such as the slow-down in the business activity in Israel and in the world over the last years, and the influences of the security occurrences in the country and in the world.

6.16.2 **Instability in the Market Price of Shares of the Company and Low Trading Volumes**

For approximately three years, the shares of the company have been traded on the Stock Exchange in Belgium at prices which are substantially lower than the price of their first offer to the public in September of 1999 (3.72 Euro). There can be no assurance that the price of the company's shares shall not continue to fall. Furthermore, the volumes of the trading in the shares of the company on the Stock Exchange in Belgium are generally low, and this adversely affects the tradability of the shares of the company. There can be no assurance that this situation will change consequent to the registration of certain securities of the company for trading on the Stock Exchange in Tel Aviv.

6.16.3 Absence of Arbitrage Trading on the Stock Exchange in Israel and in Belgium.

The shares of the company which have been issued up to the date of the prospectus are registered for trading and are traded on the EuroNext Stock Exchange in Belgium only. The securities of the company which are offered in accordance with this prospectus, and this including shares of the company which shall have been issued in accordance with this prospectus, shall be registered for trading on the Stock Exchange in Tel Aviv only. It is the intention of the company, after the publication of the prospectus, to effect best efforts in order to bring about the registration for trading of the shares which are offered in accordance with this prospectus also on the Stock Exchange in Belgium. At this stage, and until the company shall give notice otherwise, trading shall not take place in Belgium in the securities of the company which are offered in accordance with this prospectus. In this state of affairs and for so long as it shall not be changed, it shall not be possible to conduct arbitrage trading in real time in the two above-mentioned Stock Exchanges in the shares of the company. In these circumstances, there are likely to be gaps in the prices at which the shares of the company shall be traded in the above-mentioned Stock Exchanges. There is no certainty that these gaps, in the event that they shall develop, shall be reduced over a particular period or shall be reduced at all. Damages are likely to be occasioned as a result of these gaps, in the event that there shall be such gaps, to investors in the securities of the company and also, in certain circumstances, also to the company.

6.16.4 **Dependency Upon the Founder and the Holder of Control**

The company has substantive dependency upon the continuation of the services of Mr. Haim Shani, who serves as the chief executive officer and the chairman of the board of directors of the company. The loss of the services of Mr. Shani is likely to materially adversely affect the financial results of the company. (see clause 8.2.1.1 of the prospectus with regard to the conditions of employment of Mr. Shani in the company, and their termination)

6.17 Financial Information - Extracts from the Financial Statements

Balance Sheets
Inflation adjusted NIS figures stated in terms of NIS of December 2003

	Consolidated As of December 31st 2003	2002
	Thousands of New Israeli Shekels (NIS)	
Current assets		
Cash and Cash Equivalents	5,821	7,643
Marketable Securities	1,254	1,097
Bank Deposits	-	3,729
Accounts Receivables - Trade	4,914	5,098
Accounts Receivables - Other	503	961
Inventory	6,379	4,405
Inventory work in progress	1,348	-
	20,219	22,933
Long term deposits	116	131
Property and Equipment, net	20,898	18,473
Other assets and deferred expenses	538	997
	41,771	42,534
Current liabilities		
Credit from banks and others	812	4,952
Accounts Payable - Trade	6,256	4,185
Accounts Payable - Others	5,039	5,351
	12,107	14,488
Long term liabilities		
Long Term Debts	11,745	9,182
Convertible Bonds	4,413	15,469
Accrued Severance Pay, Net	1,068	1,083
Deferred taxes	115	8
	17,341	25,742
Shareholder's Equity	12,323	2,304
	41,771	42,534

Statements of Operations

Inflation adjusted NIS figures stated in terms of NIS of December 2003

	Consolidated			The Company
	For the year ended 31st December			
	2003	2002	2001 (*)	2000
	In thousands of New Israeli Shekels (NIS)			
Revenues	40,306	20,734	12,569	25,177
Cost of Revenues	26,483	13,707	8,617	12,390
Gross profit	13,823	7,027	3,952	12,787
Research and development expenses, net	3,055	3,455	8,087	4,531
Sales and marketing expenses	6,667	6,340	9,209	4,477
General and administrative expenses	3,580	3,772	3,235	2,581
Operating profit (loss)	521	(6,540)	(16,579)	1,198
Financing expenses, net	3,911	2,192	275	1,497
Loss after financing expenses, net	3,390	8,732	16,854	281
Other income (expenses), net	(9)	7	(36)	21
Loss before tax (tax on income)	3,399	8,725	16,890	260
Tax benefits (Tax on income)	(111)	(45)	27	(193)
Loss after tax	3,510	8,770	16,863	453
The Company's share of affiliated company result	-	-	-	11
Loss for the period	3,510	8,770	16,863	464

(*) consolidated from June 2001

6.18 Board of Directors' Explanations of the Company's State of Affairs

6.18.1 Explanations for the Year Ended December 31st 2003

6.18.1.1 The Financial Status

Assets

The total assets according to the consolidated balance sheets of the company as of December 31st 2003 amounted to approximately 41,771 NIS as compared to approximately 42,534 thousand NIS as of December 31st 2002. This non material change includes a decrease in the cash, cash equivalents and deposits items and an increase in inventory, and fixed assets as specified below.

No material change has been registered in accounts receivable (trade), and it amounted to approximately 4,914 thousand NIS as of December 31st 2003, as compared to approximately 5,098 thousand NIS as of December 31st of 2002, in spite of an increase of about 94% in revenues for this period.

An increase of approximately 45% was registered in inventory amounts from approximately 4,405 thousand NIS as of December 31st 2002, to 6,379 thousand NIS as of December 31st 2003..The increase results mainly from the growth in activity in this period. The company currently maintains approximately 60-75 days of component parts inventory and raw materials which are designated for the production of the estimated requirements for the period of approximately two months. In addition the company maintains an inventory of finished goods which facilitates the supply of current orders for approximately 30-45 days.

On December 31st of 2003, the Inventory work in progress amounted to approximately NIS 1,348 thousand, this arises from expenses related to work in progress in connection with the systems segment.

The fixed assets as of December 31st 2003, amounted to approximately 20,898 thousand NIS, as compared to approximately 18,473 thousand NIS as of December 31st 2002.This increase results mainly from additional investments made with respect to the acquisition of rights in the Company's facility at Airport City and from related expenses in infrastructure.

The Other Assets and deferred expenses item amounted to approximately 538 thousand New Shekels as of December 31st 2003, as compared to 997 thousand New Shekels as of December 31st 2002. The change is attributable mainly by the decrease in the deferred offering expenses, resulting from the conversion of a material portion of the convertible bonds into Company shares at the end of the year 2003 as described below.

Liabilities

Credit from banks and others amounted to approximately NIS 812 thousand as of December 31, 2003 compared to approximately NIS 4,952 thousand as of December 31, 2002. The significant decrease in such item results mainly from the classification of a large portion of the amount stated as credit from banks in last year's report, and its classification as a long-term debt as of December 31 2003, provided to finance the acquisition of rights in the Company's facility at Airport City.

Accounts payable (trade), amounted to approximately NIS 6,256 thousand as of December 31, 2003 compared to approximately NIS 4,185 thousand as of December 31, 2002. The increase in this item is mainly due to the growth in the Company's activity.

Long-term debts amounted as of December 31 2003 to approximately NIS 11,745 thousand as compared to approximately NIS 9,182 thousand as of December 31, 2002. As explained above, this increase is mainly due to the classification of a large portion of the amount stated as credit from banks in last year's report, and its classification within a long-term credit facility as of December 31 2003 , provided to finance the acquisition of rights in the company's facility at Airport City.

In the Convertible Bonds item, a substantial decrease was noted and it amounted to approximately 4,413 thousand NIS as of December 31st 2003 as compared to approximately 15,469 thousand NIS as of December 31st 2002. In December 2003 an agreement was made with the bond holders to modify the terms of the convertible bonds issued in February 2001, according to which the conversion price has changed from 4.73 Euro per share to 1.1825 Euro per share. In this framework, 75% in principal amount of the convertible bonds were converted to 1,902,748 shares of the company (representing approximately 17.5% of the Company's Sharecapital following such conversion). The remaining amount of the convertible bonds (amounting to approximately 750 thousand Euro to be amended with the terms of interest accrued thereon) is to be repaid in 10 consecutive quarterly installments commencing from May 2006.

The working capital of the company did not substantially change during the course of the year 2003 and amounted to approximately 8,112 thousand NIS as of December 31st 2003 as compared to approximately 8,445 thousand NIS as of December 31st , 2002.

The Shareholder's Equity of the company as of December 31st 2003 increased to approximately 12,323 thousand NIS, as compared to approximately 2,304 thousand NIS as of December 31st 2002. This significant increase is mainly attributable to the conversion of a material portion of the convertible bonds into Company shares, as described above.

6.18.1.2 <u>Operation Results</u>

<u>Revenues</u>

The total revenues for the year ended December 31st 2003, amounted to approximately 40,306, thousand NIS as compared to approximately 20,734 thousand NIS in the year ended December 31st 2002, an increase of about 94% attributable mainly, according to the Company's assessment, to the following factors:

- The growing market acceptance of the Company's new generation products. The majority of these products were developed in the recent four years, with new models being released annually.
- An increase in the Company’s involvement in factory automation and system integration activities. Such activities included a material contract for the installation of an automated warehouse facility aggregating approximately EUR 3,072 thousand in revenues distributed between Q4/2002 and Q4/2003.
- Marketing efforts especially in the US, focused on market penetration and market acceptance.

<u>Cost of Revenues</u>

The cost of revenues for the year ended December 31 2003 amounted to approximately 26,483 thousand NIS (approximately 66% of the revenues for the period) as compared to approximately 13,707 thousand NIS in the year ended December 31st 2002 (a similar rate of approximately 66% of the revenues for the period).

<u>Gross Profit</u>

The gross profit for the year ended December 31st 2003 amounted to approximately 13,823 thousand NIS (approximately 34% of the revenues for the period) as compared to approximately 7,027 thousand NIS in the period which ended December 31st 2002 (a similar rate of approximately 34% of the revenues for the period).

<u>Research and Development Expenses</u>

The net expenses for research and development (R&D) for the year ended December 31st 2003 amounted to approximately 3,055 thousand NIS (approximately 8% of the revenues) as compared to approximately 3,455 thousand NIS for the year ended December 31st 2002 (approximately 17% of the revenues). The R&D expenses in this period reflect a stage of increased activity for the development of technologies and new products.

The company is currently in development stages of a new technology (WilCo™ Technology), partially funded with the participation of the Office of the Chief Scientist (OCS) at the Industry and Trade Ministry. The net expense for research and development in the year 2003, includes the deduction of the amount of the OCS participation.

Sales and Marketing Expenses

The expenses for sales and marketing for the year ended December 31st 2003 amounted to approximately 6,667 thousand NIS, an amount which is not materially different from the expenses of approximately 6,340 thousand NIS in the year ended December 31st 2002. These amounts reflect a relatively fixed expense which accords with the Company's policy following the completion of a substantial part of establishing its international distribution network –which commenced in 1999.

The company continues to enhance the penetration of its products into the US market and in parallel, to expand its international distribution network, to provide instruction and technical training of existing distributors, and continuous search for new distributors.

General and Administrative Expenses

The general and administrative expenses in the year ended December 31st 2003 amounted to approximately 3,580 NIS as compared to approximately 3,772 thousand NIS in the year ended December 31st , 2002, representing an insignificant decrease of approximately 5%.

The company believes that such amounts reflect relatively fixed expenses required for the operation of the company and its staff.

Operating Profit

In the second quarter of the year 2003, the company turned to operating profit. The total operating profit in the year ended December 31st 2003 amounted to approximately 521 thousand NIS as compared to an operating loss of approximately 6,540 NIS in the year ended December 31st , 2002. The turning point into operating profit is mainly attributable to the an increase in revenues of approximately 94% in this year. It is to be noted that a decrease in costs as a result of a decrease in salaries of the majority of the employees including the controlling shareholders, facilitated the recruitment of additional employees during the course of the year without substantial changes in the operating expenses items, as specified above.

Financing Expenses

The financing expenses in the year ended December 31st of 2003 increased and amounted to approximately 3,911 thousand NIS as compared to approximately 2,192 thousand NIS in the year ended December 31st , 2002. A substantial part of the financing expenses results from the devaluation of the NIS against the Euro and the influence of the exchange rates fluctuations on financial instruments denominated in Euro such as the convertible bonds.

As stated, in December 2003, a material portion of the convertible bonds were converted into Company shares, and as a result, the company believes that the extent of the exposure thereof to fluctuations of the exchange rates of the Euro is expected to reduce.

Net Profit (Loss)

The Company's net loss amounted to approximately 3,510 thousand NIS for the year ending December 31st 2003 in comparison to a net loss of approximately 8,770 thousand NIS in the year ending December 31st , 2002.

6.18.1.2.1 Analysis of the Business Results according to Segments of Operation

The commercial activities of the company are carried out through two business departments, the products department – in which the designing, the development, the production, the marketing and the sale of the products of the company's activities are conducted, and the systems department, in which the company's activities in the field of design, establishment, and maintenance of storage systems and/or logistic systems are carried out.

The revenues from products in the year ended December 31st 2003 constituted approximately 53% of the total revenues of the company in this year, whereas the revenues from systems in the same period constituted approximately 47% of the total revenues. In the year ended December 31st 2002, the revenues from products constituted approximately 67% of the total revenues of the company in this year whereas the revenues from systems in the same period constituted approximately 38% of the total revenues.

The Products' Segment

The total revenues from products for the year ended December 31st of 2003 amounted to approximately 21,181 thousand NIS, as compared to approximately 13,818 thousand NIS for the year ended December 31st of 2002. The increase of approximately 53% resulted mainly from growing market acceptance of its the new generation of products and from the marketing efforts especially in the US, intended to increase market penetration and market acceptance.
The gross profit in the of products segment for the year ended December 31st 2003 amounted to approximately 49%, as compared to approximately 44% for the year ended December 31st 2002. The improvement in such item is mainly attributable to the increase in revenues in this sector without a corresponding increase in manpower required for production, and from the increase in the volume of the production facilitating a certain decrease in the costs of raw material.

The Systems' Segment

The total revenues from systems for the year ended December 31st 2003 amounted to approximately 19,125 thousand NIS, as compared to approximately 6,916 thousand NIS for the year ended December 31st 2002. The increase of approximately 178% resulted mainly from the contract for the supply and the installation of an automatic warehouse facility aggregating approximately 3,072 thousand Euro, the revenues of which were distributed between the fourth quarter of 2002 and the fourth quarter of 2003.

The gross profit from systems for the year ended December 31st 2003 amounted to approximately 18%, as compared to approximately 14% for the year ended December 31st 2002. The improvement in such item is mainly attributable to the increase of revenues in this sector, without a corresponding increase in manpower , and also from certain streamlining of the processes of the establishment of systems.

6.18.1.3 Liquidity

The cash and cash equivalents of the company as of December 31st 2003 amounted to approximately 5,821 thousand NIS, as compared to approximately 7,643 thousand NIS as of December 31st 2002. The decrease is mainly attributable to the negative cash flows which amounted to approximately 1,822 thousand NIS in this period and it is detailed below.

The cash flows used in operating activities for the year ended December 31st 2003 amounted to a minor negative flow of approximately 402 thousand NIS as compared to a negative flow of approximately 5,607 thousand NIS for the year ended December 31st , 2002. The significant improvement in such item is mainly attributable to decrease of the net loss of the company in this period.

The cash flows used in investing activities for the year ended December 31st of 2003 amounted to a minor negative flow of approximately 364 thousand NIS as compared to a positive flow of approximately 468 thousand NIS for the year which ended December 31st 2002. The change results mainly from the use of deposits for investments in the company's facility at Airport City.

The cash flows used in financing activities for the year ended December 31st of, 2003, amounted to a negative flow of approximately 1,056 thousand NIS, as compared to a positive flow of approximately 8,110 thousand NIS for the year ended December 31st , 2002. The negative flow in the year 2003 is mainly attributable to the payment of long term loans and credits from banking institutions, with the deduction of proceeds from a private placement consummated in January, 2003.

6.18.2 Explanations for the Year Ended December 31st , 2002

6.18.2.1 The Financial Status

Assets

The total assets according to the consolidated balance sheets of the company as of December 31st , 2002 amounted to approximately 42,534 thousand NIS as compared to approximately 37,664 thousand NIS as of December 31st 2001. This increase resulted mainly from the increase in fixed assets and accounts receivable with the reduction of cash, cash equivalents and deposits decrease, , as explained below.

In accounts receivable (trade) an increase has been registered, and it amounted to approximately 5,098 thousand NIS as of December 31st 2002 as compared to approximately 3,608 thousand NIS as of December 31st 2001, following an increase of approximately 65% in revenues in this period.

Inventory amounts were reduced from approximately 5,480 thousand NIS as of December 31st 2001, to approximately 4,405 thousand NIS as of December 31st 2002. This reduction is mainly attributable to adjustments of the company's level of inventory following the completion of the implementation stage of an ERP system for comprehensive purchase and production planning and management. In October, 2001, the company commenced the implementation of the ERP system and in order to assure continuity in the supply of products to its customers during the stage of the implementation, the inventory levels were increased beyond ordinary levels. Upon the completion of this stage, the inventory levels were restored to the levels customarily prevailed in the company.

The fixed assets as of December 31st 2002 amounted to approximately 18,473 thousand NIS as compared to 8,818 thousand NIS as of December 31st 2001. This increase results mainly from investments made with respect to the acquisition of rights in the company's facility at Airport City and from related investments in infrastructure. The company relocated its operation to Airport City in November 2002.

The other assets and the deferred expenses item amounted to approximately 997 thousand NIS as of December 31st , 2002, as compared to approximately 1,295 thousand NIS as of 31st December 2001. The change is mainly attributable to a decrease in the deferred offering expenses.

Liabilities

Credit from banks and others amounted to approximately NIS 4,952 thousand as of December 31, 2002 compared to approximately NIS 163 thousand as of December 31, 2001. The increase in such item results mainly from credit from banks provided to finance the acquisition of rights in the Company's facility at Airport City according to a contract signed in the year 2000.

Accounts payable (trade) amounted to approximately 4,185 thousand NIS as of December 31st , 2002, without significant change in comparison to approximately 3,919 thousand NIS as of December 31st 2001.

An increase was registered in accounts payable (others) from approximately 2,897 thousand NIS as of December 31st 2001 to approximately 5,351 thousand NIS as of December 31st 2002. This increase results mainly from increase of the accrued expenses.

Long term debts amounted to approximately 9,182 thousand NIS as of December 31st 2002, as compared to approximately 5,970 thousand NIS as of December 31st 2001. This change is mainly attributable to continued execution of loans in the framework of the plan for the financing of the acquisition of rights in the company's facility at Airport City, in accordance with the contract signed in the year 2000.

In the Convertible Bonds item, an increase was noted and it amounted to approximately 15,469 thousand NIS as of December 31st 2002, as compared to approximately 12,586 thousand NIS as of December 31st 2002. The increase is mainly attributable to the devaluation of the NIS against the Euro during the period, influencing mainly the convertible bonds issued in February 2001 and denominated in Euro.

The working capital of the company decreased significantly during the year 2002, and amounted to approximately 8,445 thousand NIS as of December 31st 2002 as compared to approximately 20,465 thousand NIS as of 31st December 2001, resulting mainly from the net loss of the company in this period.

The Shareholder's Equity of the company as of December 31st 2002 amounted to approximately 2,304 thousand NIS, as compared to approximately 11,074 thousand NIS as of December 31st 2001. This significant decrease is mainly attributable to the net loss of the company in this period.

6.18.2.2 Operations

Revenues

The total revenues in the year ended December 31st 2002, amounted to approximately 20,734 thousand NIS as compared to approximately 12,569 thousand NIS in the year ended December 31st 2001, an increase of approximately 65% attributable mainly, according to the Company's assessment, to the following factors:

- Increase in revenues from sales of the new generation products following the company's decision to focus the marketing efforts on these products at the expense of the previous series of the products (“**the legacy products”**). Implementation of this decision resulted in decreased revenues in the year 2001, which the Company's management considered as temporary..
- Increase in the Company's involvement in system integration activities throughout its systems department. This activity included, inter alia, a contract for the supply and installation of an automatic warehouse facility aggregating approximately 3,072 thousand Euro, the revenues from which are distributed between the fourth quarter of 2002 to the fourth quarter of 2003
- Marketing efforts especially in the US, focused on market penetration and market acceptance.

Cost of Revenues

The cost of revenues amounted to approximately 13,707 thousand NIS for the year ended December 31st , 2002 (approximately 66% of the revenues for the period), as compared to approximately 8,617 thousand NIS for the year ended December 31st , 2001 (approximately 68% of the revenues for the period).

Gross Profit

The gross profit for the year which ended on the 31st of December 2002 totaled approximately 7,027 thousand NIS (approximately 34% of the revenues for the period) as compared to approximately 3,952 thousand NIS for the year ended December 31st 2001 (approximately 32% of the revenues for the period). The improvement results mainly from the increase in the volumes of production, and from the decrease in the one time expenses registered in previous years following the commencement of the production of new models, and also from a decrease in fixed production expenses which are not affected directly by the volume of the production.

Research and Development Expenses

The research and the development (R&D) expenses for the year ended December 31st 2002 amounted to approximately 3,455 thousand NIS (approximately 17% of the revenues) as compared to approximately 8,087 thousand NIS in the year ended December 31st , 2001 (approximately 64% of the revenues). The decrease for this period reflects the implementation of the company's decisions related to the completion of the development of products of the Vision™ series.

Sales and Marketing Expenses

The sales and marketing expenses for the year ended December 31st 2002 amounted to approximately 6,340 thousand NIS as compared to approximately 9,209 thousand NIS in the year ended December 31st 2001. This decrease accords with the Company's policy following the completion of a substantial part of the establishing its international distribution network commenced in the year 1999.

The company continues to enhance the penetration of its products into the US market and in parallel, to expand its international distribution network, to provide instruction and technical training of existing distributors, and continuous search for new distributors.

General and Administrative Expenses

General and administrative expenses for the year ended December 31st 2002, amounted to approximately 3,772 thousand NIS as compared to approximately 3,235 thousand NIS for the year ended December 31st 2001 reflecting an increase of approximately 16%.

This increase reflects, inter alia, one time expenses generated by the relocation of the company's operations to Airport City and one time expenses related to professional services associated therewith. In addition, the company believes that such amounts reflect relatively fixed expenses required for the operation of the company and its staff.

Operating Profit (Loss)

The total operating loss for the year ended December 31st 2002, amounted to approximately 6,540 thousand NIS as compared to an operating loss of approximately 16,579 thousand NIS for the year ended December 31st 2001. The decrease in operating loss is mainly attributable to the growth in revenues of approximately 65% for this period, along with the decrease in the R&D and marketing expenses.

Financing Expenses

The financing expenses for the year ended December 31st , 2002, increased and amounted to approximately 2,192 thousand NIS as compared to 275 thousand NIS on the year ended December 31st 2001. A substantial part of the financing expenses results from the devaluation of the NIS against the Euro and the influence of the exchange rates fluctuations on financial instruments denominated in Euro such as the convertible bonds, with the deduction of deposits which were denominated in Euro.

Net Profit (Loss)

The company's net loss amounted to approximately 8,770 thousand NIS for the year ended December 31st 2002, in comparison to the net loss of approximately 16,863 thousand NIS for the year which ended December 31st , 2001.

6.18.2.2.1 Analysis of the Business Results according to Segments of Operations

The commercial activities of the company are carried out through two business departments, the products department – in which the designing, the development, the production, the marketing and the sale of the products of the company's activities are conducted, and the systems department, in which the company's activities in the field of design, establishment, and maintenance of storage systems and/or logistic systems are carried out.

The revenues from products in the year ended December 31st 2002 constituted approximately 67% of the total revenues of the company for this year whereas the revenues from systems in the same period constituted approximately 33% of the total of the total revenues. In the year ended December 31st 2001, the revenues from products constituted approximately 72% of the total revenues of the company for this year whereas the revenues from systems in such period constituted approximately 28% of the total revenues.

The Products Segment

The total revenues from the products segment for the year ended December 31st 2002 amounted to approximately 13,818 thousand NIS as compared to approximately 9,044 NIS for the year ended December 31st 2001. The increase of approximately 53% resulted mainly from the increase in revenues from the sales of the new generation products following the decision of the company to focus the marketing efforts on these products at the expense of the previous series of legacy products. Implementation of this decision resulted in temporary decrease in revenues in the year 2001...

The gross profit from the products segment for the year ended December 31st , 2002 amounted to approximately 44%, as compared to approximately 31% for the year ended December 31st 2001. The improvement in such item is mainly attributable from increase in the volumes of production and from the lack of one time expenses registered in previous years with the commencement of the production of new models, along with the decrease in fixed production expenses which are not directly influenced by the volume of the production and the increase in revenues in this segment which created an increase in the volume of the production facilitating certain reduction in raw material costs.

The Systems Segment

The total revenues from systems, for the year ended December 31st 2002 amounted to approximately 6,916 thousand NIS as compared to approximately 3,525 thousand NIS for the year which ended December 31st 2001. The increase of approximately 96% results mainly from the contract for the supply and the installation of an automatic warehouse facility aggregating approximately 3,072 thousand Euro, which revenues were distributed between the fourth quarter of 2002 to the fourth quarter of 2003.

The gross profit from systems segment for the year ended December 31st , 2002 amounted to approximately 14%, as compared to approximately 34% for the year ended December 31st 2001. The decrease in such item resulted mainly from a relatively lower gross profitability related to the above mentioned contract , due to the increased use of sub-contractors.

6.18.2.3 <u>Liquidity</u>

The cash and cash equivalents of the company as of December 31st 2002 amounted to approximately 7,643 thousand NIS, as compared to approximately 4,672 NIS as of December 31st 2001. The increase resulted mainly from positive cash flows which totaled to approximately 2,971 thousand NIS in this period as explained below.

The cash flows used in operating activities for the year ended December 31st 2002, amounted to negative flows of approximately 5,607 thousand NIS as compared to negative flows of approximately 8,472 thousand NIS for the year ended December 31st 2001. The improvement in such item is mainly attributable to the decrease in the net loss of the company in this period.

The cash flows used in investing activities for the year ended December 31st , 2002, amounted to positive flows of approximately 468 thousand NIS, as compared to a negative flow of approximately 13,453 thousand NIS for the year ended December 31st 2001. The change results mainly from deposits in bank deposits during the year 2001.

The cash flow used in financing activities for the year ended December 31st 2002 amounted to a positive flow of approximately 8,110 thousand NIS which is comprised in its majority from the receipt of a loan in the framework of the financing plan for the acquisition of rights in the company's facility at Airport City. This is compared to a positive flow of approximately 18,164 thousand NIS for the year which ended December 31st 2001, which is comprised in its majority from receipt of proceeds of the private placement consummated at the beginning of this year.

6.18.3 Explanations For the Year Ended December 31st 2001

6.18.3.1 Operation Results

Revenues

The total revenues for the year ended December 31st 2001 amounted to approximately 12,569 thousand NIS as compared to approximately 25,177 thousand NIS for the year ended December 31st 2000, a decrease of approximately 50% attributable mainly, according to the Company's assessment, to the following factors:

- The worldwide recession affecting expected transactions and backlog orders including postponement or cancellation of large orders. This affected both products and systems segments.
- The September 11th crisis affecting the rate of penetration of the Company's products into the US market.
- Decrease in revenues from sales of "the legacy products" following the Company's decision to focus its marketing efforts on new generation products, at the expense of previous generation products. Implementation of this decision resulted in decreased sales for the year 2001, which the Company's management considered as temporary.

Costs of Revenues

The costs of revenues amounted to approximately 8,617 thousand NIS in the year ended December 31st 2001 (approximately 68% of the revenues for the period), as compared to approximately 12,390 thousand NIS for the year ended 31st December 2000 (approximately 49% of the revenues for the period). The relative increase results mainly from a decrease in the volume of direct sales to customers in the year 2000 and the increase in the volume of sales through distributors, from non recurring expenses registered this year following the completion of the development and the commencement of the production of new models and new series, and also because of fixed production expenses which are not directly affected by the volume of production, also in such year in which a decrease in sales was noted.

Gross Profit

The gross profit for the year ended December 31st 2001, amounted to approximately 3,952 thousand NIS (approximately 32% of the revenues for the period) as compared to approximately 12,787 thousand NIS for the year ended December 31st 2000 (approximately 51% of the revenues for the period). The decrease is explained by the increase in cost of revenues as detailed above.

Research and Development Expenses

The research and development expenses (R&D) for the year ended December 31st 2001 amounted to approximately 8,087 thousand NIS (approximately 64% of the revenues) as compared to approximately 4,531 thousand NIS for the year ended December 31st 2000 (approximately 18% of the revenues). An increase of approximately 78% in the year 2001 reflects the implementation of the company's decisions and the special efforts made for the development of technologies and new products.

Sale and Marketing Expenses

The sale and marketing expenses for the year ended December 31st 2001 amounted to approximately 9,209 thousand NIS as compared to approximately 4,477 thousand NIS for the year ended December 31st , 2000. The significant increase is mainly attributable to the efforts focused on the expansion of the Company's world wide distributors' network, from the establishment of a subsidiary in the United States (Unitronics Inc.) and from marketing efforts in the American market, and it complies with the Company's policy of establishing its international distribution network commenced in the 1999 – including by the end of 2001 approximately 50 distributors in the world.

In January and February 2001, the company raised approximately 5 million Euro in a private placement, inter alia, in order to support the financing of the activity in the United States. The company decided to establish a subsidiary and to appoint distributors and in so doing to establish an independent distribution network and not to acquire an existing distribution network.

In addition, the company participated in three international professional trade shows in Europe and in the United States, and it also supported distributors who participate in local trade shows. The company believes that the participation in trade shows facilitated the growth of the distributors' network and supported the recognition of the company and its products.

General and Administrative Expenses
General and administrative expenses for the year ended December 31st 2001 amounted to approximately 3,235 thousand NIS as compared to 2,581 thousand NIS for the year ended December 31st 2000, reflecting an increase of approximately 25%.

This increase reflects inter alia non recurring expenses related to professional services and consultancy services. In addition, the company believes that these expenses reflect a relatively fixed amount required for the operation of the company and its staff.

Operating Profit (Loss)
The total operating loss for the year ended December 31st 2001 amounted to approximately 16,579 thousand NIS as compared to an operating profit of approximately 1,198 thousand NIS for the year ended December 31st f 2000. The change to operating loss results mainly from the decrease in revenues of approximately 50% for this year – a decrease defined by the company as temporary, and concurrently from the continued implementation of the company's policy R&D and marketing areas.

Financing Expenses
The financing expenses for the year ended December 31st 2001 decreased and amounted to approximately 275 thousand NIS as compared to approximately 1,479 thousand NIS for the year ended December 31st 2000. A substantial part of the financing expenses for the year 2000 results from the devaluation of the Euro against the NIS and the influence of the change on deposits denominated in Euro, a non material influence in 2001.

Net Profit (Loss)
The company's net loss amounted to approximately 16,863 thousand NIS for the year ended December 31st f 2001, in comparison with a net loss of approximately 464 thousand NIS for the year ended December 31st , 2000.

6.18.3.1.1 Analysis of the Business Results according to Segments of Operation

The commercial activities of the company are carried out through two business departments, the products department – in which the designing, the development, the production, the marketing and the sale of the products of the company's activities are conducted, and the systems department, in which the company's activities in the field of design, establishment, and maintenance of storage systems and/or logistic systems are carried out.
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The revenues from products for the year ended December 31st 2001 constituted approximately 72% of the total revenues of the company in this year whereas the revenues from the systems in such period constituted approximately 28% of the total revenues. In the year ended December 31st 2000, the revenues from products constituted approximately 48% of the total revenues of the company in this year whereas the revenues from systems in the same period constituted approximately 52% of the total revenues.

The Products Segment

The total revenues from products for the year ended December 31st 2001 amounted to approximately 9,044 thousand NIS, as compared to approximately 12,099 thousand NIS for the year ended December 31st 2000. The decrease of approximately 25% is mainly attributable to the worldwide recession affecting expected transactions and backlog orders including postponement or cancellation of orders, and from a severe decrease – more than anticipated - in revenues from sales of “legacy products” following the company's decision to focus its marketing efforts on the new generation of products at the expense of the previous series of products.

The gross profit from products for the year ended December 31st 2001 amounted to approximately 31%, as compared to approximately 63% for the year ended December 31st 2000. The decrease in such item results mainly from a decrease in volumes of direct sales to customers in the year 2000 and the increase in volumes of sales through distributors, from non recurring expenses registered this year following the completion of the development and the commencement of the production of new models and new series, and also because of fixed production expenses which are not directly affected by the volume of production, also in such year in which a decrease in sales was noted.

The Systems Segment

The total revenues from the systems' segment for the year ended December 31st 2001 amounted to approximately 3,525 thousand NIS, as compared to approximately 13,078 thousand NIS for the year ended December 31st 2000. The decrease of approximately 25% results mainly from the worldwide recession affecting expected transactions and backlog orders including postponement or cancellation of orders.

The gross profit from the systems' segment for the year ended December 31st 2001 amounted to approximately 34%, as compared to approximately 40% for the year ended December 31st 2000. The decrease in such item results mainly from fixed expenses which are not directly affected by the volume of the activity in this segment.

6.18.4 <u>Explanations For The Year Ended December 31st 2000</u>

6.18.4.1 <u>Operation Results</u>

<u>Revenues</u>
The total revenues for the year ended December 31st 2000, amounted to approximately 25,177 thousand NIS, an increase of approximately 65% from the revenues for the year 1999, resulting mainly from the increase in the company's working capital for the year 1999 following its IPO, which facilitated the increase of activity.

<u>The Cost of Revenues</u>
The cost of the revenues amounted to approximately 12,390 thousand NIS for the year ended December 31st 2000 (approximately 49% of the revenues in the period) and constitutes an improvement, that is a decrease in comparison to the previous year, following the continued implementation of the company's policy to out-source production activity to sub-contractors.

<u>Gross Profit</u>
The gross profit for the year ended December 31st 2000 amounted to approximately 12,787 thousand NIS (approximately 51% of the revenues). The decrease is mainly attributable to the above described decrease in the cost of revenues.

<u>Research and Development Expenses</u>
The research and development (R&D) for the year ended December 31st 2000 amounted to approximately 4,531 thousand NIS (approximately 18% of the revenues), and it constitutes an increase of approximately 279% in comparison to the previous year. The increase in this period reflects the implementation of the company's decisions to invest resources and efforts in the development of technologies and new products.

<u>Sale and Marketing Expenses</u>
The sale and marketing expenses for the year ended December 31st 2000 amounted to approximately 4,477 thousand NIS, actually doubling such item from the previous year mainly results due to the efforts focused on the expansion of the Company's world wide distributors' network commenced in the year 1999 – including by the end of 2000 approximately 37 distributors in the world.

In addition, the company participated in three international professional trade shows in Europe and in the United States, and it also supported distributors who participated in local trade shows. The company believes that the participation in trade shows facilitated the growth of the distributors' network and supported the recognition of the company and its products.

<u>General and Administrative Expenses</u>
General and administrative expenses for the year ended December 31st 2000 amounted to approximately 2,581 thousand NIS, a negligible decrease compared to the previous year.
The company believes that this amount reflects a relatively fixed expense which is required at this stage for the operation of the company and its staff.

<u>Operating Profit (Loss)</u>
The total operating Profit for the year ended December 31st 2000 amounted to approximately 1,198 thousand NIS as compared to a negligible operating loss in the previous year. The change to operating profit is mainly attributable to the increase in revenues of approximately 65% in this year from which the increase in R&D and in marketing expenses has been deducted.

<u>Financing Expenses</u>
The financing expenses for the year ended December 31st 2000 amounted to approximately 1,479 thousand NIS. A substantial part of the financing expenses in this year resulted from the devaluation of the Euro against the NIS and the influence of the change on deposits denominated in Euro. In order to reduce this exposure, the company decided in April 2000 to distribute its deposits between various currencies and to keep amounts in Euro only for expenses which are expected in this currency.

Net Profit (Loss)
The company's net loss amounted to approximately 464 thousand NIS in the year ended December 31st 2000.

6.18.4.1.1 Analysis of the Business Expenses according to Segments of Operation

The commercial activities of the company are carried out through two business departments, the products department – in which the designing, the development, the production, the marketing and the sale of the products of the company's activities are conducted, and the systems department, in which the company's activities in the field of design, establishment, and maintenance of storage systems and/or logistic systems are carried out.

The revenues from products for the year ended December 31st 2000 constituted approximately 48% of the total revenues of the company for this year whereas the revenues from systems in such period constituted approximately 52% of the total revenues..

The Products Segment

The total of the revenues from the products segment for the year ended December 31st 2000, amounted to approximately 12,099 thousand NIS.

The gross profit from the products segment for the year ended December 31st 2000 amounted to approximately 63%.

The Systems Segment

The total revenues from the systems segment for the year ended December 31st 2000 amounted to approximately 13,078 thousand NIS.

The gross profit from the systems segment for the year ended December 31st 2000 amounted to approximately 40%.

6.18.5 <u>Exposure to Market Risks and Risks Management Methods</u>

Persons in charge for Handling Market Risks

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

Description of the Market Risks

Exposure to Exchange Rates Fluctuations

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

The assets of the company which are exposed to exchange rates fluctuations 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 rates 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 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.

In February 2001, the company issued convertible bonds which were issued and 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 rates fluctuations of the Euro against the NIS.

The majority of the company's activity is performed in foreign currency or in NIS figures which are linked to foreign currency. In the products segment, 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. In the systems segment, the majority of the company revenues results from sales denominated in Euro or which are linked to the rate of the Euro.

The raw materials which are required for the production of the company 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

A part of the financial assets of the company is invested in marketable securities. Extreme developments in capital markets in Israel and in the world are likely to cause fluctuations in the rates of shares and securities marketable on the Stock Exchange and consequently affect the financial income or expenses of the company.

Interest Related Risks

The company has a number of loans in the framework of a plan for financing the acquisition of rights in the company's facility at Airport City and in other credit frameworks, which bear various interests 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 facilitates the 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 provisions specifically in respect of debts where doubt exists as to their recovery.

In the systems' segment, 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.

However, the company did not acquire financial instruments for the purpose of coping with the exposures which are described above.

Consolidated Linkage Base reports

	As of December 31st, 2003						
	Israeli Currency		Foreign Currency				
	Non-linked	Linked to consumer prices index	Euro	United States Dollars	other curren cies	Non-monetary balances	Total
			Thousands of NIS				
Assets							
Cash and Cash equivalents	1,325	-	2,783	1,713	-	-	5,821
marketable securities	-	-	-	-	-	1,254	1,254
Accounts Receivable (Trade)	1,675	-	2,280	959	-	-	4,914
Accounts Receivable (Other)	122	216	-	-	-	165	503
Inventory	-	-	-	-	-	6,379	6,379
Inventory Work in Progress	-	-	-	-	-	1,348	1,348
Long term deposits	-	-	-	-	-	116	116
Property and Equipment, net	-	-	-	-	-	20,898	20,898
Other assets and deferred expenses, net	-	-	-	-	-	538	538
Total assets	3,122	216	5,036	2,672	-	30,698	41,771
Liabilities							
Credit from banks and others	240	66	-	506	-	-	812
Accounts Payable (Trade)	3,784	-	2,273	126	73	-	6,256
Accounts Payable (Other)	2,945	-	-	90	-	2004	5,039
Long term Debts	6,275	150	-	5,320	-	-	11,745
Convertible Bonds	-	-	4,413	-	-	-	4,413
Accrued Severance Pay, net	1,068	-	-	-	-	-	1,068
Deferred taxes	-	- -	-	-	-	115	115
Total liabilities.	14,312	216	6,686	6,042	73	2,119	29,448

	As of December 31st, 2002						
	Israeli Currency		Foreign Currency				
	Non-linked	Linked to consumer prices index	Euro	United States Dollars	other curren cies		Total
			Thousands of NIS				
Assets							
Cash and Cash Equivalents	1,213	-	5,091	-	-	-	7,643
Marketable securities	-	-	-	-	-	1,097	1,097
Bank deposits	-	-	3,729	-	-	-	3,729
Accounts Receivable (Trade)	3,353	-	603	1,142	-	-	5,098
Accounts Receivable (Others)	860	-	-	-	-	101	961
Inventory	-	-	-	-	-	4,405	4,405
Long term deposits	-	-	-	-	-	131	131
Property and Equipment, net	-	-	-	-	-	18,473	18,473
Other assets and deferred expenses, net	-	-	-	-	-	997	997
Total assets	5,426	-	9,423	2,481	-	25,204	42,534
Liabilities							
Credit from banks and others	4,353	61	-	538	-	-	4,952
Accounts payable (Trade)	3,968	-	137	80	-	-	4,185
Accounts Payable (Others)	4,471	-	-	99	-	781	5,351
Long term debts	2,820	214	-	6,148	-	-	9,182
Convertible Bonds	-	-	15,469	-	-	-	15,469
Accrued Severance Pay, Net	1,083	-	-	-	-	-	1,083
Deferred taxes	-	-	-	-	-	8	8
Total liabilities.	16,695	275	15,606	6,865	-	789	40,230
	(11,269)	(275)	(6,183)	(4,384)	-	24,415	2,304

6.19 Explanations Of The Board Of Directors As To The Affairs Of The Company – For The Three Months period ended March 31st , 2004

Unitronics (1989) (R"G) Ltd
Report of the board of directors
State of Affairs of the Corporation as of March 31st , 2004

A. Description of the company and its business environment

Unitronics (1989) (R"G) LTD (Hereinafter: "the company") is engaged in design, development, production, marketing, and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "controllers"). Controllers are computer based electronic products (hardware and software) which serve for control and supervision of manufacturing, storage, industrial retrieval and logistics. The company is also engaged 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, in the main automatic warehouses.

The products of the company include series of programmed controllers (Nano controllers, micro-controllers and small controllers) which integrate an operating panel as an integral part of the controller and advanced communication technologies including internet communication, intra-net and cellular telephone communication (are known various communication networks such as GDPD, GPRS, CDMA, GSM and others). Integration of the communication capacities in controllers is intended to facilitate tracking, control and other supervision of systems and processors not only from this site in which the controller is installed (the production floor, the logistic warehouse and so forth), but also other stations in an organization, and this including management offices and also outside of the organization premises.

The products of the company and its services are marketed and sold throughout an internal marketing department of the company, a network of more than 100 distributors spread across approximately fifty countries throughout Europe, Asia, South and Central America, North America and Africa and a fully owned subsidiary incorporated in the United States. The customers and/or the users of the products of the company include, inter alia, manufacturers of industrial machines, OEM producers, production and industrial enterprises and also business which conduct storage, mechanized storage, retrieval and logistic systems.

The company operates from facilities at "Unitronics Building", an offices and industrial building part of which is under the leasing of the company. Unitronics Building is located at Airport City which is adjacent to the Ben Gurion Airport, and the offices of the company and all the rest of its facilities in Israel are located there.

The shares of the company have been traded since September, 1999, on the EuroNext Stock Exchange in Brussels, Belgium.

B. Main Events in the Period of the Report.

Public Offering

In March, 2004, the company submitted to the Israeli Securities Authority a draft prospectus for the issues of shares, options and convertible bonds and which are capable of being registered for trading on the Stock Exchange in Tel Aviv (together with registration for trading on the Stock Exchange in Tel Aviv of the existing shares in its capital at the time of the raising of capital , and also the shares which shall evolve from debentures and options which are existing in its capital at the time of the raising of capital and shares which shall evolve from the options and the debentures which are offered in the prospectus). The amount of the raising of capital which is assessed net is approximately 35,000 thousand NIS.

Agreement for the Establishment of an Automated Warehouse

In February, 2004 the company signed an agreement in accordance with which it shall plan, it shall develop, it shall produce and establish an automated warehouse system (including cranes, rails and conveyer belts) in a pharmaceutical enterprise in Israel. The extent of the contract is approximately

3.3 million Euro whilst the essence of the work will be carried out during the year 2004 and its remainder during the course of the first quarter of the year 2005.

C. The Financial Status

Assets

The total assets in accordance with the consolidated balance sheet of the company as of the 31st of March, 2004 is approximately 48,136 thousand NIS as at 31st of December, 2003. This increase arises in the main from the increase in cash and monies worth as specified below.

In the total of the cash balances sections, the cash value and negotiable securities, an increased is registered from approximately 7,075 thousand NIS as of 31st of December, 2003 to approximately 13,400 thousand NIS as at March, 2004. This increase arises, inter alia, from receipt of advanced payments from customers, mainly a payment in advance for establishment of an automate warehouse in the framework of the agreement which was signed in the period of the report.

The current assets as at 31st March, 2004 amount to 25,758 thousand NIS as compared to 20,219 thousand NIS as at 31st December, 2003, as a result of an increase in a means of liquidity as specified above.

Liabilities

The total of the short-term credit amounted to approximately 1,538 thousand NIS as at 31st of March 2004, as compared to 812 thousand NIS as at 31st of December, 2003. The increase arises from an increase in the current maturities of the short-term loans in accordance with the terms of the loans and the obtaining of short-term credit.

The creditors and the credit balances section amounted as at 31st of March, 2004 to the sum of 10,350 Thousand NIS as compared to 5,039 thousand NIS as at 31st of December, 2003. The increase arises in the main from the receipt of the payment in advance for the establishment and automated storage system which was received during the period of the report.

The current liabilities as at 31st of March, 2004 amounted to the sum of 17,968 thousand NIS as compared to 12,107 thousand NIS as at 31st of December, 2003. The increase arises in the main from the increase in the creditors as specified above.

The working capital of the company stood at approximately 7,790 thousand NIS as at 31st of March, 2004 as compared to approximately 8,112 thousand NIS as at 31st of December, 2003.

The self-capital of the company as at 31st of March, 2004 increase to approximately 12,828 thousand NIS, as compared to approximately 12,323 thousand NIS as at 31st of December, 2003. This increase arises from the net profit of the company in the period which is reported, as shall be described below.

D. Operating Results

Revenues

The revenues for the quarter ended 31st March , 2004 amounted to approximately 13,477 thousand NIS as compared to approximately 12,322 thousand NIS for the quarter ended December 31st , 2003 (an increase of approximately 9%) and as compared to approximately 7,837 thousand NIS in the same quarter of 2003 (an increase of approximately 72%) continuation of the increase in revenues in the last ten quarter years, arises in the assessment of the company, in the main, from the following factors:

- Increased recognition of the market in the new generation products of the company. The majority of the products of this generation were developed during the course of the last four years and new models have been supplemented every year.
- Marketing efforts predominately in the United States, were the object of increasing the penetration of the market and the recognition of products.
- Increase in the involvement of the company integration activities in the framework of the systems department.

The revenues from the field of the products in the quarter year which came to an end on the 31st of March, 2004 constituted approximately 50% of the total revenues of the company in this quarter year whereas the revenues from the field of the systems in the same period constituted approximately 50% of the total revenues. In the quarter year which came to an end of the 31st of December, 2003, the revenues from the field of the products constituted approximately 47% of the total revenues of the company in such quarter, whereas the revenues from the field of the systems during that same period constituted approximately 53% of the total revenues of the company. In the contemporaneous quarter in the year 2003, the revenues from the field of the products constituted 61% of the total revenues of the company in such quarter whilst the revenues from the field of the systems in the same period constituted approximately 39% of the total revenues. The fluctuations between the quarter years arise in the main from the pace of the actual progress of the erection of the logistic systems by the systems department of the company. In the annual summary for the year 2003, the revenues from the products constituted approximately 53% of the revenues whereas the revenues from the systems constituted approximately 47% of the revenues.

Gross Profit

The gross profit for the quarter ended March 31st, 2004 amounted to approximately 4,895 thousand NIS (approximately 36% of the revenues for the period) as compared to approximately 4,347 thousand NIS for the quarter year which came to an end on the 31st of the December, 2003 (approximately 35% of the revenues in the period) and as compared to approximately 2,680 thousand NIS in the contemporaneous period in the year 2003 (approximately 34% of the revenues in the period).

Research and Development Expenses

The research and development expenses (R&D) in the quarter ended 31st of March, 2004 amounted to approximately 926 thousand NIS (approximately 7% of the revenues) as compared to approximately 840 thousand NIS in quarter ended 31st of December, 2003 (a similar rate of approximately 7% of the revenues) and as compared to approximately 806 thousand NIS in the same quarter of 2003 approximately 10% of the revenues. The R&D expenses in this period reflect a stage of increased development activity of new technologies and new products and also the recruitment of additional manpower to the development teams.

The Company is in the process of the development of new technology (WilCo™), where the Chief Scientist of the Ministry of Industry and Commerce partially participates in the financing.

Sale and Marketing Expenses

The sale and marketing expenses in the quarter ended March 31st, 2004 amounted to approximately 1,896 thousand NIS, in comparison to approximately 1,654 thousand NIS in the quarter ended December 31st, 2003 and as compared to approximately 1, 758 thousand NIS in the same quarter year of 2003. These amounts reflect a relatively fixed expense which complies with the policy of the company in respect to the international marketing, with minor fluctuations resulting from participation in trade shows and execution of training programs for distributors throughout the world.

General and Administrative Expenses

The general and administrative expenses for the quarter ended March 31st , 2004 amounted to approximately 934 thousand NIS as compared to approximately 1,006 thousand NIS in the quarter ended December 31st, 2003, and compared to approximately 898 thousand NIS in the same quarter of 2003.

The company believes that these amounts reflect a fixed expense without substantial changes which are required for the operation of the company.

Operating Profit

The operating profit for the quarter ended 31st March, 2004 amounted to approximately 1,139 thousand NIS as compared to an operating profit of approximately 847 thousand NIS for the quarter ended 31st December, 2003 (an increase of 34%) and as compared to an operating loss of approximately 782 thousand NIS for the same quarter of 2003. In the second quarter of 2003, the company turned to operating profit. The turning point into operating profit resulted mainly from continued growth in revenues in the last consecutive ten quarters, without significant changes in operating expenses in the last quarter, as specified above.

Financing Expenses

The financing expenses for the quarter ended March 31st, 2004 decreased significantly and amounted to approximately 617 thousand NIS as compared to approximately 1,255 thousand NIS for the quarter ended December 31st, 2003 and as compared to approximately 624 thousand NIS in the same quarter of 2003.

In the reported period a decrease in the financing expenses was noted, mainly as the result of the conversion of a material portion of the convertible bonds into company shares in December 2003 (See F below). Such conversion reduced the interest expenses of the company and in addition reduced the exposure of the company to exchange rates fluctuations of the NIS against the Euro.

Net Profit (Loss)

In the reported quarter the company presents a net profit which amounts to approximately 515 thousand NIS (approximately 4% of the revenues) in comparison to a net loss of approximately 498 thousand NIS in the quarter ended December 31st 2003, and compared to a net loss of approximately 1,454 thousand NIS in the same period of 2003. According to the company, the continuous increase in revenues while maintaining the framework of operating expenses, and the decrease in the financing expenses – are the main factors for the turning point generating the net profit.

E Liquidity and Financial Sources

The cash and cash equivalence of the company as of March 31st 2004 amounted to approximately 12,206 thousand NIS, as compared to approximately 5,821 thousand NIS as of December 31st 2003. This increase is mainly attributable to the positive cash flows which amounted to approximately 6,395 thousand NIS for this period as explained in the following section.

The cash flows used in operating activities for the quarter ended March 31st 2004, amounted to a positive flow of approximately 8,542 thousand NIS. The positive flow resulted mainly from the reported profit in the period and from receipt of advance payments in the framework of the agreement for the establishment of an automated warehouse which was received during the period of the report.

The cash flows used in investment activities for the quarter ended March 31st 2004, amounted to approximately 2,469 thousand NIS as a result of investments in fixed assets.

The cash flows used in financing activities for the quarter ended March 31st 2004, amounted to the total of approximately 322 thousand NIS. The positive flow resulted mainly from short term credit obtained from the banks.

F 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 the chief financial officer.

Exposure to Exchange Rates Fluctuations

The company is exposed to exchange rates fluctuations, mainly to the rate of the dollar against the NIS and against the Euro, for the following reasons:
The assets of the company which are exposed to exchange rates fluctuations 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 and inventory work in progress denominated in part in foreign currency particularly in Euro.

The current liabilities which are exposed to exchange rates 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 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.

In February 2001, the company issued convertible bonds which were issued and 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 rates fluctuations of the Euro against the NIS.

The majority of the company's activity is performed in foreign currency or in NIS figures which are linked to foreign currency. In the products segment, 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. In the systems segment, the majority of the company revenues results from sales denominated in Euro or which are linked to the rate of the Euro.

The raw materials which are required for the production of the company 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

A part of the financial assets of the company is invested in marketable securities. Extreme developments in capital markets in Israel and in the world are likely to cause fluctuations in the rates of shares and securities marketable on the Stock Exchange and consequently affect the financial income or expenses of the company.

Interest Related Risks

The company has a number of loans in the framework of a plan for financing the acquisition of rights in the company's facility at Airport City and in other credit frameworks, which bear various interests 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 facilitates the 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 provisions specifically in respect of debts where doubt exists as to their recovery.

In the systems' segment, 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.

However, the company did not acquire financial instruments for the purpose of coping with the exposures which are described above.

Consolidated Index Basis Report

	As of March 31st, 2004						
	Israeli Currency		Foreign Currency				
	Non-linked	Linked to consumer prices index	Euro	United States Dollars	other currencies	Non-monetary balances	Total
	Thousands of NIS						
Assets							
Cash and Cash Equivalents	1,461	-	7,691	3,064	-	-	12,216
Marketable Securities	-	-	-	-	-	1,184	1,184
Accounts Receivable (Trade)	3,021	-	1,191	907	-	-	5,119
Accounts Receivable (Others)	102	321	-	-	-	198	621
Inventory	-	-	-	-	-	6,049	6,049
Inventory Work in Progress	-	-	-	-	-	569	569
Long term deposits	-	-	-	-	-	110	110
Property and Equipment, net	-	-	-	-	-	21,317	21,317
Other assets and deferred expenses, net	-	-	-	-	-	951	951
Total assets	4,584	321	8,882	3,971	-	30,378	48,136
Liabilities	948	66	-	524	-	-	1,538
Credit from banks and others	4,521	-	1,458	101	-	-	6,080
Accounts Payable (Trade)	4,787	-	-	115	-	5,448	10,350
Accounts Payable (Others)	6,035	132	-	5,370	-	-	11,537
Long term Debts	-	-	4,521	-	-	-	4,521
Convertible Bonds	1,134	-	-	-	-	-	1,134
Accrued Severance Pay, Net	-	-	-	-	-	138	138
Deferred Taxes	17,425	198	5,979	6,110	-	5,586	35,298
Total Liabilities.	(12,841)	123	2,903	(2,139)	0	24,792	12,838

Consolidated Index Basis Report

	As of March 31st, 2003						
	Israeli Currency		Foreign Currency				
	Non-linked	Linked to consumer prices index	Euro	United States Dollars	other currencies	Non-monetary balances	Total
	Thousands of NIS						
Assets							
Cash and Cash Equivalents	857	-	5,414	1,850	-	-	8,121
Marketable Securities	-	-	-	-	-	1,120	1,120
Bank Deposits	-	-	501	-	-	-	501
Accounts Receivable (Trade)	2,540	-	177	1,702	-	-	4,419
Accounts Receivable (Others)	-	250	-	-	-	303	553
Inventory	-	-	-	-	-	5,092	5,092
Long term deposits	-	-	-	-	-	118	118
Property and Equipment, net	-	-	-	-	-	19,492	19,492
Other assets and deferred expenses, net	-	-	-	-	-	906	906
Total assets	3,397	250	6,092	3,552	-	27,031	40,322
Liabilities							
Credit from banks and others	4,121	61	-	490	-	-	4,672
Accounts Payable (Trade)	4,923	-	-	471	-	-	5,394
Accounts Payable (Others)	2,199	-	-	18	-	960	3,177
Long term Debts	2,641	198	-	5,958	-	-	8,797
Convertible Bonds	-	-	15,891	-	-	-	15,891
Accrued Severance Pay, Net	962	-	-	-	-	-	962
Deferred Taxes	-	-	-	-	-	23	23
Total Liabilities.	14,846	259	15,891	6,937	-	983	38,916
	(11,449)	(9)	(9,799)	(3,385)	-	26,048	1,406

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As of March 31,2004

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As of March 31, 2003

Table of contents

Independent Auditors' Report
To the shareholders of Unitronics (1989) (R"G) Ltd.

We have audited the accompanying balance sheets of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), and the consolidated balance sheets of the Company and its subsidiary as at December 31, 2002 and 2003, the statements of operations of the Company for each of the four years the last of which ended December 31, 2003, the statements of operations of the Company and its subsidiary consolidated for each of the three years the last of which ended December 31, 2003, and the statements of shareholders' equity and cash flows of the Company, and for the Company and its subsidiary consolidated for each of the three years the last of which ended December 31, 2003. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 2% and 3% of the total consolidated assets as at December 31, 2002 and 2003 respectively and whose revenues constitute 2%, 10% and 9%, of the total consolidated revenues for the years ended December 31, 2001, 2002 and 2003 respectively. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiary, is based solely on the opinions of the other auditors.

We conducted our audits in accordance with auditing standards, generally accepted in Israel, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance) 1973. These auditing standards are substantially identical to IFAC. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company, and the consolidated financial position of the Company and its subsidiary as at December 31, 2002 and 2003, and the results of operations of the Company for each of the four years the last of which ended December 31, 2003, the results of operations of the Company and its subsidiary consolidates for each of the three years the last of each ended December 31, 2003, and the changes in shareholders' equity and cash flows of the Company, and of the Company and its subsidiary consolidated for each of the three years the last of which ended December 31, 2003, in conformity with generally accepted accounting principles in Israel (Israeli GAAP),furthermore in our opinion the above financial statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 1993.
As applied to these financial statements, Israeli GAAP are substantially identical with the International Financial Reporting Standards (IFRS) in all material respects except as otherwise described in Note 26 to the Financial Statements,

As explained in Note 2, the above financial statements are presented in values adjusted to reflect the changes in the general purchasing power of the Israeli currency in accordance with the pronouncements of the Institute of Certified Public Accountants in Israel.

Our opinion is based on our opinions for the financial statements of the years mentioned above, the last of which, for the year ended December 31, 2003, was given on February 23, 2004.

Amit, Halfon
Certified Public Accountants (Israel)

Tel-Aviv, May 12, 2004

Unitronics (1989) (R"G) Ltd.
Consolidated Balance Sheets

	March 31, 2004	*March 31, 2003*	*December 31, 2003*
	(unaudited)		(audited)
		(in thousands)	
	reported (1)	adjusted (2)	adjusted (2)
Cash and cash equivalents	12,216	8,121	5,821
Marketable securities	1,184	1,120	1,254
Bank deposit	-	501	-
Accounts receivable -			
Trade	5,119	4,419	4,914
Other	621	553	503
Inventory	6,049	5,092	6,379
Inventory - work in progress	569	-	1,348
Current assets	*25,758*	*19,806*	*20,219*
Long-term deposits	*110*	*118*	*116*
Property and equipment	*21,317*	*19,492*	*20,898*
Other assets	*951*	*906*	*538*
Total assets	***48,136***	***40,322***	***41,771***
Credit from banks and others	1,538	4,672	812
Accounts payable -			
Trade	6,080	5,394	6,256
Other	10,350	3,177	5,039
Current liabilities	*17,968*	*13,243*	*12,107*
Long-term debt	11,537	8,797	11,745
Convertible bonds	4,521	15,891	4,413
Accrued severance pay, net	1,134	962	1,068
Deferred taxes	138	23	115
Long-term liabilities	*17,330*	*25,673*	*17,341*
Shareholders' equity	*12,838*	*1,406*	*12,323*
Total liabilities and shareholders' equity	***48,136***	***40,322***	***41,771***

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

Tzvi Livne
Director

Yair itscovich
Chief Financial Officer

Approved: May 12, 2004.

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	***For the three month period ended March 31,***		***For the year ended December 31,***
	2004	***2003***	***2003***
	(unaudited)		**(audited)**
		(in thousands)	
	reported (1)	**adjusted (2)**	**adjusted (2)**
Revenues	13,477	7,837	40,306
Cost of revenues	8,582	5,157	26,483
Gross profit	*4,895*	*2,680*	*13,823*
Research & development expenses, net	926	806	3,055
Selling & marketing expenses	1,896	1,758	6,667
General & administrative expenses	934	898	3,580
Operating profit (loss)	*1,139*	*(782)*	*521*
Financing expenses, net	617	624	3,911
Operating profit (loss) after financing expenses, net	*522*	*(1,406)*	*(3,390)*
Other expenses, net	-	(1)	(9)
Profit (loss) before taxes on income	*522*	*(1,407)*	*(3,399)*
Taxes on income	(7)	(47)	(111)
Profit (loss) for the period	*515*	*(1,454)*	*(3,510)*
Loss per NIS 1 ordinary share			
Basic	2.36	(8.12)	(19.61)
Fully diluted	1.63	(8.12)	(19.61)

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

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

	Share capital	Share premium	Accumulated loss	Total
	Adjusted NIS in thousands (2)			
Balance at January 1, 2003 (audited)	295	30,233	(28,224)	2,304
Issue of share capital	3	523	-	526
Conversion of convertible bonds	38	12,965	-	13,003
Loss for the year	-	-	(3,510)	(3,510)
Balance at December 31, 2003 (audited)	336	43,721	(31,734)	12,323
	Reported NIS in thousands (1)			
Balance at January 1, 2004 (audited)	336	43,721	(31,734)	12,323
Profit for the period	-	-	515	515
Balance at March 31, 2004 (unaudited)	336	43,721	(31,219)	12,838
	Adjusted NIS in thousands (2)			
Balance at January 1, 2003 (audited)	295	30,233	(28,224)	2,304
Issue of share capital	3	553	-	556
Loss for the period	-	-	(1,454)	(1,454)
Balance at March 31, 2003 (unaudited)	298	30,786	(29,678)	1,406

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

Unitronics (1989) (R"G) Ltd. Consolidated Statements of Cash Flows	***For the three month period ended March 31,***		***For the year ended December 31,***
	2004	***2003***	***2003***
	(unaudited)		**(audited)**
		(in thousands)	
	reported (1)	**adjusted (2)**	**adjusted (2)**
Profit (loss) for the year	515	(1,454)	(3,510)
Depreciation and amortization	276	401	1,603
Loss (profit) from marketable securities, net	2	(22)	(90)
Capital loss	-	1	9
Increase (decrease) in accrued severance pay, net	66	(122)	(15)
Deferred taxes, net	7	47	111
Erosion on long-term debt, convertible bonds and bank deposit, net	297	359	1,470
Decrease (increase) in accounts receivable - trade	(205)	680	184
Decrease (increase) in accounts receivable - other	(118)	406	458
Decrease (increase) in inventory	330	(687)	(1,974)
Decrease (increase) in inventory - work in progress	779	-	(1,348)
Increase in accounts payable - trade	1,282	2,829	2,565
Increase (decrease) in accounts payable - other	5,311	(2,175)	135
Cash flows provided by (used in) operating activities	*8,542*	*263*	*(402)*
Sale of (investment in) marketable securities, net	68	-	(67)
Change in bank deposit	-	3,060	3,811
Purchase of property and equipment	(2,135)	(2,892)	(3,997)
Sale of equipment	-	4	34
Investment in long-term deposits	(7)	-	(19)
Repayment of long-term deposits	13	13	34
Investment in patent	-	-	(6)
Investment in other assets	(408)	-	(154)
Cash flows provided by (used in) investing activities	*(2,469)*	*185*	*(364)*
Repayment of long-term loans	(146)	(135)	(625)
Short-term credit from banks, net	468	(391)	(635)
Share capital issue	-	556	526
Expenses related to conversion of convertible bonds to share capital	-	-	(322)
Cash flows provided by (used in) financing activities	*322*	*30*	*(1,056)*
Increase (decrease) in cash and cash equivalents	*6,395*	*478*	*(1,822)*
Cash and cash equivalents at beginning of year	5,821	7,643	7,643
Cash and cash equivalents at end of year	*12,216*	8,121	5,821

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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

Unitronics (1989) (R"G) Ltd. **Consolidated** **Statements of Cash Flows**	***For the three month period ended March 31,***		***For the year ended December 31,***
	2004	***2003***	***2003***
	(unaudited)		**(audited)**
		(in thousands)	
	reported (1)	**adjusted (2)**	**adjusted (2)**
Appendix A - Non cash transactions			
Payables related to property and equipment	63	-	1,521
Conversion of convertible bonds	-	-	13,325

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

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 March 31, 2004, and for 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, 2003 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, except as described below.

B. Discontinuance of the adjustment of financial statements for the effects of inflation and financial reporting in reported amounts

In 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 with respect to the discontinuance of the adjustment of financial statements ("Standard No. 12"). According to this Standard (as amended by Accounting Standard No. 17), the adjustment of financial statements for the effects of inflation should be discontinued beginning January 1, 2004. The Company applied the provisions of the Standard, and accordingly, the adjustment for the effects of inflation was discontinued as from January 1, 2004.

1. Starting point for the preparation of financial statements

a) In the past, the Company prepared its financial statements on the basis of the historical cost convention, adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli Consumer Price Index ("Israeli CPI"). These adjusted amounts, as included in the financial statements as of December 31, 2003 (the transition date), served as a starting point for nominal financial reporting beginning January 1, 2004. Additions made after the transition date are included at nominal values.

b) The amounts for non-monetary assets do not necessarily represent realizable value or current economic value, but only the reported amounts for those assets.

c) In the financial statements "cost" represents cost in the reported amount (see 2 below).

d) All comparative data for previous periods are presented after adjustment for the Israeli CPI as of the transition date (the Israeli CPI for December 2003).

2. Financial statements in reported amounts

a) Definitions
Adjusted amount - historical nominal amount adjusted for the Israeli CPI as of December 2003, according to the provisions of Opinions No. 23 and No. 36 of the Institute of Certified Public Accountants in Israel.
Reported amount - adjusted amount as of the transition date, plus additions in nominal values after the transition date and less amounts deducted after the transition date. The amounts deducted after the transition date are in historical nominal values, adjusted amounts as of the transition date or in a combination of historical nominal values and adjusted amounts as of the transition date, according to the relevant situation.

Note 2 - Significant Accounting Policies (cont')

B. Discontinuance of the adjustment of financial statements for the effects of inflation and financial reporting in reported amounts (cont')

2. Financial statements in reported amounts (cont')

b) Balance sheet
1) Non-monetary items are presented in reported amounts.
2) Monetary items are presented in nominal values as of the balance sheet date.
3) The carrying value of investments in investees is determined based on the financial statements of these companies in reported amounts.

c) Statement of operations

1) Income and expenses relating to non-monetary items are derived from the change in the reported amount between the opening balance and the closing balance.
2) Other items in the statement of operations are presented in nominal values.
3) Equity in the results of operations of investees is determined based on the financial statements of these companies in reported amounts.

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

As of	**Israeli CPI**	**Exchange rate of one U.S. dollar**
	Points (*)	**NIS**
March 31, 2004	178.40	4.528
March 31, 2003	183.43	4.687
December 31, 2003	178.58	4.379
Change during the period	**%**	**%**
March 2004 (three months)	(0.10)	3.40
March 2003 (three months)	0.78	(1.06)
December 2003 (12 months)	(1.88)	(7.56)

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

Note 3 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd.	***For the three month period ended March 31,***		***For the year ended December 31,***
	2004	***2003***	***2003***
	(unaudited)		**(audited)**
		(in thousands)	
	reported (1)	**adjusted (2)**	**adjusted (2)**
Products	6,778	4,778	21,181
System integration projects	6,699	3,059	19,125
	13,477	*7,837*	*40,306*

B. Segment *results*

Products	2,667	1,849	8,888
System integration projects	1,727	526	3,464
Unallocated corporate expenses	(3,255)	(3,157)	(11,831)
Operating profit (loss)	1,139	(782)	521

(1) See note 2.

(2) The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

Note 4 - Post-balance sheet events

A. After the balance sheet date the directors of the Company decided to file a prospectus in the Tel Aviv Stock Exchange in order to recruit capital.

B. On April 13, 2004 it was decided by the general meeting of the Company's shareholders to increase the authorized share capital of the Company by NIS 1,500 thousands by registering 75 million ordinary shares for a value of NIS 0.02 each one. After the said increase the authorized value share capital of the Company amounted to NIS 2 million, consisting of 100 million ordinary shares par value NIS 0.02 each one.

7 HOLDERS OF OFFICE IN THE COMPANY

7.1 Directors of the Company

At the time of the prospectus the company's board of directors is comprised of five members, which includes two external directors: Messrs. Shraga Zur and Ron Mishal. The following are details with regard to members of the board of directors:

The director and additional details		**Occupation during the last five years and details of the companies in which he serves as director**
Name	**Haim Shani**	Chairman of the board of directors of the company and category C' director (as per its definition below). Chief Executive Officer of the company[29]. Serves as a director in the subsidiary companies Unitronics Inc; and Unitronics House Management and Maintenance (2003) Ltd., In addition serves as director in the companies Kalil Industries Ltd. and the companies Cardiosense Ltd., Corpus Colossum Ltd., Netrix Ltd., Unitronics (1996) (Lod) Ltd., Unitronics Industrial Control and Robotics (1991) Ltd., (which are not connected with the company).
Address	Adolam 83, Shoham Israel	
Nationality	Israeli	
Age	44	
Education	High School	
Serving since	1989	
Family relations with other holders of an interest.	Mr. Haim Shani is a holder of an interest in the company (see clause 8 of the prospectus), and the husband of Mrs. Bareket Shani, director and holder of a position in the company.	
Name	**Bareket Shani**	Category C' Director (as per its definition below); Deputy Managing Director and Human Resources Manager. Serves as director in subsidiary company Unitronics House Management and Maintenance (2003) Ltd. and in the companies Unitronics (1996) (Lod) Ltd., and Unitronics Industrial Control and Robotics (1991) Ltd., (which are not connected with the company).
Address	Adolam 83, Shoham Israel	
Nationality	Israeli	
Age	41	
Education	Academic (B.Sc. from the Technion – Technological Institute for Israel in Haifa)	
Serving since	1999	
Family relations with other holders of an interest	Wife of Mr. Haim Shani, Chairman of the board of directors and Chief Executive Officer of the company.	
Name	**Zvi Livneh**	Category B' Director (as per its definition below) Serving as director in the subsidiary company Unitronics House Management and Maintenance (2003) Ltd. Serves as financial and commercial advisor to a number of Israeli companies. Senior partner in the accountants firm of Shifer, Fogel, Livneh – Accountants.
Address	Maaleh Habanim 10, Yokneam, Israel	
Nationality	Israeli	
Age	56	
Education	Academic (MBA in Finance from Tel Aviv University; Accountant).	
Serving since	1999; Member of Audit Committee; Director with accounting and finance skills.	

[29] The general assembly of the shareholders of the company of August 2001, and an additional assembly in April 2004, have each one approved by the required majority in accordance with clause 121 of the Companies Law, the position of Mr. Shani as Chief Executive Officer of the company and as the chairman of its board of directors, for the period of three years from each resolution as stated.

Family relations with other holders of an interest	None	
Name	**Shraga Tzur**	Serves as an independent advisor in the economic business sphere, mainly to High-technology Israeli companies, including companies with international activities.
Address	Haharuv 17, Ramat Ha-Sharon, Israel	
Nationality	Israeli	
Age	67	
Education	Academic (BA in Economics and International Relations from the Hebrew University in Jerusalem; Courses in the framework of Diploma studies in the Hebrew University in Jerusalem; Commercial Attaché course in the framework of the Central School for Management of the Ministry of the Treasury and the State Service Board)	
Serving since	2000 External Director; Audit Committee member	
Family relations with other holders of an interest	None	
Name	**Ron Mishal**	Senior partner in the accountants firm Mishal – Rosenberg; financial consultancy to private companies. Holds office as internal comptroller of Mafil Ltd., has held office as external director of the company Reshef Computers and Peripheral Equipment (1982) Ltd., in the years 1997 – 2002. Serves also as director in the company Ron Mishal Accountants, R.A.M. Finance Services Ltd., and Morel Finance Services Ltd.
Address	Soutin 27,Tel Aviv, Israel	
Nationality	Israeli	
Age	44	
Education	Academic (Accounting - Finance Economics from the College of Management	
Serving since	2002 External Director, Audit Committee member. Director with accounting and finance skills.	
Family relations with other holders of an interest	None	

7.2 Senior Office Holders in the Company

Holders of the position and additional details		
Name	**Eyal Saban**	In the years 1995-2000 served as the Manager of the company Netium Ltd.; Director at Netium Ltd.
Age	41	
The position which he fills in the issuer, in a subsidiary of the issuer or in a holder of an interest therein.	Chief Technologies Officer (CTO)	
Serving since the year	2000	
Family relations with holders of an interest	None	
Education	High School, Computer Studies in Israeli Defense Forces in conjunction with Bal Ilan University	
Name	**Yair Itzvovitz**	In this position in the company
Age	40	
The position which he fills in the issuer, in a subsidiary of the issuer or in a holder of an interest therein.	Chief Financial Officer (CFO)	
Serving Since	1994	
Family relations with holders of an interest	None	
Education	High School and Book-keeping type 3 on behalf of framework of the Ministry of Labor	
Name	**Alon Keydar**	In this position in the company; prior to his joining the company he served as the Marketing Director of Tzag Industries Ltd.
Age	42	
Position which he fills in the issuer, in a subsidiary company of the issuer or in a holder of an interest therein.	Assistant to the CEO and Products Department Manager	
Serves since	1999	
Family relations with holders of an interest	None	
Education	Academic (MBA in Business management, finance and marketing from Bar-Ilan University; BA in Economics, Agriculture and Management from the Hebrew University in Jerusalem)	
Name	**Yonatan Roman**	Since 1992 and until joining the company, served as Joint CEO in Programa Ltd and CEO of Maof Projects Ltd.
Age	49	
Position which he fills in the issuer, in a subsidiary of the issuer or in a holder of an interest therein.	Assistant to the CEO and Systems Department Manager	
Serving Since	2003	
Family relations with	None	

holders of an interest		
Education	Academic (Machine Engineer from the Technion – Technology Institute for Israel in Haifa)	

7.3 Additional Details

The company is entitled to enter into a contract for the insurance of the liability of its office holders therein. Furthermore, the company is entitled to indemnify an office holder as mentioned in the articles (for the matter of the provisions of the articles with regard to liability insurance and indemnity as mentioned, see clause 7.4.7 of the prospectus). The directors and the office holders in the company are insured in a directors and officers liability insurance policy (see clause 7.5.1 of the prospectus). In addition, the company has undertaken to indemnify the directors and the office holders therein in advance, in respect of any liability or expense, as specified in clause 7.5.2 below, which shall be imposed upon them consequent upon an act which shall be carried out or which shall have been carried out by them by virtue of their being office holders in the company, and provided that the amount of the indemnification shall not exceed 25% (twenty five per cent) of the shareholders equity of the company, in accordance with its financial statements, as at the day of the indemnification, in relation to the entirety of the office holders.

For the matter of the remuneration and the wage of the directors, see clause 8.2 of the prospectus.

7.4 Provisions of the Articles of the Company which Relate to the Directors:

In accordance with the provisions of the articles of the company:

7.4.1

(a) The directors of the company shall be appointed by the annual general meeting of the company.

The number of the members of the board of directors of the company shall not be less than three directors, and it shall not exceed 6 (six), including external directors. Members of the board of directors shall be divided to up to three categories in accordance with the period of their holding office (not including the external directors). Every category includes not more than two directors and provided that the number of the directors who are divided into categories shall not exceed 4 directors cumulatively. The directors in the first category shall act in the office of directors throughout the period which terminates at the annual general meeting which shall convene in the year 2004 (hereinafter – "**category A")**[30]**;** the directors in an additional category shall act in the office of directors throughout the period which shall terminate at the annual general meeting which shall convene in the year 2006 (hereinafter – "**category B"**)[31]. The directors in the last category shall act in the office of directors throughout the period which shall terminate at the annual general meeting which shall convene in the year 2008 (hereinafter – "**category C"**)[32]. Members of every category shall hold office as directors up until the time that their replacements have been lawfully elected and authorized. The directors, including the identity of the directors in every category, have been determined at the annual general meeting of the company which was held in the year 2001 and afterwards they shall be elected in accordance with the following provisions.

(b) At every annual general meeting of the shareholders in the company commencing from the annual general meeting which shall be convened in the year 2004, the replacements of every category of directors whose period of office has terminated at such meeting, shall be elected for a period which terminates at the annual general meeting of the company which shall be held at the expiration of three years from the time of the meeting as mentioned and up until their replacements have been lawfully elected and authorized.

(c) Directors whose period of office shall have terminated in accordance with these provisions are entitled to be re-elected.

[30] The directors do not hold office from category A as at the date of the prospectus.
[31] Mr. Tzvi Livneh holds office as at the date of the prospectus as a director from category B.
[32] Each one from amongst Messrs. Haim Shani and Bareket Shani serves as at the date of the prospectus as a director from category C.

(d) In the event of election of directors in accordance with that which is stated above which shall increase the number of the directors to the maximum possible number as mentioned in the event that the office of a director shall be vacated as a consequence of death, resignation, dismissal, incapacity or any other reason, the additional directors and/or the replacement directors who shall fill the office as mentioned shall be elected only by a majority of the directors who hold office at such time. Directors who shall have been appointed as mentioned shall hold office as directors for the period which shall terminate at the annual general meeting at which the holding of office of the directors from such category in accordance with which he was appointed. A decrease in the number of the directors who hold office in the board of directors of the company shall not shorten the period of the holding of office of the directors who hold office.

(e) Save with regard to a director whose period of office shall have terminated upon the time having arrived of the meeting or at times that they were appointed by the directors, a candidate for the office of director is not to be proposed at the general meeting of the company, unless, not less than 48 hours and not more than forty two days prior to the time which shall have been determined for the general meeting, notice shall be submitted in writing to the office of the company, signed by a shareholder in the company, who is entitled to participate in the meeting in respect of which the notice shall have been sent and to vote therein, of his intention to propose this candidate for election to the office of director, with the agreement in writing of the candidate to be elected as mentioned being attached thereto.

(f) The directors, in such capacity, shall be entitled to receive remuneration and also refund of expenses which have been laid out in the framework of the fulfillment of functions as directors as shall have been approved by the company in accordance with any law.

7.4.2 The office of director shall be vacated in each one of the following cases:

(a) His death;
(b) At the date upon which he shall have been declared to be bankrupt or in the case of a corporation at the date at which it shall have been liquidated;
(c) At the date upon which he shall have been declared to be legally incapacitated;
(d) At the date as indicated in a decision or in a notice of the transfer of his holding of office in accordance with the articles of the company;
(e) On the date which shall have been indicated in a notice with regard to his resignation from his office by a letter signed by him, which shall have been submitted to the registered office of the company or on the date of receipt of the notice by the company, whichever the earlier;
(f) In the event that he shall have been convicted of any of the offences which are indicated in clause 232 of the Companies Law.

7.4.3

(a) Subject to the provisions of the Companies Law, no director shall be disqualified because of his holding office from holding some other office or profit bearing function in the company or in any other company, in which the company is a shareholder or in which it has some other benefit or from creating a connection with the company as vendor, purchaser, or in any other manner.

(b) Subject to the provisions of the Companies Law in relation to external directors, no person shall be disqualified from serving as director by virtue of the fact that he is not a shareholder in the company or by virtue of his having served as a director in the past.

Appointment of Directors

7.4.4 (a) The company is entitled in general meeting from time to time, subject to article 65 of the articles of the company (which categorically deals with the directors as mentioned in clause 7.4.1 of the prospectus), to increase or to reduce the number of the directors in the company.

(b) In the event that the office of a director shall be vacated, the remaining directors shall be entitled to continue to act for so long as there shall still remain at least a majority of the total number of the directors had the office not been vacated as mentioned. However, in the event that the number of the directors shall be less than a majority of the total number of the directors had the office not been vacated, the remaining directors shall be entitled to act solely and exclusively in order to summon a general meeting of the company for the purpose of the election of additional directors.

(c) The directors shall have the right at any time and from time to time, subject to article 65 of the articles, to appoint any other director whether in order to fill in a chance deficiency or in order to add to their number. Every director who shall have been appointed as mentioned above shall hold office only until the first general meeting which shall be convened, after his appointment there he shall be able to be re-elected.

(d) Every director or directors may be removed from their offices at any time solely and exclusively for "cause" and only in a vote by majority of: (1) 75% of the holders of ordinary shares who are present in person or by means of a proxy and to participate in such vote[33]; or (2) a majority of at least 75% of the directors who hold office at such time. The expression "cause" shall have the following meanings: deliberate, continuous and substantial failure to fundamentally carry out his obligations to the company (with the exception of a failure which arises from physical or mental illness) or deliberate involvement of a director in extreme improper conduct, which fundamentally and clearly causes damages to the company.

(e) Save in the event that it shall have been determined otherwise in accordance with the law, not more than two external directors shall hold office in the board of directors of the company. The appointment, authorities, powers, the period of the holding of office and the termination thereof and every other matter which relates to the external directors shall be determined in accordance with the Companies Law which shall take precedence over the provisions of the articles of the company in the event of inconsistency.

Business Managers

7.4.5 (a) The directors are entitled from time to time to appoint some other person or other persons as president or as presidents, as business manager (CEO) or as business managers of the company or as chief operational manager of the company or as general managers of the company, whether for a fixed period or for an unlimited period, and they are entitled from time to time to remove or to dismiss him or them from his office or from their office (subject to the provisions which are contained in any contract between himself or between themselves and the company) and to appoint some other or others in his stead or in their stead.

(b) The directors are entitled, from time to time to appoint a deputy to the president, one or more, for the carrying out of various assignments, to carry out certain operations which shall have been transferred to him (to them) from the president, the business manager and/or the operational manager.

(c) The directors are entitled from time to time to delegate and to impose upon the president, the general manager, the business manager, the operational manager or any holder of some other office at such time, such authorities and functions of the board of directors, as they shall deem to be appropriate, and they are entitled to grant these authorities for such period and for such purposes and for such objectives and upon such terms and with such limitations as appear to them to be beneficial, and they are entitled to grant these authorities whether without disclaimer of the authorities of the directors in this matter or in their stead and in their place, in their entirety or in part,

[33] Which is also the majority which is required for the purpose of voting at a general meeting of shareholders of the company for the amendment of the articles of the company, and this including amendment of the articles as mentioned above with regard to the majority which is required for the removal of a director from his office.

and they are entitled from time to time to revoke, to negate and to alter these authorities, in their entirety or in part.

(d) (1) The remuneration of the president, the general manager, the business manager, the operational manager or any other office holder shall be determined by the directors taking into account any contract between him and the company, and it may be of the category of salary or commissions or participation in profits or in the entirety of these forms or in some of them.

(2) Approval of the payment of emolument to directors and to office holders in the company shall be subject to the provisions of the Companies Law.

Operations of the Directors

7.4.6 (a) The directors shall convene: (1) At least once every three months; and (2) on every occasion that they are requested to convene in accordance with clause 98 of the Companies Law.

The directors can convene for the purpose of the conduct of the business of the company and they can adjourn their meetings and arrange them in some other manner as they shall deem to be appropriate. A director can call for the convening of the board of directors at any time and the secretary, in the event that he shall be demanded to do so by the director, is obliged to do this.

(b) The legal quorum of the board of directors for the purpose of the conduct of the business of the company, is constituted when there is present at the meeting a majority of the members of the board of directors who are entitled to vote for the approval of the resolutions which are on its agenda.

In the event that at the expiration of half an hour from the time which shall have been determined, a legal quorum shall not have been present, the meeting shall be adjourned to the same day, the same location and the same time in the next week thereafter. In the event that a legal quorum shall not have been present half an hour from the time of the adjourned meeting, two directors shall constitute a legal quorum. The only matters which shall be discussed at the adjourned meeting are the same matters which could have been discussed at the original meeting had a legal quorum as mentioned being present at the original meeting.

Notice with regard to the convening of the board of directors may be given verbally, personally, in a telephone conversation or in writing and provided that it shall be given at least 24 hours prior to the time which shall have been planned, unless all the directors who are present at such time in Israel shall have agreed upon a shorter time and provided that they constitute a majority of the directors who hold office at such time.

(c) A resolution of the directors shall be deemed to have been adopted in the event that it shall have been passed by a majority of the votes of the directors who are present at such meeting and who participate in the vote. A resolution in writing, signed by all the directors who hold office at such time shall be deemed to constitute a resolution which shall have been lawfully passed at a meeting of the directors.

(d) Every director is entitled to be present and to vote at all the meetings of the board of directors by some other person who shall be appointed by him (with the exception of a director who holds office or a substitute of a director who holds office), who shall use his substitute whether for one meeting or for a defined period of time up until notice of the revocation of the appointment. The appointment of a substitute shall be effected in writing. A director is entitled to appoint two substitutes but in the event that two substitutes of the same director shall be present at the meeting of the board of directors, only one of them shall be entitled to participate in the vote.

(e) A director who at any time is not present in Israel shall be entitled throughout such time to receive notice of the convening of a meeting of the board of directors in the event that he shall have delivered an address to which notice as mentioned shall be forwarded.

(f) The directors are entitled to elect a chairman of their meetings who shall hold his office until another chairman shall have been elected in his stead, the chairman shall have resigned or the holding of the office of the chairman as director shall have terminated in accordance with the articles. In the event that a chairman shall not have been elected or in the event that the chairman shall not have been present at the expiration of 15 minutes following upon the time which shall have been determined for the meeting, the directors who are present shall elect one of their number to be the chairman at such meeting.

(g) Questions which shall arise at a meeting of the board of directors shall be decided by a majority of votes. In the event of equality of votes, the chairman of the board of directors shall have a casting vote.

(h) Every meeting of the board of directors, at which a legal quorum is present, shall have the authority to effect all or part of the authorities, the powers of attorney and the discretion which are held at such times by the directors, or which are permanently exercised by them.

(i) The directors are able to delegate part of their authorities, subject to the provisions of the Companies Law, or part thereof to committees, which shall be comprised of one or more members of the board of directors as they shall decide from time to time. The directors are able also to revoke a delegation of these authorities from time to time or to alter them. Every committee which shall be established as mentioned, shall be subject, by way of exercise of the authorities which shall have been delegated to it, to all the instructions of the directors which shall be given from time to time.

(j) The provisions which are contained in the articles of the company with regard to the arranging of meetings of the board of directors shall apply to the meetings and the discussions of every such committee, unless the board of directors shall have determined other arrangements of meetings of the company.

(k) All the acts which shall have been carried out in good faith at a meeting of the board of directors or by a committee of directors or by any person who acts as director shall be valid, also in the event that it shall subsequently be discovered that there was a defect in the appointment of the director or such person who acts as mentioned, or that they or one of them were incapacitated, really as though any such person had been lawfully appointed.

(l) The directors shall ensure that proper minutes shall be documented as follows:

(1) The names of the directors who are present at every meeting of the board of directors and at every meeting of all the committees of all the committees of directors.

(2) All the resolutions and the proceedings at general meetings of the company, at meetings of the board of directors and at committees of directors.

Minutes of every one of the said meetings which shall be signed by the chairman of such meeting or by the chairman of the next following meeting, shall constitute prima facie evidence with regard to the matters which were recorded in these minutes.

(m) All the acts which shall have been carried out in good faith at every meeting of the board of directors shall be valid also in the event that a director who was not present in Israel at the time of the convening of the meeting shall not have received notice thereof.

Authorities of the Directors

(n) Conduct of the affairs of the company shall be accorded to the directors and the directors are entitled to use all the authorities and to carry out all the acts and the things which the company is authorized to carry out, and which in accordance with the articles of the company or the Companies Law are not accorded to the authority of the general meeting of the shareholders in the company (as specified in clause 57 of the Companies Law). The authority which is accorded to the directors shall be subject to the provisions of the Companies Law and the articles and to all the resolutions which are not inconsistent with these provisions which shall be passed from time to time by the company in the general meeting, on condition that no such resolution shall invalidate an act which shall have been carried out previously by the directors and which would have been valid were it not for this resolution.

Insurance and Indemnity of Office Holders

7.4.7 (a) The company is entitled, subject to the provisions of the Companies Law, to enter into a contract for the insurance of the liability of an office holder therein, in entirety or part thereof, in respect of one of the following:

(1) Breach of an obligation of caution toward the company or towards some other person in respect of an act that he shall have carried out by virtue of his being an office holder in the company;

(2) Breach of an obligation of trust of an office holder towards the company, and provided that the holder of office shall have acted in good faith and he shall have had a reasonable basis to presume that the act would not be prejudicial to the good of the company and all in respect of an act which he shall have carried out by virtue of his being a holder of office in the company;

(3) A financial obligation which shall have been imposed upon the office holder in favour of some other person in respect of which an act which he shall have carried out by virtue of his being an office holder in the company;

(b) The company is entitled, subject to the provisions of the Companies Law with the approval of the board of directors or any other body in accordance with the Companies Law at such time, to indemnify an office holder in the company, in advance or a posteriori in respect of one of the following:

(1) A financial obligation which shall have been imposed upon him in favour of some other person in accordance with a judgment, including a judgment which shall have been given as a compromise settlement or an arbitrator judgment which shall have been approved by the court, in respect of an act which shall have been carried out by virtue of his being an office holder in the company;

(2) Reasonable legal expenses, including the professional fee of an attorney which shall have been expended by an office holder or for which he shall have been made liable, in proceedings which shall have been submitted against him by the company or on its behalf or by some other person, or in a criminal prosecution from which he shall have been acquitted or in a criminal prosecution for an offence for which he shall have been convicted which does not require the existence of criminal intent, and all in respect of an act which he shall have carried out by virtue of his being an office holder in the company.

7.5 Insurance and Indemnity of Directors and Office Holders in the Company

7.5.1 The office holders in the company are insured against claims in respect of the liability of an office holder up to the amount of $2,000,000 for one occurrence and in the total in respect of the damages which are likely to occur during the course of the period of the insurance (and further - $400,000 expenses of legal defense in Israel). The basic cover has been extended to jurisdictions in the whole world including the United States and Canada. The self-participation applies only to the company and not to the office holder or the director. The amount of the self participation in respect of claims which shall have been submitted in any place is $10,000 United States Dollars.

7.5.2 On the 18th of March 2004, the company resolved:

(a) To undertake to the office holders in the company, that the company shall indemnify them, in advance in the cases which are specified below in an amount which shall not exceed 25% of the shareholders equity of the company, in accordance with the financial statements, correct as at the day of the indemnity, in relation to the entirety of the office holders. This amount shall be added to the amount of all the insurance benefits in respect of the categories of the occurrences which are determined which the company shall receive from time to time in the framework of any directors and officers liability insurance. The occurrences which are determined are:

1. Acts in connection with investments including investments which shall not have materialized which the company, a subsidiary company or an associated company (per their meaning in the securities law) carry out in various corporations, whether before or after the making of the investment including engagements in a transaction, the carrying out thereof, the follow-up and the control over the investment after the carrying out thereof and every act which the office holder shall have carried out in connection therewith.

2. The issue of securities (including the issue of securities which shall not have materialized), including, but without derogating from the generality of that which is stated above, an offer of securities to the public in accordance with prospectus, a private offer or an offer of securities in any other manner.

3. A transaction as per its meaning in clause 1 of the Companies Law and this including the obtaining of credit, the sale or the acquisition of assets or obligations, including securities or the granting or the receiving of a right in any one of them, and also an act which is directly or indirectly connected with a transaction as mentioned.

4. Report or a notice which shall have been submitted in accordance with the Companies Law or the Securities Law or any other law which applies to the company, including regulations which have been enacted by virtue thereof, or in accordance with laws and regulations which deal with matters which are similar outside of Israel, or in accordance with rules or directives which are practiced in the Stock Exchange or in the arena of commerce in Israel or outside of Israel, and all including refraining from submission of a report or notice as mentioned.

5. Acts which are connected with the conditions of employment of employees including dealing with pension funds, provident funds, insurance and saving funds, options and other benefits for employees of whatsoever type.

6. Any act which shall have occasioned bodily damage, illness, death, damage to property including the loss of the use thereof.

7. Any act which has lead to the absence of the arrangement of proper insurance arrangements.

8. Alteration of the structure of the company or its re-organization or any decision in relation to them, including, but without derogating from the generality of that which is stated above, amalgamation, splitting-up, alteration in the capital of the company, subsidiary companies or associated companies, their liquidation or their sale, allotment of a security of any category in the company, in a subsidiary company or in an associated company or the carrying out of distribution (as per its meaning in the Companies Law) or the offering of acquisition by or in connection with any of them.

9. Expression, statement including expression of stance or opinion which was done in good faith by the office holder during the course of his function and by virtue of his function, and including in the framework of the holding of general meetings or the board of directors of the company, a subsidiary company or an associated company of the company, or a committee from amongst the committees of the board of directors as mentioned.

10. Civil courts action or criminal court actions which relate to the current and the ordinary course of business of the company, and also to irregular transactions of the company.

11. Court actions which shall have been submitted against an office holder in connection with the liquidation or the receivership of the company, a subsidiary company or an associated company.

12. Derivative court actions or representative court actions in connection with the company, a subsidiary company or an associated company.

13. Court actions in connection with amalgamation proceedings, splitting of proceedings, re-organization and so forth.

14. Acts or resolutions in connection with the preparation or the approval of financial statements, business plans or forecasts in connection with the company, with a subsidiary company or with an associated company.

15. Court actions in connection with documents which are connected with the matters which are set out above, or in connection with acts or resolutions which are connected with the matters which are set out above or in connection with representations and obligations which shall have been given in connection with the matters which are set out above, including representations and obligations as mentioned which shall have been given to third parties or to the company, a subsidiary company or an associated company or to a party on its behalf (including to its advisers, such as accountants, attorneys and so forth).

16. Any act or omission which shall have been carried out by an office holder in the past by virtue of his being an office holder in the company and where it shall be feasible in accordance with the law to adjudicate him in respect thereof.

For the matter of the occurrences which are set out above:

"**The Securities Law**" – the Securities Law, 5728-1968.
"**The Companies Law"** – the Companies Law, 5759-1999.
"Security" – as per its definition in clause 1 of the Companies Law.

(b) To renew, from time to time on terms which are similar to the liability of directors and office holders in the company liability policy, as mentioned in clause 7.5.1 of the prospectus for additional periods of up to 18 months on every occasion.

7.6 Directors Having Accounting Skill

At the meeting of the board of directors of the company on the 18th of March, 2004, the board of directors of the company determined, in accordance with the directives of the Securities Authority in accordance with clause 36a of the Securities Law, 5728-1968, that the appropriate minimum number of directors in a company having accounting and financial skills, taking into account, amongst other things, the size of the company, the nature of its operations, its complexity, and so forth, is one director as long as the board of directors of the company comprises up to six members. In actual fact, two directors hold office in the company who have accounting and financial skills, Messrs. Zvi Livneh and Ron Mishal, out of five members of the board of directors.

8 HOLDERS OF AN INTEREST IN THE COMPANY

8.1 Holdings of Shares and Options by the Holders of an Interest

To the best of the knowledge of the company and its directors, the shares and options for shares of the company, which are held at the time of the prospectus directly and indirectly by the holders of an interest in the company and/or the company itself and/or which are held by them as mentioned within the twelve months which preceded the date of this prospectus, are as follows:

8.1.1 **The Holders of an Interest**

Name of Shareholder	Ordinary shares of the nominal value of 0.02 NIS each one		Holdings		in %	
		Before the issue		After the issue		
		Without dilution	fully diluted [34]	Directly after the issue		fully diluted
Haim Shani [35] [36] [37] [38]	6,092,551	56	46.0	52.2		32.2
Other directors[39]		0	0	Less than 1%	0	Less than 1%

'Assuming exercise of all the option deeds (series 1) and conversion of all the debentures (series 1) which are offered in accordance with this prospectus, and also all the debentures and the options in

[34] At the time of the prospectus the company has 158,562 convertible debentures (see clause 5.5 in the prospectus) and also options for shares of the company which have been granted to employees, advisors and directors in the total amount of 2,225,749 shares (see clause 5.6 in the prospectus).

[35] These shares, and also all the remainder of the shares in the share capital which is issued of the company, are held by Interprofessionelle Effeotendeposito en Girokas N.V. – Caisse Interprofessionelle de Depots et de Virements de Titres S.A (hereinafter: "**CIK**") which is registered in the register of the shareholders of the company as a shareholder; to the best of the knowledge of the company, in accordance with the Belgian practice and the articles of CIK, the body fulfills in Belgium the function of registry and clearing-house in the possession of which there are deposited in accordance with a global power of attorney, shares of the companies which are traded on the stock exchange in Belgium, and the various trading transactions which are carried out in shares on the stock exchange by banks, brokers and other agents are registered in its books. Thus the CIK fulfills a similar function in the nature thereof to that which registration companies fulfill in Israel, whereby by means of CIK the registration is conducted of shares of the company which are traded on the stock exchange in Belgium; shareholders who acquire shares of the company on the stock exchange in Belgium carry out the acquisition transaction (or the sale transaction) buy means of a securities account which is maintained on their name in the financial institutions (brokers, banks, and so forth) which are directly or indirectly members of the CIK system. The company is not aware of other holders of an interest apart from those who are indicated above (see also clause 5.7.9 of the prospectus with regard to the obligation of sharholders to report to the company and to the Belgian authorities with regard to changes in holdings of 5% of the shares of the company or multiples of 5%

[36] Mr. Haim Shani serves as the chairman of the board of directors of the company and as the managing director of the company. In the framework of these shares, also 50 shares of the company are included which are held by means of the company Corpus Colossus Ltd., a private company which is registered in Israel of which Mr. Haim Shani holds 100% of the share capital and the voting rights therein, furthermore, in the framework of these shares there are also included 50,000 shares of the company which Mr. Shani made available for the purpose of "Market Making" in accordance with the "Market Maker" agreement as specified in clause 5.4.4 in the prospectus .

[37] In addition to the shares which are held directly or indirectly by Mr. Haim Shani, Mr. Haim Shani holds and irrevocable power of attorney to vote by virtue of 399,999 ordinary shares of the company which constitute approximately 3.68% of the share capital which is issued of the company as at the date of the prospectus. See clause 8.2.2.2 in the prospectus.

[38] In addition to shares, Mr. Shani holds options for the acquisition of 10,000 shares of the company in accordance with the options plan 1999 of the company (see clause 5.6.1 of the prospectus). Furthermore, in accordance with the agreement for his employment, Mr. Shani is entitled to additional options (see clause 8.2.1.1 in the prospectus). The granting of additional options to Mr. Shani, is subject to all of the approvals which are necessary in accordance with any law, and including the approval of the Stock Exchange for the registration for trade of the shares underlying such options

[39] Mrs. Bareket Shani, the wife of Mr. Haim Shani, who holds office as a director in the company and as the deputy chief executive officer and the manager of human resources , and also Messrs. Zvi Livneh and Shraga Tzur who hold office as directors in the company, each hold options for the acquisition of 10,000 shares of the company in accordance with the 1999 options plan of the company (see clause 5.6.1 of the prospectus. Furthermore, in accordance with her agreement of employment, Mrs. Shani is entitled to additional options (see clause 8.2.1.2 of the prospectus.) The granting of additional options to Mrs. Shani, is subject to all of the approvals which are necessary in accordance with any law, and including the approval of the Stock Exchange for the registration for trade of the shares underlying such options

accordance with the options plan of the company which exist as at the date of the prospectus. With the exception of options for the acquisition of a total amount of 164,251 shares of the company in accordance with the 1999 and 2001 option plans which have not yet been granted at the date of this prospectus (see clause 5.6 of the prospectus).

8.2 Remuneration, Benefits and Transactions with Holders of an Interest

8.2.1 Remuneration and Benefits

8.2.1.1 On the 1st of January 1999 the company entered into a personal employment agreement with Mr. Haim Shani (who is also the controlling shareholder of the company) for a period of five years. In accordance with the above-mentioned employment agreement, Mr. Haim Shani serves as the managing director of the company and as chairman of the board of directors of the company. Mr. Haim Shani is entitled in consideration of his services as mentioned to monthly remuneration (gross) in the sum of $15,000. In accordance with his employment agreement Mr. Haim Shani will be entitled, after adoption of the options plans of the company, to options in an amount which shall not be less than 115% of the amount which has been granted to the most senior employee in the company after Mr. Shani. The granting of options to Mr. Shani, is subject to all of the approvals which are necessary in accordance with any law, and including the approval of the Stock Exchange for the registration for trade of the shares underlying such options and the approval of the general assembly of shareholders of the company in accordance with Section 275 of the Companies Law. In addition, the employment agreement grants customary social benefits such as directors insurance (allowances of 5% of the monthly remuneration by Haim Shani and additional allowances in the total amount of 13.33% of the monthly remuneration by the company), fund for postgraduate studies (an allowance of 2.5% from the monthly remuneration by Haim Shani and an allowance of 7.5% of the monthly salary by the company) use of a vehicle of the company and refund of expenses. In addition Haim Shani is entitled to annual leave of 30 days with the possibility of the accumulation of leave days which have not been exploited only in the two years following the expiration of such year. The termination of the employment agreement of Mr. Haim Shani is subject to the approval of 75% of the members of the board of directors and at least 6 months prior notice. Mr. Haim Shani is entitled to terminate the employment agreement for any reason subject to 3 months prior notice. Mr. Haim Shani has agreed (voluntarily) to a reduction of 5% in his remuneration for the period of 12 months commencing from the 1st of January 2003. The employment agreement was extended in December 2003 for a period of five additional years which can be extended further by additional periods of five years each. The said extension has been approved unanimously by the audit committee, the board of directors and the general meeting of the shareholders of the company.

8.2.1.2 On the 1st of January 1999 the company entered into a personal employment agreement with Mrs. Bareket Shani (the wife of Mr. Haim Shani) who also serves as a member of the board of directors of the company) for a period of five years. In accordance with the above-mentioned employment agreement, Mrs. Bareket Shani has served as the deputy managing director and as the production manager and the human resources manager. In consideration, Mrs. Bareket Shani is entitled to remuneration (gross) in the sum of $7,500. In accordance with her employment agreement Mrs. Bareket Shani will be entitled, after adoption of the options plans of the company, to options in an amount which shall not be less than 115% of the amount which has been granted to the most senior employee in the company after Mrs. Bareket Shani. The granting of additional options to Mrs. Shani, is subject to all of the approvals which are necessary in accordance with any law, and including the approval of the Stock Exchange for the registration for trade of the shares underlying such options and the approval of the general assembly of shareholders of the company in accordance with Section 275 of the Companies Law. In addition, the employment agreement grants customary social benefits such as directors insurance (allowances of 5% of the monthly remuneration by Bareket Shani and additional allowances in the total amount of 13.33% of the monthly remuneration by the company), a fund for postgraduate studies (allowance of 2.5% from the monthly remuneration by Bareket Shani and an allowance of 7.5% from the monthly salary by the company), use of a vehicle of the company and refund of expenses. In addition Bareket Shani is entitled to annual leave of 30 days with the possibility of the accumulation of leave days which have not been exploited only in the two years following the expiration of such year. Each party is entitled to terminate the agreement upon 2 months prior notice, on condition that in the event that the company is the party initiating the termination of the agreement it shall be required to supply a substantive reason for the dismissals as mentioned. Mrs. Bareket Shani has agreed (voluntarily) to a reduction of 5% in her remuneration for the period of 12 months commencing from the 1st of January 2003. The employment agreement was extended in the month of December 2003 for a period of five additional years which can be extended further by additional periods of five years each. In the framework of the extension of the agreement the duties of Mrs. Bareket Shani in the company have been re-defined and she serves as at today as deputy managing director and human resources manager only. The said extension has been approved unanimously by the audit committee, the board of directors and the general meeting of the shareholders in the company.

8.2.1.3 In addition the company retains the services of Mr. Albert Sharabani (the father of Mr. Haim Shani) for various administrative activities in consideration of monthly remuneration in an immaterial amount.

8.2.1.4 In accordance with the decisions of the audit committee and the board of directors of the company, which was approved in the annual general meeting of the shareholders of the company on the 9th of August 2001, the external directors in the company and also the directors who do not serve as office holders in the company are entitled to annual remuneration and participation remuneration at the rate of the "fixed amount" as specified in the second supplement and the third supplement to the Companies Regulations (Rules with regard to Remuneration and Expenses of an External Director), 5760-2000 and in accordance with the relevant capital rating of the company.

8.2.1.5 To the best of the knowledge of the company and its directors, the benefits which were received by every holder of an interest in the company, directly or indirectly, within the two years which preceded the date of the prospectus, or which he is entitled to receive from the company, its subsidiary company or its associated company, including remuneration and pay of the directors and of the managing director and expenses which accompany them which do not deviate from that which is customary, in thousands of New Shekels adjusted to the New Shekel of the month of December, 2003, are as follows:

	Year 2000	Year 2003
Haim Shani	1,166	1,014
Bareket Shani	567	543
Other directors	51	85

8.2.1.6 The company has granted options for the acquisition of 10,000 shares of the company under the 1999 options plan to each one of Messrs. Haim Shani, Bareket Shani, Zvi Livneh and Shraga Tsur (incumbent directors) and also to a former member of the board of directors of the company. These options may be exercised into ordinary shares of the company up until June 2007 at an exercise price of 1.00 Euro per share (see clause 5.6.1 in the prospectus).

8.2.2 **<u>Interests in Transactions</u>**

Below there is set out, to the best of the knowledge of the company and its directors, the nature of every interest which a shareholder has in the company or which he had during the course of the two years preceding the date of this prospectus, in any transaction whatsoever to which the company or its subsidiary companies or its associated companies was a party, and also a benefit which the holder of an interest received from its subsidiary companies or its associated companies, with the exception of an interest in transactions which were carried out in the ordinary course of business of the company:

8.2.2.1 **Leasing Agreement with the Company Shevach B.H. Properties Ltd.**

Until the month of November 2002 the offices of the company (including the research, the development, the production, the marketing and the distribution) were located in the Northern Industrial Area in Lod (hereinafter – "**the Previous Unitronics House"**). These offices constituted approximately 700 square meters and were rented from the company Shevach B.H Properties Ltd., a company which up until the month of March 2002 was under the proprietorship of Mr. Haim Shani and his two brothers, Zadok Shani and Alon Shani in equal shares (hereinafter – "**Shevach"**). In March 2002 Mr. Shani transferred his shares in Shevach to his two brothers, Zadok Shani and Alon Shani in consideration of their nominal value. Commencing November 2002, the company ceased to use the previous Unitronics House and the above-mentioned lease terminated.

In accordance with the lease agreement between the company and Shevach, up until the 30th of June 2001 the company paid monthly rent (not including value added tax) in an amount equal to the expenses which were actually paid out by Shevach in respect of the maintenance of the previous Unitronics House (such as: returns of the mortgage loan which was granted to Shevach by Bank Leumi of Israel Ltd. ("**Bank Leumi"**); payment of municipal taxes; payments in respect of the maintenance of the building apart outside of the ordinary course of business activity of Shevach, levies, electricity, water and so forth). These payments totaled during the course of the year 1999 an average monthly rent of approximately 4,810 Euro. In respect of the period commencing from January 2000 and up until June 2001, these rents totaled approximately 288,111 New Shekels and in respect of the period commencing from the 30th of June 2001 and up until the termination of the lease, approximately 768,807 New Shekels.

8.2.2.2 **Agreements Between the Brothers Haim, Zadok and Alon Shani**

In accordance with the agreement of the 19th of November 1998 between Mr. Shani and his two brothers, Mr. Zadok Shani ("**Zadok"**) and Mr. Alon Shani (**"Alon"**), Alon and Zadok transferred to Mr. Shani all their holdings in the shares of the company, which at such time constituted 25% and 24% of the issued and paid up share capital of the company, respectively. Up until such time Mr. Shani had held 51% of the issued and the paid up share capital of the company. In the framework of the above-mentioned agreement, additional arrangements were made between the parties.

In October 1999, Zadok and Alon submitted a court action against Mr. Haim Shani in the Family Affairs Court in Tel Aviv – Jaffa, with a claim of rights to 49% of the shares of Mrs. Shani in the company and additional claims (hereinafter – "**the dispute"**). In accordance with the agreement of the 18th of March 2002 (hereinafter – "**the compromise settlement agreement"**), between Mr. Haim Shani and his two brothers, Mr. Shani returned to Zadok and Alon, without any consideration, 399,999 ordinary shares of the company (200,000 to Zadok and 199,999 to Alon), which constitute approximately 3.68% of the issued share capital of the company as at the date of the prospectus (hereinafter – "**the restitution shares"**) and all the parties reciprocally waived every contention and/or claim in connection with the dispute (and this including Zadok and Alon also waiving any contention and/or claim as mentioned against the company and the office holders therein). The settlement agreement received the validity of a judgment of the Family Affairs Court in Tel Aviv – Jaffa.

In accordance with the compromise settlement agreement, the restitution shares were transferred to the company Leleux Associated Brokers NV/SA as the registered holders in the books of CIK in the name and on behalf of Zadok and Alon. The restitution shares are held by Zadok and Alon subject to sale restrictions which apply to Mr. Shani in the framework of the issue of shares of the company on the Stock Exchange in Belgium as specified in clause 5.4.2 of the prospectus and subsequently in pursuance of the decisions of the Stock Exchange Authorities in Belgium and/or the securities and the banking authorities in Belgium. In pursuance of the agreement Mr. Shani undertook that upon the release of his shares from lock-up as mentioned, also the restitution shares would be released in the proportion of 1:3 between Mr. Shani (of the one part) and Zadok and Alon jointly (of the second part).

Mr. Shani additionally undertook to act to the best of his ability to release the restitution shares from any restriction upon sale to which they are subjected. Mr. Shani further undertook that in the event that the company would order its shares to the public or would issue its shares in the framework of a private issue, and in this framework a shareholders offering would also be included, he shall recommend to the board of directors of the company and any other forum that Zadok and Alon be granted the right to participate in such issue by way of offering the restitution shares for sale in accordance with the terms offered to the remainder of the shareholders without any obligation for expenses (with the exception of underwriting expenses, accountant expenses and expenses of the legal advisers of Zadok and Alon). This participation right will terminate at the earlier of March of 2007 or upon the occurrence of certain events of a decrease or (or the opportunity to effect the sale, even in the event that it shall not be realized) of 90% or more of the holdings of Zadok and Alon in the restitution shares and/or when Mr. Haim Shani shall cease to be the controlling shareholder in the company. In addition, Zadok and Alon were granted participation rights in the event that Mr. Shani shall sell his shares in the company, with the exception of sale on the Stock Exchange or sale to "permitted transferees" per their definition in such agreement, which are also restricted by time restrictions and/or holdings restrictions as specified above.

In accordance with the settlement agreement, Zadok and Alon granted to Haim an irrevocable power of attorney to participate in the meetings of the shareholders of the company and to vote by virtue of the restitution shares in their name and on their behalf, in accordance with his sole discretion, in relation to any matter with the exception of alteration of the rights which attached to the restitution shares in the articles of the company. The power of attorney will terminate in the event of a decrease of 90% or more in the holdings of Zadok and Alon in the restitution shares and/or when Mr. Haim Shani shall cease to be the holder of the control in the company.

8.2.2.3 **Unitronics House Management and Maintenance (2003) Ltd.**

As is specified in clause 6.7.1 and 6.10.1 of the prospectus of the company Unitronics House Management and Maintenance (2003) Ltd. ("**Unitronics Management"**), a wholly owned subsidiary of the company provides management and maintenance services to Unitronics floors. These services mainly include services to the elevators and to the air conditioning systems, the electricity and the fire detection systems in Unitronics House (summoning the various suppliers in the event of faults and/or requirements for handling/treatment and/or periodical examination in accordance with the instructions of the manufacturer/the supplier), and also providing cleaning services, pest control services, gardening and security services (by means of sub-contractors). In consideration of these services Unitronics Management charges management fees at the monthly rate of approximately $2.0 per square meter in the area of every occupant in Unitronics House, and additionally, it charges separately in respect of electricity in accordance with the reading of the separate electricity meters of Unitronics and the remainder of the occupants of Unitronics House (which are divided in expense proportionately to the area they use).

Unitronics Management provides management and maintenance services as mentioned also to the private floors in Unitronics House which are leased by a company under the full proprietorship of Messrs. Haim Shani and Bareket Shani. Between Unitronics and Unitronics Management and Messrs. Shani there is no written agreement in relation to the management services. In actual practice, Messrs Shani require the lessees of the private floors to pay the full management fees which Unitronics Management charges, and such lessees pay directly to Unitronics Management for management services, at a rate which is identical per square meter to the rate which Unitronics pays (with the exception of payments in respect of use of electricity, for which every user is charged in accordance with its separate electricity meter).

With regard to the procedure of approval of this arrangement by Unitronics, see the details in clause 6.7.1.1 of the prospectus.

UNITRONICS (1989) (R"G) LTD.

Financial Statements
December 31,2003

Unitronics (1989) (R"G) Ltd.

Financial Statements

December 31, 2003

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Independent Auditors' Report
To the shareholders of Unitronics (1989) (R"G) Ltd.

We have audited the accompanying balance sheets of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), and the consolidated balance sheets of the Company and its subsidiary as at December 31, 2002 and 2003, the statements of operations of the Company for each of the four years the last of which ended December 31, 2003, the statements of operations of the Company and its subsidiary consolidated for each of the three years the last of which ended December 31, 2003, and the statements of shareholders' equity and cash flows of the Company, and for the Company and its subsidiary consolidated for each of the three years the last of which ended December 31, 2003. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 2% and 3% of the total consolidated assets as at December 31, 2002 and 2003 respectively and whose revenues constitute 2%, 10% and 9%, of the total consolidated revenues for the years ended December 31, 2001, 2002 and 2003 respectively. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiary, is based solely on the opinions of the other auditors.

We conducted our audits in accordance with auditing standards, generally accepted in Israel, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance) 1973. These auditing standards are substantially identical to IFAC. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company, and the consolidated financial position of the Company and its subsidiary as at December 31, 2002 and 2003, and the results of operations of the Company for each of the four years the last of which ended December 31, 2003, the results of operations of the Company and its subsidiary consolidates for each of the three years the last of each ended December 31, 2003, and the changes in shareholders' equity and cash flows of the Company, and of the Company and its subsidiary consolidated for each of the three years the last of which ended December 31, 2003, in conformity with generally accepted accounting principles in Israel (Israeli GAAP), furthermore in our opinion the above financial statements have been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) - 1993..
As applied to these financial statements, Israeli GAAP are substantially identical with the International Financial Reporting Standards (IFRS) in all material respects except as otherwise described in Note 26 to the Financial Statements,

As explained in Note 2, the above financial statements are presented in values adjusted to reflect the changes in the general purchasing power of the Israeli currency in accordance with the pronouncements of the Institute of Certified Public Accountants in Israel.

Our opinion is based on our opinions for the financial statements of the years mentioned above, the last of which, for the year ended December 31, 2003, was given on February 23, 2004.

Amit, Halfon
Certified Public Accountants (Israel)

Tel-Aviv, April May 2212, ♦ 2004

Unitronics (1989) (R"G) Ltd.
Consolidated Balance Sheets

Notes		Inflation adjusted NIS*	
		December 31, 2003	*December 31, 2002*
		(in thousands)	
3	Cash and cash equivalents	5,821	7,643
	Marketable securities	1,254	1,097
	Bank deposit	-	3,729
	Accounts receivable -		
4	Trade	4,914	5,098
5	Other	503	961
6	Inventory	6,379	4,405
7	Inventory - work in progress	1,348	-
	Current assets	*20,219*	*22,933*
	Long-term deposits	*116*	*131*
9	*Property and equipment*	*20,898*	*18,473*
10	*Other assets and deferred expenses, net*	*538*	*997*
17	***Total assets***	***41,771***	***42,534***
11	Credit from banks and others	812	4,952
	Accounts payable -		
12	Trade	6,256	4,185
13	Other	5,039	5,351
	Current liabilities	*12,107*	*14,488*
14	Long-term debt	11,745	9,182
15	Convertible bonds	4,413	15,469
16	Accrued severance pay, net	1,068	1,083
21	Deferred taxes	115	8
	Long-term liabilities	*17,341*	*25,742*
18	Commitments and Contingent Liabilities		
	Shareholders' equity	*12,323*	*2,304*
17	***Total liabilities and shareholders' equity***	***41,771***	***42,534***

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.

Haim Shani *Chairman of the Board of Directors and Chief Executive Officer*	Yair Yitskovitc *Chief Financial Officer*	Tzvi Livne *Director*

Approved: April 22, 2004

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

Notes	Unitronics (1989) (R"G) Ltd. Balance Sheets Company	Inflation adjusted NIS* December 31, 2003	 December 31, 2002
		(in thousands)	
3	Cash and cash equivalents	5,682	7,543
	Marketable securities	1,254	1,097
	Bank deposit	-	3,729
	Accounts receivable -		
4	Trade	4,246	4,742
5	Other	2,992	2,590
6	Inventory	6,148	4,185
7	Inventory - work in progress	1,348	-
	Current assets	*21,670*	*23,886*
	Long-term deposits	*116*	*131*
9	*Property and equipment*	*20,872*	*18,456*
10	*Other assets and deferred expenses, net*	*538*	*997*
	Total assets	***43,196***	***43,470***
11	Credit from banks and others	812	4,952
	Accounts payable -		
12	Trade	6,247	4,159
13	Other	6,473	*6,313*
	Current liabilities	*13,532*	15,424
14	Long-term debt	11,745	9,182
15	Convertible bonds	4,413	15,469
16	Accrued severance pay, net	1,068	1,083
21	Deferred taxes	115	8
	Long-term liabilities	*17,341*	*25,742*
18	Commitments and Contingent Liabilities		
	Shareholders' equity	*12,323*	*2,304*
	Total liabilities and shareholders' equity	***43,196***	***43,470***

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
The notes to the financial statements form an integral part thereof.

Inflation adjusted NIS*

Notes	Unitronics (1989) (R"G) Ltd. Consolidated Statements of Operations	For the year ended December 31, 2003	2002	2001**
		(in thousands)		
20A	Revenues	40,306	20,734	12,569
20B	Cost of revenues	26,483	13,707	8,617
	Gross profit	*13,823*	*7,027*	*3,952*
20C	Research & development expenses, net	3,055	3,455	8,087
20D	Selling & marketing expenses	6,667	6,340	9,209
20E	General & administrative expenses	3,580	3,772	3,235
	Operating profit (loss)	*521*	*(6,540)*	*(16,579)*
20F	Financing expenses, net	3,911	2,192	275
	Operating loss after financing expenses, net	*3,390*	*8,732*	*16,854*
	Other income (expenses)	(9)	7	(36)
	Loss before tax benefits (taxes on income)	*3,399*	*8,725*	*16,890*
21	Tax benefits (taxes on income)	(111)	(45)	27
	Loss for the year	*3,510*	*8,770*	*16,863*
23	*Loss per NIS 1 ordinary share (Israeli GAAP)*			
	Basic and Fully diluted	19.61	49.55	95.27

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
** The statements of operations of the company and its subsidiary are consolidated from June 2001, see note 8.
The notes to the financial statements form an integral part thereof.

Inflation adjusted NIS*

Unitronics (1989) (R"G) Ltd.
Statements of Operations
Company

Notes		For the year ended December 31, 2003	2002	2001	2000
		(in thousands)			
20A	Revenues	39,403	20,235	12,516	25,177
20B	Cost of revenues	26,494	13,777	8,617	12,390
	Gross profit	*12,909*	*6,458*	*3,899*	*12,787*
20C	Research & development expenses, net	3,055	3,455	8,087	4,531
20D	Selling & marketing expenses	5,598	5,618	9,151	4,477
20E	General & administrative expenses	3,178	3,333	3,027	2,581
	Operating profit (loss)	*1,078*	*(5,948)*	*(16,366)*	*1,198*
20F	Financing expenses, net	4,006	2,178	255	1,479
	Operating loss after financing expenses, net	*2,928*	*8,126*	*16,621*	*281*
	Other income (expenses)	(9)	7	(36)	21
	Loss before tax benefits (taxes on income)	*2,937*	*8,119*	*16,657*	*260*
21	Tax benefits (taxes on income)	(111)	(45)	27	(193)
	Loss after tax benefits (taxes on income)	*3,048*	*8,164*	*16,630*	*453*
	The Company's share of subsidiary losses	462	606	233	11
	Loss for the year	*3,510*	*8,770*	*16,863*	*464*
23	*Loss per NIS 1 ordinary Share (Israeli GAAP)*				
	Basic and Fully diluted	19.61	49.55	95.27	2.75

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
The notes to the financial statements form an integral part thereof.

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

	Inflation adjusted NIS*			
	Share capital (In thousands)	Share premium (In thousands)	Accumulated loss (In thousands)	Total (In thousands)
Balance at January 1, 2001	286	23,266	(2,591)	20,961
Issue of share capital	9	6,967	-	6,976
Loss for the year	-	-	(16,863)	(16,863)
Balance at December 31, 2001	295	30,233	(19,454)	11,074
Loss for the year	-	-	(8,770)	(8,770)
Balance at December 31, 2002	295	30,233	(28,224)	2,304
Issue of share capital	3	523	-	526
Conversion of convertible bonds	38	12,965	-	13,003
Loss for the year	-	-	(3,510)	(3,510)
Balance at December 31, 2003	336	43,721	(31,734)	12,323

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Cash Flows

	Inflation adjusted NIS*		
	For the year ended December 31,		
	2003	*2002*	*2001***
Loss for the year	(3,510)	(8,770)	(16,863)
Depreciation and amortization	1,603	1,572	1,396
Loss (profit) from marketable securities, net	(90)	49	(193)
Capital (gain) loss	9	(7)	36
Increase (decrease) in accrued severance pay, net	(15)	(150)	108
Deferred taxes, net	111	45	(27)
(Erosion) revaluation on long-term debt, convertible bonds and bank deposit, net	1,470	1,874	(495)
Decrease (increase) in accounts receivable - trade	184	(1,490)	6,132
Decrease (increase) in accounts receivable - other	458	(511)	154
Decrease (increase) in inventory	(1,974)	1,076	(1,128)
Increase in inventory - work in progress	(1,348)	-	-
Increase (decrease) in accounts payable - trade	2,565	(1,750)	1,085
Increase in accounts payable - other	135	2,455	1,323
Cash flows used in operating activities	*(402)*	*(5,607)*	*(8,472)*
Sale of (investment in) marketable securities, net	(67)	(10)	753
Change in bank deposit	3,811	9,154	(11,484)
Purchase of property and equipment	(3,997)	(8,744)	(2,539)
Sale of equipment	34	93	43
Investment in long-term deposits	(19)	(25)	(21)
Repayment of long-term deposits	34	-	-
Investment in patent	(6)	-	(14)
Investment in other assets	(154)	-	(191)
Cash flows provided by (used in) investing activities	*(364)*	*468*	*(13,453)*
Loans received from bank	-	7,530	882
Repayment of long-term loans	(625)	(35)	(27)
Loans received from others	-	210	97
Short-term credit from banks, net	(635)	405	(1,493)
Convertible bonds issue	-	-	11,484
Share capital issue	526	-	7,221
Expenses related to conversion of convertible bonds to share capital	(322)	-	-
Cash flows provided by (used in) financing activities	*(1,056)*	*8,110*	*18,164*
Increase (decrease) in cash and cash equivalents	*(1,822)*	*2,971*	*(3,761)*
Cash and cash equivalents at beginning of year	7,643	4,672	8,433
Cash and cash equivalents at end of year	5,821	7,643	4,672

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
** The statements of cash flows of the company and its subsidiary are consolidated from June 2001, see note 8.
The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Cash Flows

	Inflation adjusted NIS*		
	For the year ended December 31,		
	2003	*2002*	*2001***
	(in thousands)		
Appendix A - Non cash transactions			
Financing income (expenses) capitalized to property and equipment	-	73	(417)
Payables related to property and equipment	1,521	2,015	-
Conversion of convertible bonds	13,325	-	-

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
** The statements of cash flows of the company and its subsidiary are consolidated from June 2001, see note 8.
The notes to the financial statements form an integral part thereof.

Inflation adjusted NIS*

Unitronics (1989) (R"G) Ltd.
Statements of Cash Flows
Company

	For the year ended December 31,		
	2003	*2002*	*2001*
		(in thousands)	
Loss for the year	(3,510)	(8,770)	(16,863)
The Company's share of subsidiary losses	505	490	233
Depreciation and amortization	1,595	1,567	1,394
Loss (profit) from marketable securities, net	(90)	49	(193)
Capital (gain) loss	9	(7)	36
Non realized intercompany profit, net	(43)	116	223
Increase(decrease) in accrued severance pay, net	(15)	(150)	108
Deferred taxes, net	111	45	(27)
Erosion on long-term debt, convertible bonds and bank deposit, net	1,470	1,874	(495)
Decrease (increase) in accounts receivable - trade	496	(1,227)	6,225
Increase in accounts receivable - other	(402)	(1,465)	(522)
Decrease (increase) in inventory	(1,963)	1,146	(979)
Increase in inventory - work in progress	(1,348)	-	-
Increase (decrease) in accounts payable - trade	2,582	(1,719)	1,029
Increase in accounts payable - other	145	2,400	1,277
Cash flows used in operating activities	*(458)*	*(5,651)*	*(8,554)*
Sale of (investment in) marketable securities, net	(67)	(10)	753
Change in bank deposit	3,811	9,154	(11,484)
Purchase of property and equipment	(3,980)	(8,743)	(2,514)
Sale of equipment	34	93	43
Investment in long-term deposits	(19)	(25)	(21)
Repayment of long-term deposits	34	-	-
Investment in patent	(6)	-	(14)
Investment in other assets	(154)	-	(191)
Cash flows provided by (used in) investing activities	*(347)*	*469*	*(13,428)*
Loans received from bank	-	7,530	882
Repayment of long-term loans	(625)	(35)	(27)
Loans received from others	-	210	97
Short-term credit from banks, net	(635)	405	(1,493)
Convertible bonds issue	-	-	11,484
Share capital issue	526	-	7,221
Expenses related to conversion of convertible bonds to share capital	(322)	-	-
Cash flows provided by (used in) financing activities	*(1,056)*	*8,110*	*18,164*
Increase (decrease) in cash and cash equivalents	*(1,861)*	*2,928*	*(3,818)*
Cash and cash equivalents at beginning of year	*7,543*	*4,615*	*8,433*
Cash and cash equivalents at end of year	*5,682*	*7,543*	*4,615*

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
The notes to the financial statements form an integral part thereof.

Inflation adjusted NIS*

Unitronics (1989) (R"G) Ltd.
Statements of Cash Flows
Company

	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Appendix A - Non cash transactions			
Financing income (expenses) capitalized to property and equipment	-	73	(417)
Payables related to property and equipment	1,521	2,015	-
Conversion of convertible bonds	13,325	-	-

* The inflation adjusted NIS figures are stated in terms of NIS of December 2003.
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

A. Unitronics (1989) (R"G) Ltd. (the "Company") was incorporated in August 1989. In 1999, the Company went public and listed its shares on the Belgian Stock Exchange in Brussels.

B. The Company is engaged in the design, development, manufacture and marketing of industrial automation products known as PLCs (Programmable Logic Controllers). The Company also provides factory automation and system integration services; planning, implementing and maintaining production, logistics, and storage applications, in particular in the field of Automated Warehouses

C. Definitions:

Subsidiary
A company controlled by the Company and whose financial statements are consolidated in the financial statements of the Company.

Interested parties
As defined in the Israeli Securities Regulations (Preparation of Financial Statements)-1993, include "related parties" as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel.

Note 2 - Significant Accounting Policies

A. Adjusted Financial Statements

1. In accordance with the opinions of the Israeli ICPA, the company presents its financial statements in NIS having uniform general purchasing power as measured by the Israeli CPI ("inflation adjusted NIS"). Condensed financial statements of the Company in historical value are presented in Note 25.

2. The meaning of the term 'cost in these financial statements is "adjusted cost"

B. Principles of Adjustment

1. Balance Sheet

Non-monetary items (property and equipment, inventory, customer's advances, pre-paid expenses, share capital and share premium) have been adjusted based on the changes in the Israeli CPI from the index published for the month of the transaction until the index published for December 2003. Monetary items are presented in the adjusted balance sheet at their historical value (Corresponding figures have been adjusted to the index published for December 2003). The adjusted value of non-monetary assets does not purport to reflect their real economic value, but rather their historical cost, adjusted to reflect the changes in the general purchasing power of the Israeli currency.

2. Statement of Operations

a. Income and expense items (excluding net financing expenses relating to transactions in the period, such as Sales, Purchases, and other costs) have been adjusted from the index published for the month of each transaction to the index published for December 2003.

b. Income and expense items related to non-monetary items or to provisions that have been included in the balance sheet have been adjusted on the basis of the specific indices used in conjunction with the adjustment of the related balance sheet items.

c. Payments on account of tax have been adjusted on the basis of the index for the month of each payment and amounts to be paid or rebated have been included without an adjustment. Thus the current taxes also include the expenses of erosion of the value of the tax payments from the time of payment until the end of the period (deferred tax see Note 2N).

Note 2 - Significant Accounting Policies (cont'd)

d. The net financing expenses represents financing income and expenses in real terms, including the inflationary erosion of monetary items during the period.

C. Principles of Consolidation

1. The consolidated financial statements include the financial statements of the company and it's subsidiary.

2. Inter-company balances and transactions have been eliminated upon consolidation.

D. Rate of exchange and linkage base

Assets and liabilities in or linked to, foreign currency have been stated on the basis of the representative exchange rate prevailing at the balance sheet date as published by the Bank of Israel. Balances linked to the Israeli CPI are stated as per the contractual linkage terms of the specific balance.

Details of Israeli CPI and the representative exchange rates are as follows:

	December 31, 2003	Change for the year ended December 31, 2003	December 31, 2002	Change for the year ended December 31, 2002	December 31, 2001	Change for the year ended December 31, 2001	December 31, 2000	Change for the year ended December 31, 2000
Israeli CPI (*) (in points)	178.58	(1.88)	182.01	6.49%	170.91	1.41%	168.53	-
Exchange rate of the EURO against the NIS	5.5331	11.34%	4.9696	27.18%	3.9075	3.85%	3.7628	(20.2%)
Exchange rate of the USD against the NIS	4.379	(7.56%)	4.737	7.27%	4.416	9.28%	4.041	(2.7%)

(*) Average base of 1993 = 100.

E. Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

F. Inventory

Inventory is stated at the lower of cost or market value.
Cost is determined as follows:

- Raw and packing materials – on a weighted average basis.

- Work in process and finished products on the basis of cost of material, labor, and other direct and indirect manufacturing expenses.

G. Investment in subsidiary

Investment in the subsidiary is stated in the Company's financial statements according to the equity method, i.e.: at the cost of the shares plus post-acquisition gains (losses) as reflected by the subsidiary's financial statements.

Note 2 - Significant Accounting Policies (cont'd)

H. Property and equipment
Property and equipment is stated at cost less accumulated depreciation.
Depreciation is calculated by the straight-line method over the useful lives of the assets as estimated by management.

Annual rates of depreciation are as follows:

	%
Machinery and equipment	10 - 33
Motor vehicles	15
Office furniture and equipment	6 - 33
Buildings	2
Land	0

Improvements are added to the cost of the assets while the cost of repairs and maintenance are charged to expenses on a current basis. Borrowing costs are capitalized in accordance with the provisions of Accounting standard No.3.

I. Accounting for leases - where the Company is the Lessee

Leases of property and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligations, net of finance chargers are included in long-term liabilities. The interest element of the finance charge is charged to the statement of operations over the lease period. The property and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

J. Convertible bonds
Convertible bonds are included on the basis of the probability of conversion, in accordance with criteria set forth in Statement No. 53 of the Institute of Certified Public Accountants in Israel. In the event that the conversion is not foreseeable, the debentures are stated as a liability at their liability value in the event that conversion is likely, the debentures are stated between the long-term liabilities section and the shareholder's equity section of the balance sheets, at the greater of their liability value or capital value.

K. Revenue recognition.

1. Income arising from the sale of products is recognized upon delivery to the customer.

2. Since January, 2000 the Company has applied Accounting Standard No. 4 Work-in-Progress contracts. This Standard determines the accounting rules for the recognition of income and expenses and for the measurement and presentation of the assets and liabilities of Work-in-Progress contracts. As per Accounting Standard No. 4 the recognition of income is provided for in accordance with the percentage of completion method if all the following conditions prevail:

   The income is known or can be reasonably determined, the probability of collection is considered to be high, the costs of performing the contract (including the percentage of completion) are known or can be reasonably estimated. There is no material uncertainty as to the ability of the company to complete the contract and to adhere to the contract terms with the client, and the percentage of completion can be reasonably determined. The percentage of completion is determined in accordance with the engineer's method calculation.

   If all the conditions for the recognition of income are not available, income is recognized up to the level of the costs incurred provided it is considered recoverable.

   If loss is expected on the Work-in-Progress contract it is to be charged in full to the Statement of Operations.

Note 2 - Significant Accounting Policies (cont'd)

L. Research and Development

Research and Development cost net of grants and contribution are charged to the Statement of Operations as incurred.

M. Provision for doubtful accounts

The Provision for doubtful accounts is computed on an account-by-account basis.

N. Deferred income taxes

Deferred income taxes are computed in respect of temporary differences between the amounts included in the financial statements and those to be considered for tax purposes. Deferred taxes are computed at the enacted tax rates expected to be in effect, according to management's estimation at the time when these taxes will be released to the Statement of Operations. Deferred taxes receivable are provided where there is a reasonable possibility that there will be profits in the future to benefit from the tax benefit.

). Fixed asset value decrease

As of January 1, 2003 the Company applies Accounting Standard No. 15 " Assets value decrease". The standard determines the accounting treatment and the required presentation in the event of a decrease in the value of assets. The standard applied to all assets which appear in the balance sheet except inventory, assets deriving from establishment contracts, assets deriving from benefits to employees, deferred tax assets, and monetary assets (excluding investments in affiliated companies). In accordance with the new standard, if there is a sign indicating a drop in value of an asset, the company should check the drop in value by comparing the book value of the asset to its recoverable value. The recoverable value is the higher of the net realizable value of the asset and its useable value, which is the present value of the estimated future cash flows expected to be derived from the use of asset and from its realization at the end of its useful life. If the book value of the asset is higher than its recoverable value this loss must be recognized.

This loss will only be cancelled if changes have occurred in the estimation of the recoverable value from the time of calculating the original loss.
The application of the standard did not affect the financial position or the results of the Company.

'. Profit (loss) per share

Profit (loss) per share was calculated in accordance with opinion No.55 of the Israeli ICPA (see Note 23).

). use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (cont'd)

t. Effects of recently issued accounting pronouncements

During October 2001, the Israeli Accounting Standards Board published Accounting Standard No. 12 with respect to the discontinuation of the adjustment of financial statements, and Accounting Standard No. 13 with respect to the effect of the changes in the exchange rates for foreign currencies. In December 2002, Accounting Standard No. 17 was published with respect to the deferral of the implementation of Accounting Standards No. 12 and No. 13 until January 1, 2004.

According to Accounting Standards No. 12 and No. 17, which deals with the discontinued adjustment of financial statements, financial statements will discontinue to be adjusted for inflation in Israel commencing January 1, 2004. Until December 31, 2003, the Company will continue to prepare adjusted financial statements in conformity with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2003, will serve as the starting point for nominal financial reporting beginning January 1, 2004.

Management estimates that Standard No. 12, as discussed above, will have a negative effect on the results of operations. The effect is subject to the Inflation rate and the composition of the assets and liabilities of the company.

The provisions of Accounting Standard No. 13 and No. 17 prescribe principles with respect to the effect of the changes in the exchange rates for foreign currency. These Standards replace clarification No. 8 and clarification No. 9 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which will become void with the discontinuation of the adjustment of financial statements. The Standards deal with the translation of transactions in foreign currency and the translation of financial statements of foreign operations in order to integrate them into the financial statements of the reporting company. The translation principles of Accounting Standard No. 13 are different from those implemented to date. Accounting Standard No. 13 will apply to financial statements for periods commencing after December 31, 2003.

Management does not anticipate that Accounting Standard No.13 as discussed above, will have a significant effect on its results of operations, financial position and cash flows.

Note 3 - Cash and cash equivalents

Unitronics (1989) (R"G) Ltd.	Inflation adjusted NIS, Consolidated		Inflation adjusted NIS, Company	
	December 31, 2003	*December 31, 2002*	*December 31, 2003*	*December 31, 2002*
	(in thousands)			
Israeli currency	1,325	1,213	1,325	1,213
Foreign currency	4,496	6,430	4,357	6,330
	5,821	*7,643*	*5,682*	*7,543*

Note 4 - Accounts receivable - trade

Unitronics (1989) (R"G) Ltd.	Inflation adjusted NIS, Consolidated		Inflation adjusted NIS, Company	
	December 31, 2003	*December 31, 2002*	*December 31, 2003*	*December 31, 2002*
	(in thousands)			
Related to work in progress in connection with long-term contracts (*)	2,242	1,498	2,242	1,498
Income receivable	-	1,095	-	1,095
	2,242	2,593	2,242	2,593
Others	2,730	2,606	2,062	2,250
Post-dated checks receivable	143	78	143	78
	2,873	2,684	2,205	2,328
	5,115	5,277	4,447	4,921
Provision for doubtful accounts	(201)	(179)	(201)	(179)
	4,914	*5,098*	*4,246*	*4,742*

Consolidated and Company

(*) Revenues related to work in progress	2,676	6,916
Less amounts received from customers in respect of work in progress	776	4,552
	1,900	2,364
Vat related to open accounts	342	229
	2,242	*2,593*
The contracts amounts signed during the period	7,504	23,365
The contracts amounts where revenues were not recognized	*8,778*	*18,459*

Note 5 - Accounts receivable - other

Unitronics (1989) (R”G) Ltd.	Inflation adjusted NIS, Consolidated		Inflation adjusted NIS, Company	
	December 31, 2003	*December 31, 2002*	*December 31, 2003*	*December 31, 2002*
	(in thousands)			
Subsidiary	-	-	2,504	1,635
Prepaid expenses	165	101	150	95
Government institutions	299	845	299	845
others	39	15	*39*	15
	503	*961*	*2,992*	*2,590*

Note 6 - Inventory

Unitronics (1989) (R”G) Ltd.	Inflation adjusted NIS, Consolidated		Inflation adjusted NIS, Company	
	December 31, 2003	*December 31, 2002*	*December 31, 2003*	*December 31, 2002*
	(in thousands)			
Raw and packing materials	2,333	2,091	2,333	2,091
Work in process	2,427	1,397	2,427	1,397
Finished products	1,619	917	1, 388	697
	6,379	*4,405*	*6,148*	*4,185*

Note 7 - Inventory - work in progress

Unitronics (1989) (R”G) Ltd.	Inflation adjusted NIS, Consolidated and Company	
	December 31, 2003	*December 31, 2002*
	(in thousands)	
Cost of work performed	17,009	6,082
Less amounts charged to statements of operations	15,661	6,082
	1,348	-

Note 8 - Investment in subsidiary

A. Details of the subsidiaries, their activities and the rate of holdings therein as at December 31, 2002 and 2003:

1. The company holds 100% of the equity and control of Unitronics Inc. Unitronics Inc was established in the United States of America in 2001 by the company in order to further the marketing, sale and distribution of its range of products in the U.S.A. Unitronics Inc commenced its operations in June 2001.

2. The company holds 100% of the equity and control of Unitronics building management and maintenance Ltd. (hereinafter "Unitronics building").
Unitronics building was established in 2003 by the company in order to manage and maintain the companies building. As of the balance sheet date Unitronics building has not yet operational.

B. Composition

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS, Company**	
	December 31, 2003	***December 31, 2002***
	(in thousands)	
Investment in subsidiary (*)	-	-
Company's share of losses (**)	1,524	1,062
	1,524	1,062

(*) Less then 1,000 NIS.
(**) The amount is presented in the balance sheet in accounts payable - other.

Note 9 - Property and equipment

Unitronics (1989) (R"G) Ltd. Consolidated	Inflation adjusted NIS				
	Land and Buildings	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
	(in thousands)				
Cost					
Balance as at January 1, 2003	16,790	1,800	845	1,040	20,475
Additions	2,846	325	-	332	3,503
Disposals	-	(61)	(76)	-	(137)
Balance as at December 31, 2003	*(*) 19,636*	*2,064*	*769*	*1,372*	*23,841*
Accumulated depreciation					
Balance as at January 1, 2003	38	1,245	442	277	2,002
Depreciation during the year	423	309	85	218	1,035
Disposals	-	(18)	(76)	-	(94)
Balance as at December 31, 2003	461	*1,536*	*451*	*495*	*2,943*
Net book value as at December 31, 2003	*19,175*	*528*	*318*	*877*	*20,898*
Net book value as at December 31, 2002	*16,752*	*555*	*403*	*763*	*18,473*

Unitronics (1989) (R"G) Ltd. Company	Inflation adjusted NIS				
	Land and Buildings	*Machinery and Equipment*	*Motor vehicles*	*Office furniture and Equipment*	*Total*
	(in thousands)				
Cost					
Balance as at January 1, 2003	16,790	1,800	845	1,015	20,450
Additions	2,846	325	-	315	3,486
Disposals	-	(61)	(76)	-	(137)
Balance as at December 31, 2003	*(*) 19,636*	*2,064*	*769*	*1,330*	*23,799*
Accumulated depreciation					
Balance as at January 1, 2003	38	1,245	442	269	1,994
Depreciation during the year	423	309	85	210	1,027
Disposals	-	(18)	(76)	-	(94)
Balance as at December 31, 2003	461	*1,536*	*451*	479	*2,927*
Net book value as at December 31, 2003	*19,175*	*528*	*318*	*851*	*20,872*
Net book value as at December 31, 2002	*16,752*	*555*	*403*	*746*	*18,456*

(*) Includes specific capitalized financing costs (NIS 1,048 thousand, as at December 31, 2003). The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). The leased rights to the date of this report have not yet been registered in the company's name.

Note 10 - Other assets and deferred expenses

Unitronics (1989) (R"G) Ltd. Consolidated and Company	Inflation adjusted NIS	
	December 31, 2003	December 31, 2002
	(in thousands)	
Deferred taxes (*)	267	271
Patent and licenses	94	11
Deferred offering expenses	177	715
	538	*997*

Note 11 - Credit from banks and others

Unitronics (1989) (R"G) Ltd. Consolidated and Company	Inflation adjusted NIS	
	December 31, 2003	December 31, 2002
	(in thousands)	
Credit from banks -		
In NIS(*)	-	*3,808*
In NIS	-	*545*
In USD	-	*3*
Current maturities of long-term debt	812	596
	812	*4,952*

(*) Credit within the framework of a long-term credit facility (until 2015) provided to finance the acquisition of the company building.

Note 12 - Accounts payable - trade

Unitronics (1989) (R"G) Ltd.	Inflation adjusted NIS, Consolidated		Inflation adjusted NIS, Company	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
	(in thousands)			
Open accounts	4,672	3,397	4,663	3,371
Post-dated checks payable	1,584	788	1,584	788
	6,256	*4,185*	*6,247*	*4,159*

Note 13 - Accounts payable - other

Unitronics (1989) (R"G) Ltd.	Inflation adjusted NIS, Consolidated		Inflation adjusted NIS, Company	
	December 31, 2003	*December 31, 2002*	*December 31, 2003*	*December 31, 2002*
	(in thousands)			
Government institutions	126	-	126	-
Employees, payroll and taxes	1,506	1,304	1,489	1,288
Accrued expenses	1,403	3,266	1,330	3,182
Provision for loss of subsidiary (*)	-	-	1,524	1,062
Customers' advances (**)	1,931	640	1,931	640
Others	73	141	73	141
	5,039	*5,351*	*6,473*	*6,313*

(*) See note 8

Consolidated and Company

(**)Amounts received from customers in respect of work in progress	18,380	640
Less revenues related to work in progress	16,744	-
	1,636	640
Vat related to open accounts	295	-
	1,931	*640*

Note 14 - Long term debt

A. Consisting of the following:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	Annual Interest Rates %	Inflation adjusted NIS	
		December 31, 2003	December 31, 2002
		(in thousands)	
Long-term bank debt			
In USD	(*) 3.66	5,826	6,683
In NIS	(*) 8.2	6,515	2,820
Current maturities		(746)	*(535)*
		11,595	*8,968*
Long-term debt from others			
Motor vehicles lessors - linked to the Israeli CPI	(*) 6 - 11.23	216	275
Current maturities		(66)	(61)
		150	*214*
		11,745	*9,182*

(*) Variable rate (rates as at December 31, 2003).

B. Aggregate maturities are as follows:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	Inflation adjusted NIS	
	December 31, 2003	December 31, 2002
	(in thousands)	
Second year	1,028	3,420
Third year	6,382	604
Fourth year	536	588
Fifth year	506	562
sixth year and thereafter	3,293	4,008
	11,745	*9,182*

Note 15 - Convertible bonds (consolidated and company)

In February 2001, the company issued 634,250 convertible bonds, at a subscription price of 4.73 Euro per bond; the conversion rate is 1 share per bond. The bonds conversion is allowed at any time until the maturity date of February 7, 2006.
The bonds are linked to the EURO-NIS exchange rate, and bear interest of 4% per annum (payable on February each year). The redemption price consists of a payment of 115% of the subscription price (the excess is allocated proportionally over the period until the maturity date), which will be paid in one payment on the maturity day.

On December 18, 2003 the general meeting of the company's shareholders approved modification to certain convertible bonds subscriptions agreements, which will release the company from a major part of the fiscal debt owed under the original agreement while allowing for a dilution of shareholders at a price per share which is lower than the original conversion price (see below).

Accordingly, on December 28, 2003 475,687 convertible bonds were converted into 1,902,748 ordinary shares at a subscription price of 1.1825 EURO per share (rather than 4.73 EURO), while the bond holders of those certain bonds, waived all rights to any interest or other payments which remain due and payable in respect of such sum pursuant to the original agreement. The remaining bonds will continue to be convertible into ordinary shares of the company, at price of 4.73 Euro per share.
Furthermore, it has been approved that the remaining amount of bonds will continue to bear the original 15% redemption. The annual interest of 4% will be increased to 8.13% (payable per quarter) as of February 2006. Until then the annual interest will continue to be 4%, payable February 2004, 2005 and 2006. Commencing May 2006, the bonds debt will be repaid in 10 quarterly installments (principal and interest).

Note 16 - Accrued severance pay, net

The Company's severance pay liability to its employees, partially covered by insurance policies, is reflected in the Company's balance sheet on the accrual basis.

The amounts deposited in insurance policies are not included in the balance sheet, since they are not under the control and management of the Company.

The outstanding liability and amounts funded at central approved severance pay funds as at balance sheet date are as follows:

	Inflation adjusted NIS	
	December 31, 2003	***December 31, 2002***
	(in thousands)	
Accrued severance pay	1,906	1,698
Less - amounts funded	838	615
	1,068	*1,083*

Unitronics (1989) (R"G) Ltd.
Consolidated

Inflation adjusted NIS, (in thousands)	December 31, 2003					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Current assets	3,122	216	-	2,672	5,063	11,073
Current liabilities	(6,969)	(66)	(73)	(722)	(2,273)	(10,103)
Long-term liabilities	(7,343)	(150)	-	(5,320)	(4,413)	(17,226)
	(11,190)	-	(73)	(3,370)	(1,623)	(16,256)

Unitronics (1989) (R"G) Ltd.
Consolidated

Inflation adjusted NIS, (in thousands)	December 31, 2002					
	Israeli currency		Other currencies			
	Not linked	Linked to the Israeli CPI	Other currencies	US dollars	Euro	Total
Current assets	5,425	-	-	2,481	9,424	17,330
Current liabilities	(12,792)	(61)	-	(717)	(137)	(13,707)
Long-term liabilities	(3,903)	(214)	-	(6,148)	(15,469)	(25,734)
	(11,270)	(275)	-	(4,384)	(6,182)	(22,111)

Note 18 - Commitments and Contingent Liabilities

A. Royalty commitments

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products funded in part, by Government grants. At the time the grants were received, successful development of the related projects was not assured. The royalty rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants. For grants received after January 1, 1999 interest will also be added at the libor rate per annume. The contingent liability in respect of royalties to the Government at December 31, 2003 amounts to NIS 2,133 thousands.
The Company informed the Chief Scientist of the change of ownership of the Company in accordance with the approved status regulations. No reply has yet been received from the Chief Scientist. Should the change of ownership not be approved the chief scientist has the right to take action specified by the law.

B. Mortgages and guarantees

1. In order to secure the company's liability in respect of financial leasing, the rights to the leased cars were liened to the leasing companies. Furthermore, in order to secure the company's liabilities to the bank, the company mortgaged with a first fixed and floating charge the building, notes, documents and securities deposited or which will be deposited in the bank. Similarly a first charge was placed on guarantees given to the company.

2. In order to secure an implementation of projects the company gave guarantees to customers in the total amount of NIS 2,325 thousands.
The company also gave a bank guarantee in the amount of NIS 300 thousands in connection with a legal procedure the Company filed against a third party.

Note 19 - Share Capital

A. Composition

	Number of shares *December 31, 2003*		Number of shares *December 31, 2002*	
	Authorized	Issued and fully paid	Authorized	Issued and fully paid
Ordinary shares of NIS 0.02 each	25,000,000	10,876,546	25,000,000	8,864,388

B. Option plan

The Company maintains three share option plans (1999, 2001 and 2003 Share Option Plans), pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or any subsidiary. Pursuant to the 1999, 2001 and 2003 Option Plans, 440,000, 950,000 and 1,000,000 ordinary shares were reserved, respectively, for issuance under these plans.

As of the date of publishing the financial statements, options to purchase 435,250, 790,999 and 502,00 ordinary shares have been granted under the 1999, 2001, and 2003 option plans respectively. 288,000, 112,250, and 35,00 options exercisable under the 1989 plan at respective prices of EURO 3.8, EURO 1 and EURO 0.82 respectively. 376,500, 39,999, 15,000 and 359,000 options exercisable under the 2001 plan at respective prices of EURO 2.7, EURO 4.73, EURO 4.75 and EURO 0.91. 502,000 exercisable under the 2003 plan at respective prices of EURO 1.3.

The exercise price of options shall be determined by the board of directors, according to the terms of the plans. The vesting schedule of the options is also determined by the board of directors. The options vest either immediately, or over a period up to January 2009 according to vesting periods determined in the plans. The 1999, 2001 and 2003 Option Plans expire on 2009, 2011 and 2013 respectively.

C. In January 2003 the Company completed a private placement of 109,410 ordinary shares at the price of 1.022 EURO per share. The net consideration from the placement amounted to NIS 526 thousands.

D. In December 28, 2003, 475,887 convertible bonds were converted into 1,902,748 ordinary shares at a subscription price of 1.1825 EURO per share (see note 15). As a result of this conversion the equity of the company increased by approximately NIS 13,033 thousands.

Note 20 - Statements of Operations Data

A. Principal customers

The revenues include revenues from principal customers (which constitute in excess of 10% of the revenues of the Company)

Unitronics (1989) (R"G) Ltd. Consolidated and Company	**Inflation adjusted NIS,**			
	For the year ended December 31,			
	2003	***2002***	***2001***	***2000***
	(in thousands)			
Customer A	5	155	841	8,377
Customer B	276	94	426	2,710
Customer C	14,346	2,900	-	-
Customer D	2,187	2,455	1,016	705

B. Cost of revenues

Unitronics (1989) (R"G) Ltd. Consolidated	**Inflation adjusted NIS,**		
	For the year ended December 31,		
	2003	***2002***	***2001***
	(in thousands)		
Materials consumed and subcontractors	21,552	9,742	5,407
Payroll and related benefits	4,436	2,605	1,688
Changes in work in process and finished products	(1,732)	(318)	(223)
Depreciation	256	357	487
Other expenses	1,971	1,321	1,258
	26,483	*13,707*	*8,617*

Note 20 - Statements of Operations Data (cont'd)

B. Cost of revenues (cont’d)

Unitronics (1989) (R”G) Ltd. Company	**Inflation adjusted NIS**			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Materials consumed and subcontractors	21,552	9,742	5,407	9,007
Payroll and related benefits	4,436	2,605	1,688	3,020
Changes in work in process and finished products	(1,721)	(248)	(223)	(1,069)
Depreciation	256	357	487	382
Other expenses	1,971	1,321	1,258	1,050
	26,494	*13,777*	*8,617*	*12,390*

C. Research and development expenses, net

Unitronics (1989) (R”G) Ltd. Consolidated and Company	**Inflation adjusted NIS**			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Payroll and related benefits	2,184	2,199	3,514	2,810
Subcontractors	509	601	3,559	1,168
Other expenses	609	655	1,014	553
Less - government participation	(247)	-	-	-
	3,055	*3,455*	*8,087*	*4,531*

Note 20 - Statements of Operations Data (cont’d)

D. Selling and marketing expenses

Unitronics (1989) (R"G) Ltd.
Consolidated

	Inflation adjusted NIS,		
	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Salaries and related benefits	3,153	2,719	2,848
Travel and marketing abroad	379	493	476
Exhibits, advertising and other expenses	3,135	3,128	5,885
	6,667	*6,340*	*9,209*

Unitronics (1989) (R"G) Ltd.
Company

	Inflation adjusted NIS,			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Salaries and related benefits	2,720	2,336	2,833	2,255
Travel and marketing abroad	379	493	476	547
Exhibits, advertising and other expenses	2,499	2,789	5,842	1,675
	5,598	*5,618*	*9,151*	*4,477*

Note 20 - Statements of Operations Data (cont'd)

E. General and administrative expenses

Unitronics (1989) (R"G) Ltd. Consolidated	**Inflation adjusted NIS**		
	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Salaries and related benefits	1,564	1,535	1,570
Office rent, maintenance and communications	247	220	131
Depreciation	661	409	168
Professional services	773	1,224	829
Doubtful debts	59	83	66
Other	276	301	471
	3,580	*3,772*	*3,235*

Unitronics (1989) (R"G) Ltd. Company	**Inflation adjusted NIS**			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Salaries and related benefits	1,564	1,535	1,570	1,543
Office rent, maintenance and communications	74	99	53	62
Depreciation	654	404	166	101
Professional services	670	1,004	744	494
Doubtful debts	18	83	66	32
Other	198	208	428	349
	3,178	*3,333*	*3,027*	*2,581*

F. Financing expenses, net

Unitronics (1989) (R"G) Ltd. Consolidated	**Inflation adjusted NIS**		
	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Financing cost relating to convertible bonds	3,063	3,706	1,159
Loss (profit) from marketable securities, net	(90)	49	(193)
Gain on cash and cash equivalents and bank deposit	(572)	(2,200)	(767)
Financing cost relating to long term debt	636	78	-
Other	874	559	76
	3,911	*2,192*	*275*

Note 20 - Statements of Operations Data (cont'd)

F. Financing expenses, net (cont'd)

Unitronics (1989) (R"G) Ltd. Company	**Inflation adjusted NIS**			
	For the year ended December 31,			
	2003	***2002***	***2001***	***2000***
	(in thousands)			
Financing cost relating to convertible bonds	3,063	3,706	1,159	-
Loss (profit) from marketable securities, net	(90)	49	(193)	-
Gain on cash and cash equivalents and bank deposit	(572)	(2,200)	(767)	1,253
Financing cost relating to long term debt	636	78	-	-
Other	969	545	56	226
	4,006	*2,178*	*255*	*1,479*

Note 20 - Statements of Operations Data (cont'd)

G. Transactions with related parties

The statements of operations include transactions with related parties as follows:

Unitronics (1989) (R"G) Ltd. Consolidated	**Inflation adjusted NIS**		
	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Salaries and related benefits(*)	1,557	1,733	1,589
directors' remuneration (**)	85	51	59
Rental fees	-	459	395

1.

Unitronics (1989) (R"G) Ltd. Company	**Inflation adjusted NIS**			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Sales revenues	2,632	1,529	156	-
Salaries and related benefits(*)	1,557	1,733	1,589	1530
directors' remuneration (**)	85	51	59	19
Rental fees	-	459	395	205
General and administrative	-	-	2	11
Financing revenue (expenses)	(188)	59	26	-
(*) number of beneficiaries	2	2	2	2
(**) number of beneficiaries	3	3	3	3

2. In 2003 the controlling shareholders voluntarily agreed to a 5% drop in their salaries in the framework of a general decrease in the salaries of all the company's employees. The amount of the said decrease amounted to approximately NIS 60 thousands.

3. The company insured the responsibility of the directors and executives. The policy carries the responsibility of directors and executives up to $2 million.

Note 21 - Taxes on Income

A. Measurement of results for tax purposes under the Income Tax Law (Adjustments for Inflation) - 1985 (the "Inflationary Adjustments Law").

The Income Tax Law (Adjustments for Inflation) - 1985, which is in effect since 1985, provides for the measurement of a company's operating results on a "real" (non-inflationary) basis in accordance with the changes in the Israeli CPI.

B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969.

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a listing in a stock exchange, and to amortize know-how acquired from third parties.

C. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - "the Law").

On November 1999 the Company has filed an application for additional Approved Enterprise status, with respect to investments in developing Internet based Programmable Logic Controllers. The Company has applied to participate in the Alternative Benefit Program under which a full tax exemption is available on its taxable profits attributable to the specific program approved during the first 2 years of the Benefit Period, as well as a Company Tax rate of 25% (compared to 36%) during the 5 years thereafter. The application was approved on June 2000. Tax benefits resulting from the additional approved enterprise status will be calculated in respect of the increase in sales compared to the base year (as defined by the Law for the Encouragement of Capital Investments). Income derived by the Company from sources other than the program granted the status of Approved Enterprise, as well as income derived after the end of the benefits period, is subject to regular Company Tax (36%). Dividends paid out of income that derived from an "approved enterprise" are subject to a reduced income tax rate of 15%. The period of tax benefits, detailed above, is subject to a time limits of the earlier of 12 years from the activating year, or 14 years from receiving the approval.

In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax at the rate of 25% on the amount distributed.

On October 2000 the company filed an addition to the above approved enterprise program. The addition was approved on January 2003. Tax benefits resulting from the additional approved enterprise status are similar to the original approved enterprise program.

On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. On February 12, 2004 the above final report was approved.

On January 2003, the Company filed an addition to the enterprise program, which was approved. The company has applied to participate in the Alternative Benefit Program, as descrived above.

D. The tax benefits (taxes on income) consist of the following:

Unitronics (1989) (R"G) Ltd. Consolidated and Company	**Inflation adjusted NIS, (audited)**			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Deferred taxes	*(111)*	*(45)*	*27*	*(193)*

Note 21 - Taxes on Income (cont'd)

E. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the Israeli statutory rate (36%) is as follows:

Unitronics (1989) (R"G) Ltd. Consolidated	Inflation adjusted NIS		
	For the year ended December 31,		
	2003	2002	2001
	(in thousands)		
Loss before tax benefits	3,399	8,725	16,890
Statutory tax rate	36%	36%	36%
Theoretical tax benefits	1,224	3,141	6,080
Increase in taxes resulting from non-deductible expenses	(127)	(111)	(134)
Deduction of share issuance costs for tax purposes	-	-	564
Temporary differences where deferred taxes were not recognized	(1,164)	(2,837)	(6,430)
Additional tax in respect of other differences	(44)	(238)	(53)
	(111)	*(45)*	*27*

Unitronics (1989) (R"G) Ltd. Company	Inflation adjusted NIS			
	For the year ended December 31,			
	2003	2002	2001	2000
	(in thousands)			
Loss before tax benefits	2,937	8,119	16,657	260
Statutory tax rate	36%	36%	36%	36%
Theoretical tax benefits	1,057	2,923	5,997	94
Increase in taxes resulting from non-deductible expenses	(127)	(111)	(134)	(96)
Deduction of share issuance costs for tax purposes	-	-	564	573
Temporary differences where deferred taxes were not recognized	(997)	(2,619)	(6,348)	(718)
Additional tax in respect of other differences	(44)	(238)	(52)	(46)
	(111)	*(45)*	*27*	*(193)*

Note 21 - Taxes on Income (cont'd)

F. Deferred taxes

Unitronics (1989) (R"G) Ltd. Consolidated and company	Inflation adjusted NIS	
	December 31, 2003	December 31, 2002
	(in thousands)	
Other assets		
Accrued severance pay, net	267	271
Long term liabilities		
Buildings	(115)	(8)
	152	263

G. Final tax assessments
The Company has final tax assessments for all years up to December 31, 1999.

H. Tax loss carry forward and other temporary differences
As at December 31, 2003 the company's tax loss carry forward and other temporary differences where deferred taxes were not recognized, amounts to approximately NIS 31,000 thousands.

Note 22 - Business and geographical segments

1. General

A. The company and subsidiary operates in two business segments.

- Programmable Logic Controllers systems (hereinafter "The products segment").
- System integration projects (hereinafter "The system integration projects segment").

B. Part of the revenues and expenses are allocated directly to the business segments. Expenses, which relate to both segments, are allocated to the segments on a reasonable basis. The segment assets includes all the operation assets which the segment is using and contain especially accounts receivable trade and inventory. The segment liabilities includes all the operation liabilities which relate to the segment especially accounts payable trade and other and accrued severance pay, net.

C. The company and subsidiary revenues can also be classified geographically.

The revenues are allocated directly to the geographical segment. The segments assets includes all the Operation assets, which relate to the segment especially, accounts receivables trade and inventory.

Note 22 - Business and geographical segments (cont'd)

2. Primary report on business segments

A. Revenues

Unitronics (1989) (R"G) Ltd.	Inflation adjusted NIS		
	For the year ended December 31,		
	2003	*2002*	*2001*
		(in thousands)	
Products	21,181	13,818	9,044
System integration projects	19,125	6,916	3,525
	40,306	*20,734*	*12,569*

B. Segment *results and adjustment to the net loss*

Unitronics (1989) (R"G) Ltd.	Inflation adjusted NIS		
	For the year ended December 31,		
	2003	*2002*	*2001*
		(in thousands)	
Products	8,888	4,917	2,493
System integration projects	3,464	949	1,192
Unallocated corporate expenses	(11,831)	(12,406)	(20,264)
Operating profit (loss)	521	(6,540)	(16,579)
Unallocated corporate financing expenses, net	(3,911)	(2,192)	(275)
Other income (expenses)	(9)	7	(36)
Tax benefits (taxes on income)	(111)	(45)	27
Loss for the year	*3,510*	*8,770*	*16,863*

Note 22 - Business and geographical segments (cont'd)

2. Primary report on business segments (cont'd)

C. Segment *assets*

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**	
	December 31, 2003	***December 31, 2002***
	(in thousands)	
Products	9,334	7,211
System integration projects	3,883	3,089
Unallocated corporate assets	28,554	32,234
Consolidated total assets	*41,771*	*42,534*

D. Segment liabilities

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**	
	December 31, 2003	***December 31, 2002***
	(in thousands)	
Products	2,444	1,420
System integration projects	6,378	3,605
Unallocated corporate liabilities	20,626	35,205
Consolidated total liabilities	*29,448*	*40,230*

E. Capital expenditure

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**		
	For the year ended December 31,		
	2003	***2002***	***2001***
	(in thousands)		
Products	126	79	139
System integration projects	178	122	148
unallocated capital expenditure	3,866	8,568	2,287
Consolidated total capital expenditure	*4,170*	*8,769*	*2,574*

Note 22 - Business and geographical segments (cont'd)

2. Primary report on business segments (cont'd)

F. Depreciation and amortization

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**		
	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Products	136	153	205
System integration projects	128	208	284
Unallocated depreciation and amortization	1,339	1,211	907
Total depreciation and amortization	*1,603*	*1,572*	*1,396*

3. Secondary report on geographical segments

A. Revenues

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**		
	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Israel	21,412	10,161	5,417
Europe (*)	10,766	5,959	5,212
America	5,743	3,336	1,330
Other destinations	2,385	1,278	610
	40,306	*20,734*	*12,569*

(*) Includes European clients whose end-user targets are Israeli companies.

B. Segment *assets*

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**	
	December 31, 2003	*December 31, 2002*
	(in thousands)	
Israel	36,631	38,201
Europe	2,549	2,288
America	2,188	1,555
Other destinations	403	490
Consolidated total assets	*41,771*	*42,534*

Note 22 - Business and geographical segments (cont'd)

3. Secondary report on geographical segments (cont'd)

C. Capital expenditure

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**		
	For the year ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Israel	4,105	8,727	2,502
Europe	37	24	52
America	20	12	14
Other destinations	8	6	6
Consolidated total capital expenditure	*4,170*	*8,769*	2,574

Note 23 - Loss per share

Unitronics (1989) (R"G) Ltd.	**Inflation adjusted NIS**			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Loss for the period				
Basic	3,510	8,770	16,863	464
Fully diluted	3,510	8,770	16,863	843
Weighted average share capital (nominal NIS)				
Basic	179	177	177	169
Fully diluted	179	177	177	176

Note 24 - Financial Instruments and risk management

Credit Risks

As at December 31, 2003 the company (consolidated) had trade account receivables and other account receivables amounting to NIS 5,417 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

Fair value of financial instruments

The financial instruments of the company include mainly non - derivative assets - cash and cash equivalents, securities, bank deposits, trade account receivables, other account receivables and long-term deposits; non - derivative liabilities - short-term credit from banks and others, trade account payables, other account payables, long-term liabilities from banks, others, and convertible bonds.

Because of the nature of the financial instruments the fair value of the financial instruments included in the working capital is in general equivalent to the accounting value. The fair value of long-term loans is also close to the accounting value since they bear interest close to the market interest rates.

Note 25 - post-balance sheet events

A. After the balance sheet date the directors of the Company decided to file a prospectus in the Tel Aviv Stock Exchange in order to recruit capital.
B. On April 13, 2004 it was decided by the general meeting of the Company's shareholders to increase the authorized share capital of the Company by NIS 1,500 thousands by registering 75 million ordinary shares for a value of NIS 0.02 each one. After the said increase the authorized value share capital of the Company amounted to NIS 2 million, consisting of 100 million ordinary shares par value NIS 0.02 each one.

Note 25 - Historical Financial Data of the Company

Nominal figures of the Company.

A. Balance sheets

Unitronics (1989) (R"G) Ltd.	**Nominal NIS**	
	December 31, 2003	***December 31, 2002***
	(in thousands)	
Cash and cash equivalents	5,682	7,688
Marketable securities	1,254	1,118
Bank deposit	-	3,801
Accounts receivable -		
Trade	4,246	4,833
Other	2,992	2,640
Inventory	6,148	4,265
Inventory - work in progress	1,348	-
Current assets	*21,670*	*24,345*
Long-term deposits	*116*	*134*
Property and equipment	*21,113*	*18,633*
Other assets	*532*	*959*
Total assets	***43,431***	***44,071***
Credit from banks and others	812	5,047
Accounts payable -		
Trade	6,247	4,239
Other	6,465	6,411
Current liabilities	*13,524*	*15,697*
Long-term debt	11,745	9,358
Convertible bonds	4,413	15,766
Accrued severance pay, net	1,068	1,104
Deferred taxes	116	7
Long-term liabilities	*17,342*	*26,235*
Share capital	218	177
Share premium	42,067	28,544
Accumulated loss	(29,720)	(26,582)
Shareholders' equity	*12,565*	*2,139*
Total liabilities and shareholders' equity	***43,431***	***44,071***

B. Statements of operations

Unitronics (1989) (R"G) Ltd.	Nominal NIS			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
	(in thousands)			
Revenues	39,976	20,359	11,865	23,740
Cost of revenues	27,021	*13,524*	8,084	11,644
Gross profit	*12,955*	*6,835*	*3,781*	*12,096*
Research & Development expenses, net	3,084	3,481	7,670	4,260
Selling & marketing expenses	5,658	5,648	8,680	4,212
General & administrative expenses	3,290	3,335	2,885	2,418
Operating profit (loss)	*923*	*(5,629)*	*(15,454)*	*1,206*
Financing expenses, net	3,478	2,094	48	1,410
Operating loss after financing expenses, net	*2,555*	*7,723*	*15,502*	*204*
Other income (expenses)	(9)	21	(30)	22
Loss before tax benefits (taxes on income)	*2,564*	*7,702*	*15,532*	*182*
Tax benefits (taxes on income)	(118)	(26)	29	(194)
Loss after tax benefits (taxes on income)	*2,682*	*7,728*	*15,503*	*376*
The Company's share of subsidiary losses	456	632	223	10
Loss for the year	*3,138*	*8,360*	*15,726*	*386*

Note 25 - Historical Financial Data of the Company (cont'd)

C. Statements of Shareholder's Equity

Unitronics (1989) (R"G) Ltd.	Nominal NIS, (audited)			
	Share Capital	*Share premium*	*Accumulated loss*	*Total*
	(in thousands)			
Balance at January 1, 2001	169	22,009	(2,496)	19,682
Issue of share capital	8	6,535	-	6,543
Loss for the year	-	-	(15,726)	(15,726)
Balance at December 31, 2001	177	28,544	(18,222)	10,499
Loss for the year	-	-	(8,360)	(8,360)
Balance at December 31, 2002	177	28,544	(26,582)	2,139
Issue of share capital	3	429	-	432
Conversion of convertible bonds	38	13,094	-	13,132
Loss for the year	-	-	(3,138)	(3,138)
Balance at December 31, 2003	*218*	*42,067*	*(29,720)*	*12,565*

Note 26 - Differences between Israeli GAAP and International Financial Reporting Standards (IFRS)

The Company prepares its financial statements in conformity with generally accepted accounting principles in Israel (Israeli GAAP). As applicable to the financial statements, Israeli GAAP and International Financial Reporting Standards (IFRS) are substantially identical in all material respects except as described below:

1. Effect of inflation

   The Company, in accordance with Israeli GAAP, comprehensively includes the effect of price level changes in the accompanying financial statements, as described in Note 2A. Such Israeli accounting principle measures the effects of price level changes in the inflationary Israeli economy. According to IAS 29 Financial Reporting in Hyperinflationary Economies, the effects of price level changes in an inflationary environment should be applied only to financial statements of an enterprise that reports in the currency of a hyperinflationary economy. Since the NIS is not a currency of a hyperinflationary economy, the financial statements should be presented in nominal, historical figures, as set forth in note 25.

2. Profit (loss) per share

   The Company, in accordance with Israeli GAAP, presents the profit (loss) per NIS 1.00 ordinary shares, i.e. the profit (loss) for the period is divided by the nominal value of the Company's share capital. IAS 33 requires to present the profit (loss) per ordinary share, i. e. dividing the profit (loss) for the period by the number of Company's ordinary shares. Israeli GAAP differ from IAS 33 also in calculating the diluted profit (loss) per share with respect to convertible bonds and warrants.

   According to the IFRS the profit (loss) per share is as follows:

Unitronics (1989) (R"G) Ltd.	Inflation adjusted NIS,			
	For the year ended December 31,			
	2003	*2002*	*2001*	*2000*
Loss for the period (in thousands)	3,510	8,770	16,863	464
Weighted average number of shares	8,964,681	8,864,388	8,846,153	8,426,750

Loss per ordinary Share	0.39	0.99	1.91	0.06

3. Convertible Bonds

According to Israeli GAAP, convertible bonds are included on the basis of the probability of conversion (see note 2 J).
According to IAS 32 the company, de facto, issued one financial instrument that contains both a liability and an equity element. Therefore on the initial recognition the company is required to classify the instrument's component parts separately as a liability (a contractual arrangement to deliver cash) and as equity (a call option granting the holder the right, for a specified period of time, to convert into common shares of the issuer). Such a classification has an unfavorable impact on the statements of operation as long as the convertible bonds are out standing.
As regard to these financial statements the impact of such a classification on the statements of operations is immaterial.

10 ADDITIONAL DETAILS

10.1 (reserved)

10.2 (reserved)

10.3 **Material Agreements**

With the exception of agreements in the ordinary course of business of the company, the following agreements, which have been signed by the company and which are binding upon the company, may be deemed to be material agreements:

10.3.1 Agreements with holders of an interest: See clause 8.2 in the prospectus.

10.3.2 Underwriting Agreement. The company has entered into an underwriting agreement in connection with the securities which are offered to the public in accordance with this prospectus. For details see section 4 of the prospectus.

10.3.3 Acquisition of Unitronics Floors. On the 23rd of the month of July 2000, the company entered into an agreement for the acquisition of rights in the Unitronics Floors as specified in clause 6.10.1 in the prospectus in accordance with the terms of financing which are specified in clause 6.13.2 and in clause 6.8 in the prospectus.

10.3.4 Amendment of the Debentures Agreements.

10.3.5 In the month of December, 2003, the company signed upon an amendment to the debentures agreements in accordance with the terms and as specified in clause 5.5 of the prospectus.

10.3.6 Agreements with Principal Customers. During the ordinary course of business, the company is privy agreements with certain principal customers, as described in clause 6.4.2 and in clause 6.5.2.2 of the prospectus.

10.4 **Legal Proceedings**:

10.4.1 Proceedings Against the Company

As at the date of the prospectus, legal proceedings are not being conducted against the company.

10.4.2 Legal Actions which have been Submitted by the Company

As at the date of the prospectus, the following legal actions have been submitted by the company:

On the 17th of November 2003, the company submitted in the District Court of Tel Aviv, an urgent application for the granting of a temporary injunction (ex parte) against the company Hor-Tal Engineering (1988) Ltd. ("**Hor-Tal**"), Siemens Dematic Corp. (**"Siemens")** and the State of Israel – the Ministry of Defense, which would forbid Siemens from entering into an agreement with Hor-Tal for the carrying out of a project for the upgrading of an automatic warehouse in the warehouses of the Ministry of Defense – the Air-force and also to prohibit the Ministry of Defense to enter into an engagement with Siemens and/or Hor-Tal in connection with the project as mentioned. Contemporaneously the company submitted a court action to enforce the agreement of engagement between the company and Siemens with regard to the carrying out of the project for the benefit of the Ministry of Defense and also for the issue of a permanent injunction and the payment of compensation in the sum of $1,000,000 (for fee purposes). On the 17th of November 2003 the District Court in Tel Aviv issued an injunction as requested in the urgent application. Consequent to the issue of the injunction as mentioned, the parties commenced negotiations of settlement proceedings which culminated in a settlement agreement in accordance with which the parties waived their reciprocal claims and an agreement was made between Siemens and the company for the carrying out of the project as specified in clause 6.4.2.4 of the prospectus. In accordance with the provisions of the said agreement, the parties are to submit the settlement agreement to the District Court in Tel Aviv for the issue of the validity of a judgment.

10.5 Allotment of Shares Other than by Full Consideration in Cash

In the last two years, which preceded the day of the publication of the prospectus, the company has not allotted securities other than for full consideration in cash.

10.6 Charges and Guarantees

10.6.1 With the exception of the charges which are specified in clause 6.8 of the prospectus, the company has effected the following charges:

Charge in Favour of	***Of the Date***	The Property Which is Charged
Bank Hapoalim Ltd.	22.8.1991	Astro S. car number 6342006.
H.L. Finances and Services Ltd.	8.2.1994	Renault Express car number 0606244.
L.B.O. Finances and Investments Ltd.	1.1.95	Renault Express car number 0682959
L.B.O. Finances and Investments Ltd.	1.1.95	Renault Express car number 0682459
L.B.O. Finances and Investments Ltd.	1.1.95	Renault Express car number 0682359
Migdal Leasing Ltd./Hamagen Insurance Company Ltd.	18.12.95	Private vehicle number 1949716
H.L. Finance and Services Ltd.	12.5.98	Mitsubishi car number 8239820
Daimler Chrysler Finance Services Israel Ltd.	28.8.02	Chrysler Voyager car number 8351928

With the exception of the last charge which is mentioned above, the remainder of the charges relate to vehicles which the company leased in the past, and returned to the leasing companies in accordance with the terms of the leasing, upon the expiration of the period of the leasing. As at the date of the prospectus these vehicles are not in possession of the company. In spite of that which is stated above, the registration of the charges over these vehicles has not been deleted with the Registrar of Companies.

10.6.2 In the framework of the sub-contracting agreement which is specified in clause 6.4.2.3 of the prospectus, the company made available in favour of SSI Schafer Noell GmbH (hereinafter – "SSI") an independent guarantee against the independent guarantee which SSI provided for the purpose of guaranteeing the obligations of the company in connection with the agreement with a certain principal customer. In accordance with the deed of guarantee, the company undertook to unconditionally and irrevocably guarantee the performance of all the obligations of SSI in accordance with the guarantee which was provided by SSI in the framework of the agreement between the company and the said customer and to indemnify SSI in any case in which the guarantee would be exercised against SSI by the customer, in the event of material breach of the obligations of the company which were not rectified in accordance with the terms of the agreement between the company and the said customer and in respect of which the customer is entitled to terminate the agreement with the company or in the background of liquidation proceedings, insolvency, appointment of a receiver, a creditors arrangement against the company and/or amalgamation of the company as a result of which SSI shall be compelled to undertake the obligations of the company in accordance with the agreement with the customer. The guarantee shall be in force up until the completion of all the obligations of the company in accordance with the agreement between the company and the said customer. As at the date of the prospectus the company is supposed to complete the installation of the system with the customer on the 8th of February, 2005, in accordance with the provisions of the said agreement.

10.6.3 In the framework of the agreements for the establishment of logistic and other systems (including part of the agreements which are mentioned in clause 6.4.2 of the prospectus), the company provides bank guarantees to guarantee the execution of its obligations in accordance with such agreements. These guarantees are released in accordance with the terms of the said agreements, in portions, in accordance with the progress of the work. As at the date of the prospectus, the company has provided bank guarantees as mentioned above in a cumulative amount of approximately 700 thousand New Shekels (in addition to a bank guarantee in the sum of approximately 300,000 New Shekels which the company has made available as mentioned in clause 10.6.4 of the prospectus). In this framework, the company is obliged in accordance with the deeds of obligation with regard to the issue of bank guarantees) (a) To discharge to the bank every amount which shall be required from the bank and/or which shall be paid by the bank in respect of the guarantees or in connection with them and to discharge to the bank all the amounts with the addition of interest at the maximum rate and bank commissions; (b) To compensate and/or to indemnify the bank in any case where legal proceedings or court actions shall be instituted against the bank as a result of which damages, expenses or losses, which relate to or are connected with guarantees, shall be caused to the bank, directly and/or indirectly; (c) To waive claims or contentions against the bank in connection with the honouring of the guarantees.

In the framework of the deeds of obligation which the company signed to the banks in connection with the credit frameworks which banks provided to the company, the banks are entitled to make the amounts of the credit immediately payable in certain circumstances, and including in the event that it shall appear to the banks that a change has taken place in the control or in the discipline of the company with regard to the situation as at the date of the signature of the deed of obligation, and/or in the event that the bank shall be required to discharge by way of early discharge the debts which the banks owe to other creditors. As at the date of the prospectus the company is meeting its obligations to the banks.

10.6.4 In the framework of the legal proceedings between the company, Hor-Tal and Siemens (as specified in clause 10.4.2 of the prospectus), and as a condition for the issue of the temporary injunction in favour of the company, the company has undertaken in a deed of self undertaking dated the 18th of November, 2003, to the respondents in such court action (Hor-Tal, Siemens and the Ministry of Defense) to compensate them in respect of all damage which shall be caused by the temporary injunction in the event that the court proceedings shall be terminated or the injunction shall expire for some other reason and this without limitation as to amount. In accordance with this deed of self undertaking, the amount of the compensation shall be paid if and when a decision of the court having jurisdiction shall be produced to the company, which obligates the company to pay the above-mentioned compensation. Furthermore the company has made available a bank guarantee in the sum of 300,000 New Shekels for the purpose of guaranteeing its undertakings in accordance with these proceedings.

10.7 (reserved)

PROSPECTUS
JULY 9, 2004

COMPANY

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