

ROBOGROUP TEK LTD  
Form 20-F/A  
August 22, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 20-F/A**

**Amendment No. 1**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
Or
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004  
Or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-19435  
Or
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

**ROBOGROUP T.E.K. LTD.**

(Exact name of Registrant as specified in its charter and translation of Registrant's Name into English)

**Israel**

(Jurisdiction of incorporation or organization)

**13 Hamelacha Street, Afek  
Industrial Park, Rosh Ha'Ayin, 48091, Israel**  
(Address of principal executive offices)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
None	N/A

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**Ordinary Shares, NIS 0.5 Par Value**  
(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**  
(Title of Class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, par value NIS 0.5 per share  
as of December 31, 2004 .....11,238,952

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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### EXPLANATORY NOTE

The registrant filed its Annual Report on Form 20-F for the fiscal year ended December 31, 2004, with the Securities and Exchange Commission on June 30, 2004. This Amendment to the Form 20-F is being filed in order to amend a disclosure relating to one of the registrant's subsidiaries MemCall in Part A of Item 4, and to include the reports of the independent accountants for certain of the registrant's consolidated subsidiaries, which were not included in the original filing.

#### ITEM 4. INFORMATION ON THE COMPANY

##### A. History and Development of the Company

Our legal and commercial name is RoboGroup T.E.K. Ltd. We were incorporated under the laws of the State of Israel in 1982 as Robotec (G.A.L.) Industrial Robotic Technology Ltd. for an indefinite term. In 1983 we changed our name to Eshed Robotec (1982) Ltd. On December 2000, we changed our name to RoboGroup T.E.K. Ltd. Our registered office and principal executive offices are located at 13 Hamelacha Street, Afek Industrial Park, Rosh Ha Ayin 48091 Israel and our telephone number is 972-3-9004111. Our address on the internet is <http://www.robo-group.com>. The information on our website is not incorporated by reference into this annual report.

We operate through two business sectors. The first sector focuses on our traditional business activities, the education field. This sector includes our research and development sections, the operations section, and the marketing and sales of our products and products manufactured by third parties, to the Israeli and international training and education markets.

The second sector consists of our partly-owned subsidiary Yaskawa Eshed Technology, or YET, which is engaged in the development and manufacture of motion control products for the industrial market. We hold 50% of YET's issued share capital, with the remaining 50% being held by Yaskawa Electric Corporation, or YEC.

Until 2003 we had a third business sector which was comprised of our start-up company MemCall

MemCall was engaged in the development of a new search technology which was intended to reduce the time for locating and retrieving data in computers and communications networks. In December 2003, our board of directors decided to significantly reduce the amount of investment in this activity, and since the beginning of 2004, while we are maintaining four of Memcall's patents and patent applications, it has become operationally inactive. Nevertheless, during 2004 and the first six months of 2005, we have continued to make efforts to attract potential customers and strategic partners for MemCall.

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**Recent Developments**

During 2004 we continued to implement the cost-cutting measures in the education sector, which we had commenced in 2003 in order to improve our financial status and profitability, including personnel cuts, the consolidation of related activities, the reduction of salary costs of our senior executives and the reduction in general expenses. We reduced our operating expenses in 2004, by approximately NIS 9 million (\$2.1 million) compared to 2003. These measures have improved both our financial results for 2004 compared to 2003, and our negative cash flow.

**Standby Equity Distribution Agreement**

On June 22, 2004, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners LP, or Cornell. Pursuant to the Standby Equity Distribution Agreement, we may, at our discretion, periodically issue advance notices to Cornell requiring it to purchase our ordinary shares for a total purchase price of up to \$5,500,000. In connection with the Standby Equity Distribution Agreement, we registered 5,957,082 of our ordinary shares on a registration statement on Form F-2, that was declared effective on September 28, 2004. For more information on the Standby Equity Distribution Agreement, see Item 10, Additional Information Material Contracts.

**Agreements between YET and YEC**

In January, 2004, our subsidiary YET entered into a one year Development Agreement with its other major shareholder YEC, pursuant to which YET provided development services to YEC based on the demand and special definitions of YEC for \$1.6 million.

In February 2004, YET entered into a one year separate Royalty Agreement with YEC pursuant to which YEC paid YET royalties for its use of technology developed by YET (other than in the framework of the Development Agreement).

On January, 2005, YET entered into a one year new Development Agreement with YEC pursuant to which YET provided development services to YEC based on the demand and special definitions of YEC for \$1.6 million.

On January 1 2005, YET entered into a five year separate Royalty Agreement with YEC pursuant to which YEC is paying YET royalties for its use of technology developed by YET.

On December, 2004, we received a dividend of US \$400,000 from YET. In March 2005, we received a further dividend of US \$200,000 from YET.

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**Investments in our subsidiary MemCall**

During the course of 2003, MemCall invested significant efforts in negotiating with potential strategic partners (manufacturers and marketers in the global silicon market) none of which matured into a contract.. MemCall conducted negotiations with several potential strategic partners, none of which matured into a contract. In December 2003 our board of directors decided to significantly reduce our continued investment in Memcall. As at the time of this report, Memcall does not directly employ any employees but is continuing to maintain four of its patents Nevertheless, during 2004 and the first six months of 2005, we have continued to make efforts to attract potential customers and strategic partners for MemCall.

As of December 31, 2004 we have invested \$4.7 million in the development of MemCall.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ROBOGROUP T.E.K. LIMITED

BY: /S/ Rafael Aravot

SIGNATURES

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Rafael Aravot, Chairman of the Board and  
Chief Executive Officer

BY: /S/ Haim Schleifer

Haim Schleifer, Director

Date: August 22, 2005

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**RoboGroup T.E.K. Ltd.**

**Financial Statements  
December 31, 2004**

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**Financial Statements:**

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**Chaikin, Cohen, Rubin  
& Gilboa.**

Atidim Technology Park, Bldg. 4,  
P.O.B. 58143 Tel-Aviv 61580, Israel  
*Tel: 972-3-6489858 Fax: 972-3-6489946*

SIGNATURES

E-mail: [accounting@ccrpa.co.il](mailto:accounting@ccrpa.co.il)

*Certified Public Accountants (Isr.)*

**To the Shareholders of RoboGroup T.E.K LTD.  
INDEPENDENT AUDITORS REPORT**

We have audited the accompanying balance sheets of **RoboGroup T.E.K LTD.** (hereinafter - the Company) as of December 31, 2004 and 2003, and the consolidated balance sheets as of the same dates and the related statements of operations, statements of changes in shareholders' equity and statements of cash flows - for each of the three years ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We have not audited the financial statements of the consolidated companies whose joint assets represent approximately 18% of the total consolidated assets as of December 31, 2004 and 2003 respectively and whose joint revenues represent approximately 44%, 43%, and 28% of the total consolidated revenues for the years ended December 31, 2004, 2003 and 2002 respectively. The financial statements of those companies were audited by other independent public accountants whose reports have been furnished to us and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of those other public accountants.

We conducted our audit in accordance with generally accepted auditing standards, including those prescribed by the Auditors (Mode of Performance) Regulations, 1973 and with the standards of the Public Company Oversight Board (United States). Those 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 management, 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 examination and on the reports of the other public accountants referred to above, the above mentioned financial statements present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2004 and 2003 and the results of operations, changes in shareholders' equity, and cash flows - of the Company and consolidated - for each of the three years ended December 31, 2004, in conformity with accounting principles generally accepted in Israel and in the United States (as applicable to the financial statements of the Company, such accounting principles are practically identical in the said countries, save for the measurement in terms of a constant purchasing power, which became an accepted accounting practice in Israel during a period of hyperinflation and save for certain matters summarized in note 26). It is also our opinion that the above mentioned financial statements have been prepared in conformity with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As described in Note 2, the financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. The financial statements as of the dates and for the reported periods until the aforementioned date are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

**Sincerely Yours,**

**Chaikin, Cohen, Rubin & Gilboa**  
Certified Public Accountants (Isr.)

Tel-Aviv, March 28, 2005

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**MOCK & PARTNERS INTERNATIONAL**

registeraccountants

**AUDITORS REPORT**

**Introduction**

We have audited the financial statements of Eshed Robotec B.V., Amsterdam, for the period 1 January – 31 December 2004 (as set out on pages 2 to 8). These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

**Scope**

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Amsterdam, 12 January 2005

Mock & Partners International

Drs. H.J.S. Mock RA

Rapenburgerstraat 109, 1011 VL Amsterdam. Tel: 020 6381881, Fax: 020 6272624

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BERRY.DUNN.MCNEIL & PARKER

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITORS REPORT**

The Board of Directors  
intelitek, Inc.

We have audited the balance sheets of intelitek, Inc. (the Company), a wholly owned subsidiary of Robo Group T.E.K. Ltd. as of December 31, 2004 and 2003, and the related statements of operations, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of intelitek, Inc., as of 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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Manchester, New Hampshire  
 January 31, 2005  
 (Except for Note 6, as to which the date is February 28, 2005.)

PORTLAND, ME - BANGOR, ME - LEBANON, NH - MANCHESTER, NH  
 WWW.BDMP.COM

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**RoboGroup T.E.K. Ltd.**

**Balance Sheets**

(NIS in Thousands)

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S.\$ (K) (1)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
	Reported amounts (*)	Reported amounts (*)	Adjusted amount (*)	Reported amounts (*)	Adjusted amount (*)
	Note				

**ASSETS**

**Current assets**

Cash and cash equivalents		1,615	6,957	14,878	3,351	9,460
Short-term investments		23	99	-	99	-
Trade receivables	3	3,547	15,282	13,217	5,726	2,764
Other receivables and debit balances	4	486	2,093	2,292	1,086	1,487
Inventories	5	2,175	9,372	13,603	3,261	4,979
		7,846	33,803	43,990	13,523	18,690

**Long-term investments**

Investments in investee and other companies	6	-	-	15	14,239	20,009
Funds in respect of employee rights upon retirement, net	14	131	563	81	563	81
		131	563	96	14,802	20,090
<b>Fixed assets, net</b>	8	8,484	36,548	38,233	33,294	34,587
	9	240	1,036	1,525	667	742

**Other assets and deferred expenses**

	16,701	71,950	83,844	62,286	74,109
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(1) Convenience translation into U.S. Dollars.

(\*) Discontinuance of the adjustment for the effects of inflation according to the Israeli CPI as of December 2003 (see note 2).

(\*) Adjusted amounts for the Israeli CPI as of December 2003.

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

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**RoboGroup T.E.K. Ltd.****Balance Sheets**

(NIS in Thousands)

	Consolidated			Company	
	December, 31 2004	December, 31 2004	December, 31 2003	December, 31 2004	December, 31 2003
	U.S.\$ (K) (1)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Note	Reported amounts (*)	Reported amounts (*)	Adjusted amount (*)	Reported amounts (*)	Adjusted amount (*)

**LIABILITIES****Current liabilities**

Credit from banks	10	3,535	15,228	15,941	12,952	13,606
Trade payables	11	1,359	5,853	5,394	2,629	2,348
Other payables and credit balances	12	2,398	10,333	14,345	6,308	10,191
		7,292	31,414	35,680	21,889	26,145

**Long-term liabilities**

Loans from banks	13	3,969	17,100	17,516	17,100	17,516
Provision for deferred taxes	24	38	163	-	163	-
Liability for termination of employee/employer relationship, net	14	32	139	200	-	-



		4,039	17,402	17,716	17,263	17,516
<b>Commitments, contingent liabilities and pledges</b>	15					
<b>Shareholders equity</b>						
Share capital	16	2,646	11,400	11,399	11,400	11,399
Authorized capital as at December 31, 2004 and 2003 was 25,000,000 shares of NIS 0.5 par value of which 11,239,952 and 11,238,352 shares were issued and outstanding on December 31, 2004 and 2003 respectively						
Premium on shares		9,854	42,452	42,214	42,452	42,214
Capital reserves		401	1,727	1,807	1,727	1,807
Accumulated deficit		(7,348)	(31,656)	(23,969)	(31,656)	(23,969)
Treasury stock		(183)	(789)	(1,003)	(789)	(1,003)
		5,370	23,134	30,448	23,134	30,448
		16,701	71,950	83,844	62,286	74,109

Date of approval of the financial statements: March 28, 2005

**Rafael Aravot**  
Chairman of the Board and CEO

**Haim Schleifer**  
Director and Joint General Manager

**Hanan Eiboshitz**  
Chief Financial Officer

(1) Convenience translation into U.S. Dollars.

(\*) Discontinuance of the adjustment for the effects of inflation according to the Israeli CPI as of December 2003 (see note 2).

(\*) Adjusted amounts for the Israeli CPI as of December 2003.  
The accompanying notes are an integral part of the financial statements.

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**RoboGroup T.E.K. Ltd.**

**Statement of Operations**

(NIS in Thousands)

Note	Consolidated				Company		
	Year ended December, 31	Year ended December, 31	Year ended December, 31	Year ended December, 31	Year ended December, 31	Year ended December, 31	Year ended December, 31
	2004	2004	2003	2002	2004	2003	2002

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		U.S. \$ (K) (1)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
		Reported amounts (*)	Reported amounts (*)	Adjusted amounts (**)	Adjusted amounts (**)	Reported amounts (*)	Adjusted amounts (**)	Adjusted amounts (**)
<b>Revenues</b>	21	14,330	61,734	56,116	86,159	28,941	23,169	38,811
<b>Cost of revenues</b>	22	8,320	35,843	32,598	41,412	16,667	14,558	19,008
<b>Gross profit</b>		6,010	25,891	23,518	44,747	12,274	8,611	19,803
<b>Operating expenses</b>								
Research and development expenses, net	23	1,769	7,619	12,651	12,755	3,570	4,765	3,004
Marketing and selling expenses	23	3,065	13,204	12,622	14,240	4,592	5,286	3,531
Administrative and general expenses	23	2,331	10,042	14,569	13,630	5,461	6,659	7,423
		7,165	30,865	39,842	40,625	13,623	16,710	13,958
<b>Operating income (loss)</b>		(1,155)	(4,974)	(16,324)	4,122	(1,349)	(8,099)	5,845
Financial expenses, net	23	(490)	(2,111)	(3,783)	(1,402)	(1,746)	(3,643)	(2,105)
Other income, net	23	188	809	2,032	1,640	1,643	2,799	2,130
<b>Income (loss) before taxes on income</b>		(1,457)	(6,276)	(18,075)	4,360	(1,452)	(8,943)	5,870
Income tax expenses (income)	24	327	1,411	(82)	1,051	1,162	(42)	-
Income (loss) before Company's share in results of Investee companies		(1,784)	(7,687)	(17,993)	3,309	(2,614)	(8,901)	5,870
Company's share in losses of Investee companies		-	-	-	-	(5,073)	(9,092)	(2,561)
<b>Net income (loss)</b>		(1,784)	(7,687)	(17,993)	3,309	(7,687)	(17,993)	3,309
<b>Earnings (loss) per share (EPS)</b>								
		(0.17)	(0.71)	(1.67)	0.31			
<b>Number of shares used in computation of EPS (in thousands)</b>								
		10,757	10,757	10,744	10,731			

(1) Convenience translation into U.S. Dollars.

(\*) Discontinuance of the adjustment for the effects of inflation according to the Israeli CPI as of December 2003 (see note 2).

(\*\*) Adjusted amounts for the Israeli CPI as of December 2003.

## RoboGroup T.E.K. Ltd.

## Statement of Changes in Shareholders Equity

(NIS in Thousands)

	Number of shares (1)	Share capital	Premium on shares	Capital reserves	Adjustments on translation of financial statement of an autonomous consolidated company	Shares purchase	Accumulated deficit	Total
	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
<b>Balance at January 1, 2002</b>								
<b>Adjusted amount (**)</b>	10,727,831	11,392	42,191	2,260	-	(1,003)	(9,285)	45,555
Exercise of options	3,000	-	4	-	-	-	-	4
Adjustments on translation of financial statement of an autonomous consolidated company	-	-	-	-	120	-	-	120
Net income	-	-	-	-	-	-	3,309	3,309
<b>Balance at December 31, 2002</b>								
<b>Adjusted amount (**)</b>	10,730,831	11,392	42,195	2,260	120	(1,003)	(5,976)	48,988
Exercise of options	13,200	7	19	-	-	-	-	26
Adjustments on translation of financial statement of an autonomous consolidated company	-	-	-	-	(573)	-	-	(573)
Net loss	-	-	-	-	-	-	(17,993)	(17,993)
<b>Balance at December 31, 2003</b>								
<b>Adjusted amount (**)</b>	10,774,031	11,399	4,214	2,260	(453)	(1,003)	(23,969)	30,448
Exercise of options	1,600	1	3	-	-	-	-	4
Granting of treasury stock (see Note 16)	105,396	-	235	-	-	214	-	449
Adjustments on translation of financial statement of an	-	-	-	-	(80)	-	-	(80)

autonomous consolidated  
company

Net loss	-	-	-	-	-	-	(7,687)	(7,687)
<b>Balance at December 31, 2004</b>								
<b>Reported amounts (*)</b>	10,851,027	11,400	42,452	2,260	(533)	(789)	(31,656)	23,134

(1) Convenience translation into U.S. Dollars.

(\*) Discontinuance of the adjustment for the effects of inflation according to the Israeli CPI as of December 2003  
(see note 2).

(\*\*) Adjusted amounts for the Israeli CPI as of December 2003.

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

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**RoboGroup T.E.K. Ltd.**

**Statement of Cash Flows**

(NIS in Thousands)

	Consolidated				Company		
	Year ended Dec. 31	Year ended Dec. 31	Year ended Dec. 31	Year ended Dec. 31	Year ended Dec. 31	Year ended Dec. 31	Year ended Dec. 31
	2004 (*)	2004	2003	2002	2004	2003	2002
	U.S. \$ (K) (1)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
	Reported amounts (*)	Reported amounts (*)	Adjusted amount (**)	Adjusted amount (**)	Reported amounts (*)	Adjusted amount (**)	Adjusted amount (**)
<b>Cash flows from operating activities:</b>							
Net income (loss)	(1,784)	(7,687)	(17,993)	3,309	(7,687)	(17,993)	3,309
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (Appendix A):	387	1,667	8,776	10,074	4,189	14,017	6,504
<b>Net cash provided by (used in) operating activities</b>	<b>(1,397)</b>	<b>(6,020)</b>	<b>(9,217)</b>	<b>13,383</b>	<b>(3,498)</b>	<b>(3,976)</b>	<b>9,813</b>
<b>Cash flows from investing activities:</b>							
Decrease (increase) in credit given to consolidated companies, net	-	-	-	-	(1,192)	(1,013)	746
Acquisition of an operation (Appendix C)	-	-	-	(605)	-	-	(605)
Acquisition of fixed assets	(162)	(700)	(1,075)	(2,171)	(195)	(228)	(2,007)
Proceeds from sales of fixed assets	27	17	384	552	-	112	1,357
Sale of short-term investments, net	-	-	334	1,476	-	334	1,476

<b>Net cash provided by (used in) investing activities</b>	(135)	(583)	(357)	(748)	(1,387)	(795)	967
<b>Cash flows from financing activities:</b>							
Increase (decrease) in short term credit from banks, net	142	614	3,926	(341)	673	1,770	(385)
Long-term loans received	4,971	21,414	-	765	21,414	-	765
Repayment of long term loans	(5,412)	(23,315)	(3,778)	-	(23,315)	(3,778)	-
Proceeds from exercise of options by employees	1	4	26	4	4	26	4
<b>Net cash provided by (used in) financing activities</b>	(298)	(1,283)	174	428	(1,224)	(1,982)	384
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(9)	(35)	(55)	-	-	-	-
<b>Increase (decrease) in cash and cash equivalents</b>	(1,839)	(7,921)	(9,455)	13,063	(6,109)	(6,753)	11,164
<b>Cash and cash equivalents at the beginning of the year</b>	3,454	14,878	24,333	11,279	9,460	16,213	5,049
<b>Cash and cash equivalents at the end of the year</b>	1,615	6,957	14,878	24,333	3,351	9,460	16,213

(1) Convenience translation into U.S. Dollars.

(\*) Discontinuance of the adjustment for the effects of inflation according to the Israeli CPI as of December 2003 (see note 2).

(\*\*) Adjusted amounts for the Israeli CPI as of December 2003.  
The accompanying notes are an integral part of the financial statements.

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RoboGroup T.E.K. Ltd.

Statement of Cash Flows

(NIS in Thousands)

Appendix A: Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:

Consolidated				Company		
Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
Dec. 31	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Dec. 31
2004 (*)	2004	2003	2002	2004	2003	2002
U.S. \$ (K) (1)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)

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	Consolidated				Company		
	Reported amounts (*)	Reported amounts (*)	Adjusted amount (**)	Adjusted amount (**)	Reported amounts (*)	Adjusted amount (**)	Adjusted amount (**)
<b>Income and expenses not involving cash flows:</b>							
Company's share in loss from Investee companies, in addition of received dividends	-	-	-	-	6,867	9,092	2,561
Depreciation and amortization	601	2,589	2,597	2,685	1,600	1,662	1,665
Decrease in liability for termination of employee/employer relationship	(126)	(543)	(869)	(467)	(482)	(714)	(538)
Write-down of loans	37	158	(259)	675	158	(259)	691
Decrease (increase) in value of marketable securities	(20)	(84)	155	166	(84)	155	166
Decrease (increase) in deferred taxes	245	1,054	444	(18)	853	350	2
Other	(32)	(136)	71	88	(115)	62	27
	<u>705</u>	<u>3,038</u>	<u>2,139</u>	<u>3,129</u>	<u>8,797</u>	<u>10,348</u>	<u>4,574</u>
<b>Changes in assets and liabilities:</b>							
Decrease (increase) in trade receivables	(502)	(2,163)	6,141	5,216	(2,962)	3,724	(3,210)
Decrease (increase) in other receivables and debit balances	47	201	(752)	1,661	401	(102)	1,445
Decrease (increase) in inventories	954	4,111	1,391	681	1,718	(626)	136
Increase (decrease) in trade payables	107	459	(3,178)	(2,389)	281	(1,475)	796
Increase (decrease) in other payables and credit balances	(924)	(3,979)	3,035	1,776	(4,046)	2,148	2,763
	<u>(318)</u>	<u>(1,371)</u>	<u>6,637</u>	<u>6,945</u>	<u>(4,608)</u>	<u>3,669</u>	<u>1,930</u>
	<u>387</u>	<u>1,667</u>	<u>8,776</u>	<u>10,074</u>	<u>4,189</u>	<u>14,017</u>	<u>6,504</u>

**Appendix B: Non-monetary events**

Granting of treasury stocks	104	449	-	-	449	-	-
Conversion of loans from short-term to long-term	-	-	-	13,121	-	-	13,121

A consolidated company converted a loan of NIS 12,036 thousands to capital on January, 1 2002

(1) Convenience translation into U.S. Dollars.

(\*) Discontinuance of the adjustment for the effects of inflation according to the Israeli CPI as of December 2003 (see note 2).

(\*\*) Adjusted amounts for the Israeli CPI as of December 2003.

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

RoboGroup T.E.K. Ltd.

Statement of Cash Flows

*(NIS in Thousands)***Appendix C: Activities Acquisition****Consolidated****For the year ended December 31**

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>
Working capital, net	-	-	(280)
Other assets	-	-	(325)
	-	-	(605)

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

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

*(NIS in Thousands)***NOTE 1 - GENERAL**

RoboGroup T.E.K. Ltd. (hereafter the Company ) was incorporated in 1982 under the name of Eshed Robotec (1982) Ltd. The Company changed its name to its current name in the year 2000. The Company, by itself and through consolidated companies, is engaged in the development, manufacturing and marketing of robotic technologies, CNC machines, software and distance learning products for education and training. The Company is also engaged, through its proportionately consolidated company, in development, manufacturing and marketing of products in the field of industrial motion control. During the previous years the Company developed a technology whose aim was to reduce the time required for locating and retrieving information in computers and communication networks, through its consolidated companies. This activity was significantly reduced during the year 2004.

In the years ended on December 31, 2004 and 2003, the Company had losses of approximately NIS 8 million and NIS 18 million, respectively. In addition, in the years 2004 and 2003 the Company's negative cash flows from operating activities were approximately NIS 6 million and NIS 9 million, respectively. The Company's management took up measures to increase efficiency, in order to improve the Company's financial state and its profitability, as follows:

1. Merger of operations, personal cutbacks, decrease in salaries costs of senior employees and cutbacks in general expenses.
2. The Company signed an agreement of Equity Line with Cornell Capital Partners LP company (See note 16 (2)).

In the fourth and third quarters of the year 2004, the Company's positive cash flows from operating activities were approximately NIS 1.5 million and NIS 0.4 million, respectively.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies, which have been applied consistently with those of previous years, are as follows:

**A. Financial statements in adjusted and reported amounts**

(1) Discontinuance of adjustment of financial statements and financial report 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 (December 31, 2003), plus additions in nominal values after the transition date and less amounts deducted after the transition date. Deduction of amounts after the transition date is in nominal historical values, in adjusted amounts as of the transition date or combination of nominal historical values and adjusted amounts as of transition date, according to its own merits.

(b) On January 1, 2004 the Israel Accounting Standard 12 of the Israel Accounting Standards Board, which deals with discontinuing the adjustment of financial statements, has come into become effective (hereinafter Standard 12 ).

Pursuant to Standard 12, as of January 1, 2004, the Company ceased adjusting its financial statements to the Israeli CPI. As of interim financial reports of March 31, 2004 and afterwards the financial statements are stated in reported amounts.

Data included in financial statements regarding dates and periods up to (including) December 31, 2003, are included in adjusted amounts.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**A. Financial statements in adjusted and reported amounts (cont.)**

(2) Financial statements in reported amount:

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) Investment in consolidated companies included in company's accounts on equity value basis is presented based on financial reports in reported values of consolidated companies.

Statement of operations:

- 1) Income and expenses, including financial, are included in nominal values.



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- 2) Income and expenses relating to non-monetary items are derived from the change between adjusted amount in the opening balance and reported amount in the closing balance.
  - 3) Company's share in results of consolidated companies is based on financial statements in reported values of the consolidated companies.
- (3) Financial statements in adjusted amounts until December 31, 2003:

### Principle of adjustment

#### a) Balance sheet

Non-monetary items (e.g. fixed assets and depreciation thereof, partnership capital, inventories, etc.) are adjusted for changes in the consumer price index (C.P.I.), between the index for the month of the transaction and the index for the month of the balance sheet. Monetary items are presented in the balance sheet in their nominal amounts at that date. Investment in consolidated companies included in company's accounts based on equity value basis is presented on adjusted financial statements of the consolidated companies.

#### b) Statement of operations

Statement of operations items are adjusted for changes in the consumer price index as follows:

Amounts related to non-monetary items (e.g. depreciation, movements in inventories) and the various provisions included in the balance sheet (e.g. the provision for vacation pay, severance pay, etc.) and changes in deferred taxes are adjusted in tandem with the adjustment to the balance sheet item.

Revenues and other expenses, excluding financial expenses, are adjusted for changes in the C.P.I. between transaction date and the balance sheet date. Incomes of consolidated companies are determined based on consolidated companies adjusted financial statements. Adjustment and inflationary adjustments not related to revenues or expenses already mentioned are included with financial expenses.

- (4) The amounts for non-monetary assets do not necessarily represent realization value or current economic value but only the adjusted values, as explained above.
- (5) In these financial statements Cost means cost in reported or adjusted amount, regarding the matter.
- (6) A summary of the nominal amounts on which the adjusted financial statements are based is given in Note 25.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont. )

#### *B. Use of estimates and assessments*

The preparation of financial reports according to GAAP, requires that the management use estimates and assessments, which affect the reported data regarding assets and liabilities, conditional assets and contingent liabilities disclosed in the financial statements and income and expenses in the reported period. Actual results may differ from these estimates.

#### *C. Convenience translation into US dollars*

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The adjusted consolidated financial statements as at December 31, 2004 and for the year then ended, have been translated into US dollars purely for the convenience of non-Israeli readers. The translation was made according to the representative exchange rate of the US dollar to NIS on December 31, 2004 (\$1 = NIS 4.308). The translation dollar amounts should not be construed as amounts receivable or payable in dollars or convertible into dollars.

### **D. Principles of Consolidation**

The consolidated financial statements include the financial statements of the Company and those of its subsidiaries (consolidated companies). These financial statements also include the Company's portion (50%) of the assets, liabilities, income and expenses of companies owned jointly.

Significant inter-company balances and transactions between the Company and its consolidated companies or its proportionately consolidated company have been eliminated for the purpose of consolidation.

### **E. Exchange Rates and Basis of Linkage**

Balances in, or linked to, foreign currency are stated in the financial statements at the representative rates of exchange in effect at balance sheet date, as published by The Bank of Israel. Balances linked to the CPI are included in the balance sheets according to the latest index published prior to balance sheet date. Changes in monetary balances caused by changes in foreign currency exchange rate or from changes in the CPI are changed to the statement of operation as incurred.

Hereunder are details of the CPI and dollar exchange rates:

	<b>Dollar Exchange Rates</b>	<b>CPI</b>
	<b>NIS</b>	<b>Points (*)</b>
At December 31, 2004	4.308	114.3
At December 31, 2003	4.379	112.9
At December 31, 2002	4.737	115.1

#### **Rates of increase (decrease) in the years**

	<b>In percentage %</b>	
2004	(1.62)	1.2
2003	(7.55)	(1.9)
2002	7.27	6.5

(\*) The CPI based on average 1998=100.

### **F. Cash and Cash Equivalents**

Cash and cash equivalents include cash balances and deposits with banks which have original maturities of three months or less that are not restricted.

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont. )**

***G. Marketable Securities***

Marketable securities held for short term as marketable securities are stated at market value. Changes in value are included in other income and expenses.

***H. Customers - Allowance for doubtful accounts***

Provision for doubtful accounts have been calculated on a specific basis, in respect to debts whose collection is in doubt.

***I. Inventories***

Inventories are stated at the lower of cost or market. The Company continuously examines the risk deriving from slow movement of inventories, technological obsolescence, inventories excess and market lower than cost.

Cost is determined as follows:

Raw materials and bought-in by the moving average method.

Work in progress and finished products: The raw materials component - by the moving average method. Labor and production overheads component on the basis of actual manufacturing costs.

***J. Investments in Investees and Other Companies***

The investments in Investee companies are stated in the Company's financial statements on an equity value basis.

The excess of cost of the investment in an Investee company over its net equity value on acquisition, which is not directly attributable, represents goodwill and is amortized over a period of five years.

Investments in other companies, held as long-term investments, are presented at cost.

***K. Financial statement of consolidated companies abroad***

1. On January 1, 2004, the Israeli Accounting Standard No. 13 with respect to the effect of changes in foreign exchange rates became effective. Standard No. 13 replaces Interpretations No. 8 and No. 9 of Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which were superseded when the Israeli Accounting Standard No. 12, as described above, became effective.

Standard No. 13 deals with the translation of foreign currency transactions and with the translation of financial statements of foreign operations for incorporation into the financial statements of the Company.

2. Foreign operation that is classified as a foreign autonomous entity ( the entity ):

In accordance with Standard No. 13, assets and liabilities, both monetary and non-monetary, of the entity are translated at the closing rate. The components of the statement of operations and of the statement of cash flows of the entity are translated at the exchange rates at the dates of the transactions or at average exchange rates for the period if such exchange rates approximate the actual exchange rates. All exchange rate differences resulting from the translation, as above, are classified as a separate item in shareholders' equity ( foreign currency translation adjustments for autonomous entities ) until the disposal of the investment.

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(NIS in Thousands)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** (Cont. )**L. Fixed Assets**

Fixed assets are stated at cost (Demonstration equipment are valued at the cost of finished products of the same type) less accumulated depreciation.

Financing costs of credit lines opened for financing the purchase of the building, in the period prior to its use, have been capitalized.

Depreciation is calculated according to the straight-line method at the following rates, which are considered to be adequate to the depreciation of the assets over the course of their estimated useful lives:

	%
Machinery and equipment (mainly 20%)	10-20
Office equipment and furniture (mainly 6%)	6-10
Computers and computerized equipment (mainly 33%)	20-33
Vehicles (mainly 20%)	15-20
Building (mainly 2%)	2-4
Leasehold improvements	Over the lease period

**M. Intangible Property**

Intangible property includes mainly goodwill, know-how and rights to products. Goodwill which represents the excess of cost of the investments in businesses and consolidated companies over their fair value at acquisition, amortized at annual rates over a period of five years. Know-how and rights to products are amortized according to the straight-line method on the basis of their estimated useful lifetime, which is approximately three years.

**N. Impairment of assets**

The Company examines at each balance date the returnable amount of its assets whenever signs for impairment of those items exist. When an asset's book value exceeds its returnable amount, the Company recognizes the loss from impairment of that asset. Loss from impairment of assets, excluding goodwill, which was recognized earlier, is annulled only in case of change in estimates used to determine the returnable amount, as of date when last loss from impairment was recognized. The book value after the annulment will not exceed the book value of that asset, which would have been set for unless the loss from impairment had been recognized during the prior years.

**O. Deferred Taxes**

Deferred taxes are computed in respect of temporary differences between the reported amounts of assets and liabilities and their tax basis and calculated according to the enacted tax rates and laws that is expected to be in effect when the differences are expected to be paid or realized. The Company recognizes tax benefits receivable where the expectation of realization according to management estimate, is more likely than not.

The proportionately consolidated company has accumulated earnings derived from tax exempt income as an approved enterprise. The distribution of a dividend out of such income would give rise to the imposition of corporation tax at the rate of 20% in respect to that income. It is the intention of the Company and the proportionately consolidated company to constantly reinvest its tax-exempt income and not to distribute it as dividend. Accordingly, there is no provision for deferred taxes in respect of tax exempt income.

The Company included a provision for taxes, that may enact when dividends from proportionately consolidated company are received from income of approved enterprise, except for tax exempt income.

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*(NIS in Thousands)***NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont. )*****P. Product Warranty***

The provision is calculated specifically for the obligation relating to each individual product sold, usually for a period of one year from the date of sale.

***Q. Options to Employees***

The Company has adopted U.S. Opinion APB 25 for the accounting treatment for a share option program for employees and director-shareholders.

Accordingly, Note 26 gives proforma data had the Company chosen to adopt U.S. Statement FAS 123 for the accounting treatment of benefits inherent in the above mentioned program.

***R. Revenue Recognition***

Revenues from sale of products and from the sale of software rights are generally recognized upon delivery, provided that payment is fixed or determinable, collectibility is probable and there is no significant obligation remaining.

In a revenue arrangement with multiple deliverables, the delivered item(s) considered a separate unit of accounting if all of the following criteria are met:

1. The delivered item(s) has value to the customer on a standalone basis.
2. There is a vendor specific objective evidence of fair value (market value) of the delivered item(s).
3. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

Revenues from the sales of products dependent on installation are recognized on the conclusion of the installation. With respect to transactions that were entered into from June 15, 2003 and henceforth, the company adopted the provisions of publication of the Emergency Issues Task Force on Issue 00-21 (EITF 00-21) and they are recognized as arrangement with multiple deliverables as detailed above.

Revenues from development services are recognized upon completion of the development, and in accordance with the terms of the related contracts.

Revenues from software maintenance services are recognized ratably over the contractual period.

Revenues from the grant of production licenses are recognized upon fulfilling the terms of the commitments under the contract and are spread over the license period.

Revenues from software and content development based upon a fixed cost performance contract are recognized on completion percentage basis. Completion percentage is determined on actual cost compared to the total predicted cost basis.

RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont. )****S. Research and Development Costs**

Research and development costs are charged to income as incurred. Related grants are deducted from the related costs on an accrual basis.

**T. Earnings Per Share**

The basic earnings (losses) per share are calculated on the basis of a weighted average of the issued and paid-up shares during the year, with no accounting for possible dilution.

These financial statements do not include the effect of a possible dilution from options given to employees because their effect is anti-dilution or not material.

**U. Impact of recently issued Accounting Standards**

On July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19, Taxes on Income. The Standard provides that a liability for deferred taxes is to be recorded for all temporary differences subject to tax, except for a limited number of exceptions. In addition, a deferred tax asset is to be recorded for all temporary differences that may be deducted, losses for tax purposes and tax benefits not yet utilized, if it is anticipated that there will be taxable income against which they can be offset, except for a limited number of exceptions. The new Standard applies to financial statements for periods beginning on January 1, 2005. The Standard provides that it is to be implemented by means of a cumulative effect of a change in accounting method.

The Company estimates the impact of the Standard on its financial statements will not be material.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 3 - TRADE RECEIVABLES**

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Customers:					
Open accounts	3,596	15,491	14,607	5,192	2,875
Checks for collection	4	20	346	-	230
Receivable income	203	875	-	875	-

Customers:

Open accounts	3,596	15,491	14,607	5,192	2,875
Checks for collection	4	20	346	-	230
Receivable income	203	875	-	875	-

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Total trade receivables	3,803	16,386	14,953	6,067	3,105
Less: Allowance for doubtful accounts	256	1,104	1,736	341	341
	<u>3,547</u>	<u>15,282</u>	<u>13,217</u>	<u>5,726</u>	<u>2,764</u>

**NOTE 4 - OTHER RECEIVABLES AND DEBIT BALANCES**

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S. (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Loans to employees	18	76	78	61	78
Advances to suppliers	143	614	577	322	577
Institutions	131	566	293	146	215
Deferred taxes	47	201	201	-	-
Proportionately consolidated company	-	44	-	88	-
Related parties (1)	-	-	138	-	138
Other receivables and debit balances	147	592	1,005	469	479
	<u>486</u>	<u>2,093</u>	<u>2,292</u>	<u>1,086</u>	<u>1,487</u>

(1) Unlinked and do not bear interest.

**NOTE 5 - INVENTORIES**

a. Composition:

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Raw materials	896	3,859	6,911	1,418	1,519
Work in process	379	1,633	2,350	650	454
Finished products	848	3,654	3,997	1,193	3,006
Bought-in finished products	52	226	345	-	-
	<u>2,175</u>	<u>9,372</u>	<u>13,603</u>	<u>3,261</u>	<u>4,979</u>

- b. In the year 2004 the Company reduced the value of inventories due to slow movement and technological obsolescence of inventories, in the amount of 2.6 million NIS. This impairment was included in cost of revenues.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 6 - INVESTMENTS IN INVESTEE AND OTHER COMPANIES

A. Composition

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
<b>Investment in consolidated companies:</b>					
Cost of shares	-	-	-	14,320	14,320
Translation differences of an autonomous consolidated company	-	-	-	(533)	(453)
Accumulated losses	-	-	-	(34,762)	(31,572)
	-	-	-	(20,975)	(17,705)
Long-term loans and debit balances	-	-	-	29,220	28,028
	-	-	-	8,245	10,323
<b>Investment in proportionately consolidated companies:</b>					
Cost of shares	-	-	-	4,070	4,070
Accumulated income	-	-	-	1,924	5,601
	-	-	-	5,994	9,671



**Investment in other companies**

Cost of shares	-	-	15	-	15
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	-	-	15	14,239	20,009
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**B. Supplementary Information**

- (1) In December 2003 the Company decided to significantly reduce the activities of its consolidated companies, MemCall Ltd. and MemCall LLC. (Hereafter: MemCall ).

Following that decision, MemCall terminated the employment of all of its employees and will continue its operations in a limited scope, in order to search for alternative ways for implementation of solutions required by potential customers.

- (2) Hereunder are summary data of the Company's share in the assets and liabilities, income and expenses of its proportionately consolidated companies:

*a. Assets and Liabilities*

	<u>December, 31</u>	<u>December, 31</u>	<u>December, 31</u>
	<u>2004</u>	<u>2004</u>	<u>2003</u>
	<u>U.S.\$ (K)</u>	<u>NIS (K)</u>	<u>NIS (K)</u>
Current assets	1,886	8,125	11,778
Non current assets	341	1,470	1,376
Current liabilities	(835)	(3,595)	(3,441)
Long-term liabilities	(1)	(6)	(42)
	<u>          </u>	<u>          </u>	<u>          </u>
Shareholders' equity	1,391	5,994	9,671
	<u>          </u>	<u>          </u>	<u>          </u>

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

*(NIS in Thousands)***NOTE 6 - INVESTMENTS IN INVESTEE AND OTHER COMPANIES**  
(cont. )**B. Supplementary Information** (cont.)

(2) (cont.)

*b. Income and expenses*

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	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2002
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)
Income	2,438	10,501	7,070	9,488
Expenses	(2,428)	(10,461)	(7,842)	(6,622)
Net income (loss)	10	40	(772)	2,866

(3) On July 7, 2004 the Board of directors of a proportionately consolidated company, decided to distribute dividend to the shareholders in the amount of NIS 3,588 thousands. The net dividend received by the Company amounted to NIS 1,552 thousands.

On March 10, 2005 the Board of directors of a proportionately consolidated company, decided to distribute dividend to the shareholders in the amount of NIS 1,725 thousands. The Company's portion in the dividend net of tax deduction amounts to NIS 733 thousands.

**NOTE 7 - ACQUISITION OF OPERATIONS**

In December 2002, the Company signed an agreement with Mentergy Ltd. for the acquisition of assets relating to the TrainNet activity (an e-learning product for distance learning via satellite broadcasts and broadband lines) in consideration for approximately NIS 600 thousand (consisting of approximately US\$ 130 thousand in cash and an undertaking to pay royalties on certain sales for three years, as specified in the agreement). Pursuant to the agreement the Company acquired, among other things, proprietary rights to the software, the right to use the name TrainNet and production files and engineering documentation for the product.

Hereunder are data of the assets acquired:

	December, 31
	2002
	NIS (K)
Receivables	141
Inventories	139
Other assets	325
	605

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 8 - FIXED ASSETS, NET

AUDITORS REPORT

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	Machinery and Equipment	Office Equipment and Computers	Vehicles	Building	Leasehold Improve- ments	Total	Total
	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	U.S.\$ (K)

**Consolidated**

**Cost**

Balance at January 1, 2004 (*)	7,456	8,816	1,255	38,276	805	56,608	13,140
Additions	414	87	-	180	19	700	162
Disposals	(111)	-	(166)	-	-	(277)	(64)
Translation differences of an autonomous consolidated company	(37)	(15)	(1)	-	(4)	(57)	(13)

Balance at December 31, 2004	7,722	8,888	1,088	38,456	820	56,974	13,225
------------------------------	-------	-------	-------	--------	-----	--------	--------

**Accumulated Depreciation**

Balance at January 1, 2004 (*)	4,768	7,315	1,100	4,899	293	18,375	4,265
Provision for the year	378	651	71	1,074	95	2,269	527
Disposals	(33)	-	(146)	-	-	(179)	(41)
Translation differences of an autonomous consolidated company	(22)	(14)	(1)	-	(2)	(39)	(9)

Balance at December 31, 2004	5,091	7,952	1,024	5,973	386	20,426	4,742
------------------------------	-------	-------	-------	-------	-----	--------	-------

Depreciated cost at December 31, 2004	2,631	936	64	32,483	434	36,548	8,483
---------------------------------------	-------	-----	----	--------	-----	--------	-------

Depreciated cost at December 31, 2003	2,688	1,501	155	33,377	512	38,233	8,875
---------------------------------------	-------	-------	-----	--------	-----	--------	-------

	Machinery and Equipment	Office Equipment and Computers	Vehicles	Building	Total
	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)

**The Company**

**Cost**

Balance at January 1, 2004 (*)	2,066	4,939	666	38,276	45,947
Additions	-	15	-	180	195
Disposals	-	-	-	-	-

Balance at December 31, 2004	2,066	4,954	666	38,456	46,142
------------------------------	-------	-------	-----	--------	--------

**Accumulated Depreciation**

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	Machinery and Equipment	Office Equipment and Computers	Vehicles	Building	Leasehold Improve- ments	Total	Total
Balance at January 1, 2004 (*)	1,740	4,122	599	4,899	11,360		
Additions	55	320	39	1,074	1,488		
Disposals	-	-	-	-	-		
Balance at December 31, 2004	1,795	4,442	638	5,973	12,848		
Depreciated Cost at December 31, 2004	271	512	28	32,483	33,294		
Depreciated Cost at December 31, 2003	326	817	67	33,377	34,587		

(\*) Reclassified.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 8 - FIXED ASSETS, NET (cont. )**

(1) Building:

- a. An investment in a building in Rosh Ha Ayin in which the Company and its Israeli Investee companies conduct their activities. The Company has capitalized leasehold on the land on which the building is erected. The lease expires in 2042.
- b. Includes capitalized financial expenses of NIS 1,307 thousand.

(2) As to pledges, see Note 15B.

**NOTE 9 - OTHER ASSETS AND DEFERRED EXPENSES**

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Deferred taxes	85	369	1,097	-	527
Deferred issue expenses	131	564	-	564	-
Goodwill (1)	-	-	213	-	-
Know-how (1)	24	103	215	103	215

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Consolidated			Company	
240	1,036	1,525	667	742

Based on the business environment and market conditions in the US, where a consolidated company operates, a consolidated company concluded that signs, indicating a possible impairment of goodwill, exist.

The consolidated company examined the utilization value of goodwill and the provision for impairment for the year 2004 was set for NIS 99 thousand.

(1) Cost of goodwill and know-how is NIS 362 thousand and NIS 325 thousand, respectively.

**NOTE 10 - CREDIT FROM BANKS**

**A. Composition**

	Rate of Interest % (1)	Consolidated			Company	
		December, 31	December, 31	December, 31	December, 31	December, 31
		2004	2004	2003	2004	2003
		U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Overdrafts	6.5	3	12	107	9	17
Short-term loans						
in NIS	5.8	1,821	7,843	7,340	7,843	7,340
in U.S dollars	5	528	2,273	2,245	-	-
In Swiss Franks	2.1	618	2,664	2,486	2,664	2,486
Current maturities of long-term loans		565	2,436	3,763	2,436	3,763
		3,535	15,228	15,941	12,952	13,606

(1) As at December 31, 2004.

B. As to guarantees for the loans, see Note 15B.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 11 - TRADE PAYABLES**

Consolidated			Company	
December, 31	December, 31	December, 31	December, 31	December, 31
2004	2004	2003	2004	2003

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	Consolidated			Company	
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Open balances	1,230	5,299	4,804	2,227	2,262
Checks for collection	127	554	590	402	86
	1,359	5,853	5,394	2,629	2,348

**NOTE 12 - OTHER PAYABLES AND CREDIT BALANCES**

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Income in advance	237	1,023	1,544	896	1,481
Customers advances	112	483	835	230	134
Payroll and related expenses	380	1,638	2,291	850	934
Liabilities to interested parties (1)	117	505	942	505	942
Liabilities to a proportionately consolidated company	-	-	1,668	-	3,335
Accrued expenses	996	4,291	3,947	3,291	3,195
Institutions	297	1,280	2,266	9	12
Provision for deferred taxes	38	163	-	163	-
Other payables and credit balances	221	950	852	364	158
	2,398	10,333	14,345	6,308	10,191

(1) Unlinked and free of interests.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 13 - LOANS FROM BANKS**

A. Composition

Rate of Interest %	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31

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	Consolidated			Company		
	(1)	2004	2004	2003	2004	2003
		U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Loans in Japanese Yen	3	1,407	6,064	6,392	6,064	6,392
Loans in U.S dollars	5.5	1,489	6,416	7,050	6,416	7,050
Loan in NIS linked to the CPI	6	1,638	7,056	7,837	7,056	7,837
		4,534	19,536	21,279	19,536	21,279
With deduction of current maturities		565	2,436	3,763	2,436	3,763
		3,969	17,100	17,516	17,100	17,516

Repayment by years

In the first year - current maturities	565	2,436	3,763	2,436	3,763
- In the second year	585	2,523	3,763	2,523	3,763
- In the third year	602	2,594	3,763	2,594	3,763
- In the fourth year	620	2,669	3,763	2,669	3,763
- In the fifth year and thereafter	2,162	9,314	6,227	9,314	6,227
	3,969	17,100	17,516	17,100	17,516
	4,534	19,536	21,279	19,536	21,279

(1) As at December 31, 2004.

B. As to guarantees for the loans, see Note 15B.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 14 - LIABILITY FOR TERMINATION OF EMPLOYEE/EMPLOYER RELATIONSHIP, NET**

The liability of the Company and its Investee companies to pay severance pay to their employees is covered by the provision and by the payment of premiums for managers' insurance policies. In addition, the companies make payments into a general provident fund. The amounts deposited in the provident fund and the amounts paid for managers' insurance policies in the names of the companies include accrued profits and may be withdrawn subject to restrictions determined by law.

Composition:

	Consolidated			Company	
	December, 31	December, 31	December, 31	December, 31	December, 31
	2004	2004	2003	2004	2003
	U.S.\$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Liability for severance pay	90	389	953	23	468
Less deposits in a provident fund	(189)	(813)	(834)	(586)	(549)
	(99)	(424)	119	(563)	(81)

The above amounts are represented in the balance sheet as follows:

Liability for termination of employee/employer relationship, net	32	139	200	-	-
Excess of provident fund over liability for termination of employee/employer relationship	(131)	(563)	(81)	(563)	(81)
	(99)	(424)	119	(563)	(81)

The provision for severance pay for director-shareholders assumes that their employment will terminate under circumstances, which do not entitle them to increased severance pay.

In this regard, and as to risk life insurance for the benefit of related parties, see Note 18.

## NOTE 15 - COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

### A. Contingent liabilities

#### 1. Royalties and know-how

The Company, a consolidated company and a proportionately consolidated company are committed to pay royalties on products developed under projects supported by the Office of the Israeli Chief Scientist, at the rate of 2% - 4.6% of the sale price, limited to the amount of grant received (linked to the US dollar). As of the balance sheet date the grant balance on which royalties have not yet been accrued amounts to US\$ 3.2 millions in the consolidated statements. In February 2004, the Company received a letter from the Office of the Chief Scientist, stating the Company is required to pay approximately US \$900 thousand due to royalties payments differences for the years 1996-2002. The said letter was lacking any supporting documentation and the Company completely rejects the demand completely.

The Company, based on its legal advisors, does not project any additional payments to the Office of the Chief Scientist beyond the amounts included in the financial statements.



RoboGroup T.E.K. Ltd.

Notes to Financial Statements

*(NIS in Thousands)***NOTE 15 - COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES (cont.)****A. Contingent liabilities (cont.)****2. Claims**

1. A claim was filed against the Company by a subcontractor of a former consolidated company in the Labor Court for payment of approximately NIS 320 thousand, for an alleged debt of the Company to the plaintiff.
2. The Company and the consolidated company have filed a legal claim, in the amount of 2.6 million NIS against Fourier Systems 1989 Ltd. (Hereafter: Fourier ) due to unlawful use of trade secrets, other commercial wrongful acts and breach of a distribution agreement. Fourier has filed a counter legal claim in the amount of 3 million NIS.

Due to the preliminary stages of the legal claim, the Company is unable to estimate the prospects of these legal claims. Therefore, the Company has not made any provision in its financial statements.

**B. Pledges****1. The Company**

- (a) In order to obtain credit from a bank the Company pledged to the bank its real estate rights and the right to receive rent payments.
- (b) In order to obtain credit from a bank, the Company is obliged to retain a financial ratio of shareholders equity to total consolidated balance sheet assets of at least 27%. In case the company will not retain this ratio the company will be required to pay off its liabilities to the bank. The credit from the bank amounts to approximately NIS 5 million, and the Company retains the required financial ratio.
- (c) The Company has pledged vehicles and mortgaged its portfolio of marketable securities, notes and other securities as security for the receipt of credit and other banking services.
- (d) The Company has entered an obligation to support the working capital including bank credit payments of a consolidated company, if and when requested by the bank during the year ending on December 31, 2005.
- (e) The Company has given a guarantee for up to US \$3 million for the liabilities of a consolidated company to a bank. To the balance sheet date, this guarantee was not utilized.

**2. Consolidated Companies**

- (a) A consolidated company has given a bank floating pledge on its assets to secure credit from this bank when requested by that Company. At the balance sheet date the credit line is approximately US \$850 thousand. The utilized credit at the balance sheet date is US \$530 thousand. According to the agreement with the bank, credit is subject to retaining certain financial ratios. At the balance sheet date the consolidated company does not comply with these financial ratios and has received a letter of renunciation from the bank regarding the aforementioned period. Correspondingly, the interest rate of the loan was increased by 0.75%.

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- (b) A consolidated company has given a bank a senior floating pledge on its notes.
- (c) A consolidated company has pledged to a bank its vehicles and its right to receive payments from a customer.
- (d) A consolidated company has given an unlimited guarantee for the Company's liabilities to the bank. To the balance sheet date, the guarantee was not utilized.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

### NOTE 16 - SHARE CAPITAL

1. Company's shares held by the Company itself:

For December, 31	
2004	2003
388,925	494,321

Number of shares

2. On June 22, 2004 the Company entered into a standby equity distribution agreement with Cornell Capital Partners LP company (hereinafter- Cornell ), according to which Cornell committed to purchase the Company's ordinary shares, those will be sold to her by the Company and/or allotted by it up to a total amount of US\$ 5.5 million and over the course of 24 months starting from the American Security Stock Exchange (hereinafter SEC ) approval of effective registration of offered shares for trade.

Execution of sales of shares to Cornell will be upon the Company's judgement and according to its needs on the relevant dates, providing every aforementioned sale or allotment will not exceed the scope of US\$ 250 thousand and the frequency of sales will not exceed once a week.

The shares will be sold and/or allotted to Cornell in average daily market price of the shares, weighted according to volume of trade, the lowest daily volume weighted average price of the common stock during the five consecutive trading days period beginning on the first trading day after the requested purchase date.

Pursuant to the agreement the Company did not obligate to issue common stock to Cornell in a minimum somewhat amount.

Upon the initial purchase of shares and all subsequent purchases, Cornell shall receive compensation equal to five percent (5%) of the gross proceeds of the purchase, and additional payments as shown hereunder:

1. US \$90 thousand will be paid after effectiveness of the registration statement from the SEC.
2. An additional US \$111 thousand dollars at the earlier of the following:
  - a. The day the Company draws more than 2 million dollars from proceeds of its shares.
  - b. The day on which an initial purchase statement will be published after the first anniversary to this agreement.

The agreement states that in any case Cornell can purchase and hold up to 5% of the Company's ordinary shares.

The agreement was approved by the Company's General Assembly on August 11, 2004.

In September 2004, SEC validated the registration of the proposed stocks for trade (Form F-2).

In December 2004, the Company transferred 105,396 shares, from treasury stock held by it, as payment of commission of approximately \$100 thousands to Cornell and a trustee company as part of the agreement. This commission was included in the financial statements as deferred expenses.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 16 - SHARE CAPITAL (cont.)

3. Program for purchasing the Company's shares:

On October 10, 2002 the Company's Board of Directors resolved to buy up to US \$450,000 of the Company's shares and to reconsider the resolution after each US \$100,000 acquisition.

The amount of the distribution sought to be approved by the Court, in April 2003, was NIS 2,140 thousand.

4. Programs for issuing shares to directors and options to employees:

a) In November 1996 (hereinafter "program 1996") the Company's Board of directors approved a plan to allot 450,000 options to buy ordinary shares of the Company of par value NIS 0.5 each for an exercise price equal to \$ 0.5 per option, according to market price at the approval date. The plan is designated for employees who are not related parties to the Company.

On February 9, 1998, 405,000 options were issued to a trustee. Exercise of the options is conditional on the beneficiary being employed by the Company or its subsidiary under certain rules set by the plan. The right to exercise the option will expire on December 31, 2006.

Below is the balance of the options issued in 1996:

	<b>For December, 31</b>	
	<b>2004</b>	<b>2003</b>
Number of options exercised by employees	299,800	298,200
Number of options expired	44,600	43,600
Number of options exercisable by employees	60,600	63,200

b) On November 11, 2002 (hereinafter- "plan 2002") the Company's Board of Directors approved a plan to allot 1,270,000 options to buy ordinary shares of the Company of par value NIS 0.5 each in consideration for an exercise price equal to share price at grant date. The plan includes an allotment of 570,000 options to directors of the Company. The balance of 700,000 options is reserved for the employees of the Company and its consolidated companies in Israel and overseas. The vesting period is over 5 years from the date of issuance.

The Company issued options to a trustee for directors and employees of the company and the subsidiary companies according to section 102 to the Israeli Tax Ordinance capital gain track. In addition, the Company issued 190,000 options to the directors according to the option plan.

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Plan's activity as follows:

	\$ Exercise price	Number of options
Number of options granted during the year 2003 (*)	0.91-1.03	1,027,500
Number of options expired during the year 2003		(90,000)
		937,500
Balance at December 31, 2003		937,500
Number of options granted during the year 2004	0.74-0.83	210,000
Number of options expired during the year 2004		(57,000)
		1,090,500
Balance at December 31, 2004		1,090,500
Balance of exercisable options on 31.12.2004	0.92	176,100

(\*) See note 18 c 3 regarding options granted to interested parties.

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**RoboGroup T.E.K. Ltd.**

**Notes to Financial Statements**

*(NIS in Thousands)*

**NOTE 17 - FINANCIAL INSTRUMENTS AND CREDIT RISKS**

- A. The Company and its investee companies did not enter into significant futures contracts in the the years 2002-2004.
- B. The cash, cash equivalents and short-term investments of the Company and its Investee companies (the Group), are deposited mainly in Israeli and U.S. banks.

Approximately 11.5% of the Company's sales are made in Israel. Out of aforementioned, 5% of Company's sales are to a large number of customers who are mainly local municipalities and educational institutions.

Export sales and sales overseas are made mainly through dealers, and via them to a large number of end users.

The breakdown of customer credit as of December 31, 2003 amounting to approximately NIS 15,282 thousand in the consolidated statements and to approximately NIS 5,726 thousand in the Company's statements is as follows:

- (1) Customer receivables due from local municipalities or educational institutions in Israel amount to approximately NIS 1.1 million in the consolidated statements.
- (2) Other customer receivables amount to approximately NIS 14.1 million in the consolidated statements and to NIS 5.7 million in the Company's statements.
- (3) Group's sales to customers in Israel and abroad, are generally conducted by credit, as accepted.

Credit to customers in South Africa countries, Asia, Africa and Eastern Europe is secured by notes.

- (4) A proportionately consolidated company with revenues of approximately 10.5 million NIS (in 2003, approximately NIS 7 million), that is included in the consolidated statement of operations, has one principal

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customer (who holds the other 50% of the company).

The sales to this customer accounted for in 2004 are approximately 50% of this proportionately consolidated company's sales (in 2003 90%).

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 18 - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

A. Balances of related parties:

	Consolidated			Company	
	December, 31 2004 U.S.\$ (K)	December, 31 2004 NIS (K)	December, 31 2003 NIS (K)	December, 31 2004 NIS (K)	December, 31 2003 NIS (K)
<b>Current assets</b>					
Related parties	-	-	138	-	138
Proportionately consolidated companies	10	44	-	88	-
<b>Long term investments</b>					
Debit balance of consolidated companies (1)	-	-	-	29,220	28,028
<b>Current liabilities</b>					
Liabilities to related parties	117	505	942	505	942
Proportionately consolidated companies	-	-	1,668	-	3,335

(1) A sum of NIS 5,282 thousand linked to foreign currency (in 2003 NIS 6,124 thousand).

B. Income and expenses with interested and related parties

	Consolidated				Company		
	Year ended December, 31 2004 U.S.\$ (K)	Year ended December, 31 2004 NIS (K)	Year ended December, 31 2003 NIS (K)	Year ended December, 31 2002 NIS (K)	Year ended December, 31 2004 NIS (K)	Year ended December, 31 2003 NIS (K)	Year ended December, 31 2002 NIS (K)
Sales to consolidated companies	-	-	-	-	5,800	5,769	8,342
Sales to proportionately consolidated companies	447	1,924	-	-	3,848	-	-
Purchases from consolidated companies	-	-	-	-	2,411	1,734	348
Purchases from proportionately consolidated companies	17	72	-	101	143	-	202

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	Consolidated				Company			
Payroll for related parties employed by the company	535	2,306	2,723	3,370	2,306	2,723	3,370	
Number of related parties, employed by the Company	3	3	3	4	3	3	4	
Compensation to directors, not employed by the Company	54	232	213	156	232	213	156	
Number of directors, not employed by the Company	6	6	6	5	6	6	5	
Participation of consolidated companies in expenses	-	-	-	-	266	370	905	
Participation of proportionately consolidated companies in expenses	91	391	465	360	782	914	720	
Interest from consolidated companies	-	-	-	-	132	52	321	
Rent income from consolidated companies	-	-	-	-	230	382	63	
Rent income from proportionately consolidated companies	96	415	406	471	830	812	942	

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 18 - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (cont. )**

**C. Transactions with interested and related parties**

**1. Interested parties employed by the Company**

- a. Pursuant to an agreement, approved on January 13, 1996, terms of employment of related parties who are employed by the Company (as directors and officers) include monthly salary linked to the changes in the CPI, in addition of social benefits, risk-life insurance in an amount of US \$1 million for each, and assurance of real increment annually of 5% or 10%, on condition that the consolidated pre-tax earnings will equal or be greater than \$0.5 million and \$1 million, respectively.

Additional annual bonuses on earnings for the related parties are:

Where the consolidated pre-tax earnings are less than \$1 million - 2.49% of those earnings.

Where the annual earnings are between \$1 million and \$2 million - 5.01% of those earnings.

Where the annual earnings exceed \$2 million - 7.50% of those earnings.

In addition, these related parties are entitled, in the event of dismissal, to enlarged severance pay of 175% for the period of their employment in the Company. The Company did not include a provision for enlarged severance pay that will apply in case of dismissal in its financial statements, as to the Company's assessment, the probability of its realization is unlikely.

The agreement is for a period of three years. At completion of first period and with completion of any additional extension period, employment agreements will be extended for an additional period of three years subject to

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approval of auditing committee and board of directors. A non-extended agreement will be accounted for as dismissal.

- b. As of November 2001, by the initiative of three related parties, a temporary decrease of approximately 15% of salary cost took place. (hereinafter the first decrease ).

As of June 2004, by the initiative of three related parties, an additional temporary decrease of approximately 23% of salary cost after the first decrease, took place. (hereinafter the second decrease ).

- c. Total cost of salary of three related parties, following the aforementioned decreases, sums up to approximately NIS 160 thousand a month.
- d. On December 27, 2004 the Company's Auditing Committee and its Board of Directors, approved of an additional extension of aforementioned employment agreements for an additional period of three years. The related parties agreed by their own initiative to continuance of salary decreases (both first and second) during the year 2005. Salary decreases in the year 2005 will be retroactively cancelled under following terms:

When pre-tax consolidated earnings after cancellation of the decrease will be positive, the second decrease, amounting to NIS 45 thousand a month will be cancelled.

When pre-tax consolidated earnings after cancellation of the decreases will exceed \$ 0.5 million, the first decrease, amounting to NIS 35 thousand a month will be cancelled as well.

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**RoboGroup T.E.K. Ltd.**

**Notes to Financial Statements**

*(NIS in Thousands)*

**NOTE 18 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND INVESTEE (cont. )**

C. Transactions with interested and related parties (cont.)

2. An interested party, not employed by the Company, is entitled to risk-life insurance in an amount of \$333 thousand.

Additionally, the aforementioned is entitled to annual bonuses on earnings as follows:

Where the consolidated pre-tax earnings are less than \$1 million 0.83% of those earnings.

Where the annual earnings are between \$1 million and \$2 million 1.67% of those earnings.

Where the annual earnings exceed \$2 million 2.50% of those earnings.

3. In the year 2003 270,000 options were issued to related parties employed by the Company and 300,000 options to related parties not employed by the Company, with exercise price of \$0.91 for each option. See note 16 4 b.
4. The Company maintains a Directors and Officers Liability Insurance Policy in the amount of approximately \$ 5 million.
5. The Company has irrevocably undertaken to indemnify its directors and officers for any liability or expense incurred by them due to an act, including an omission, performed by them in their capacity as officers of the Company. The amount of the indemnification under the letters of indemnification to all the recipients of the indemnification, cumulatively for a single event, will not exceed an amount in NIS equal to US\$ 4 million.

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The Company has also provided its directors and officers indemnification letters according to which the Company will irrevocably indemnify each such director and officer (under Section 259 of the Companies Law), from liability for damages caused to the Company due to the breach of the officers' or director's duty of care to the Company.

6. In October 2003, the Company entered into a contract with a proportionately consolidated company for the supply of a LearnMate platform, in consideration of 850 thousand dollars.

The system was supplied on March 31, 2004 and revenues from it were included as part of revenues for the year 2004.

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**RoboGroup T.E.K. Ltd.**

**Notes to Financial Statements**

*(NIS in Thousands)*

### NOTE 19 - LINKED BALANCES

December 31, 2004

Linked to US dollar	Linked to Euro	Linked to Japanese Yen	Linked to Swiss Franks	Linked to the CPI	Unlinked	Autonomous Unit & Non- monetary items	Total
NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)

#### Consolidated

##### Assets

Cash and cash equivalents	4,842	990	-	-	-	870	255	6,957
Short-term investments	99	-	-	-	-	-	-	99
Trade receivables	5,893	1,493	-	-	-	2,205	5,691	15,282
Other receivables and debit balances	40	-	-	-	-	1,811	242	2,053
Inventories	-	-	-	-	-	-	9,372	9,372
Funds in respect of employee rights upon retirement, net	-	-	-	-	-	563	-	563
Fixed assets, net	-	-	-	-	-	-	36,548	36,548
Other assets and deferred expenses	-	-	-	-	-	564	472	1,036
	<u>10,874</u>	<u>2,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,013</u>	<u>52,580</u>	<u>71,950</u>

##### Liabilities

Short-term bank credits	694	-	656	2,664	1,087	7,854	2,273	15,228
Trade payables	173	105	599	-	-	3,176	1,800	5,853
Other payables and credit balances	3,408	-	-	-	-	6,279	646	10,333
Long-term loans	5,722	-	5,409	5,969	-	-	-	17,100
Deferred taxes	-	-	-	-	-	163	-	163
Liability for termination of employee/employer	-	-	-	-	-	139	-	139



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December 31, 2004

relationship, net

	9,997	105	6,664	2,664	7,056	17,611	4,719	48,816
<b>Excess of assets (liabilities)</b>	877	2,378	(6,664)	(2,664)	(7,056)	(11,598)	47,861	23,134

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 19 - LINKED BALANCES

December 31, 2003

Linked to US dollar	Linked to Japanese Yen	Linked to Swiss Franks	Linked to the CPI	Unlinked	Autonomous Unit & Non-monetary items	Total
NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)

Consolidated

Assets

Cash and cash equivalents	13,266	-	-	-	1,304	308	14,878
Short-term investments	-	-	-	-	-	-	-
Trade receivables	6,076	-	-	-	2,806	4,335	13,217
Other receivables and debit balances	52	-	-	-	1,934	306	292
Inventories	-	-	-	-	-	13,603	13,603
Investments in other companies	-	-	-	-	-	15	15
Funds in respect of employee rights upon retirement, net	-	-	-	-	81	-	81
Fixed assets, net	-	-	-	-	-	38,233	38,233
Other assets and deferred expenses	-	-	-	-	682	843	1,606
	19,394	-	-	-	6,807	57,643	83,844

Liabilities

Short-term bank credits	1,226	1,112	2,486	1,425	7,447	2,245	15,941
Trade payables	412	-	-	-	3,554	1,428	5,394
Other payables and credit balances	5,755	-	-	-	8,045	545	14,345
Long-term loans	5,824	5,280	-	6,412	-	-	17,516
Liability for termination of employee/employer relationship, net	-	-	-	200	-	-	200

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December 31, 2003

	13,217	6,392	2,486	8,037	19,046	4,218	53,396
<b>Excess of assets (liabilities)</b>	6,177	(6,392)	(2,486)	(8,037)	(12,239)	53,425	30,448

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 19 - LINKED BALANCES (cont. )

December 31, 2004

	Linked to US dollar	Linked to Euro	Linked to Japanese Yen	Linked to Swiss Franks	Linked to the CPI	Unlinked	Autonomous Unit & Non- monetary items	Total
	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
<b>Company</b>								
<b>Assets</b>								
Cash and cash equivalents	2,676	18	-	-	-	657	-	3,351
Short-term investments	99	-	-	-	-	-	-	99
Trade receivables	4,449	1,277	-	-	-	-	-	5,726
Other receivables and debit balances	-	-	-	-	-	1,086	-	1,086
Inventories	-	-	-	-	-	-	3,261	3,261
Investment in invests	5,282	-	-	-	22,508	1,430	(14,981)	14,239
Funds in respect of employee rights upon retirement, net	-	-	-	-	-	563	-	563
Fixed assets, net	-	-	-	-	-	-	33,294	33,294
Other assets and deferred expenses	-	-	-	-	-	564	103	667
	12,506	1,295	-	-	22,508	4,300	21,677	62,286
<b>Liabilities</b>								
Short-term bank credits	694	-	656	2,664	1,087	7,851	-	12,952
Trade payables	129	50	-	-	-	2,450	-	2,629
Other payables and credit balances	2,846	-	-	-	-	3,462	-	6,308
Long-term loans	5,722	-	5,409	-	5,969	-	-	17,100
Deferred taxes	-	-	-	-	-	163	-	163

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	9,391	50	6,065	2,664	7,056	13,926	-	39,152
<b>Excess of assets (liabilities)</b>	<b>3,115</b>	<b>1,245</b>	<b>(6,065)</b>	<b>(2,664)</b>	<b>15,452</b>	<b>(9,626)</b>	<b>21,677</b>	<b>23,134</b>

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 19 - LINKED BALANCES (cont. )

December 31, 2003

Linked to US dollar	Linked to Japanese Yen	Linked to Swiss Franks	Linked to the CPI	Unlinked	Autonomous Unit & Non- monetary items	Total
NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)

Company

Assets

Cash and cash equivalents	8,198	-	-	-	1,262	-	9,460
Trade receivables	2,764	-	-	-	-	-	2,764
Other receivables and debit balances	-	-	-	-	1,487	-	1,487
Inventories	-	-	-	-	-	4,979	4,979
Investments in invests and other companies	6,124	-	-	18,869	2,229	(7,213)	20,009
Funds in respect of employee rights upon retirement, net	-	-	-	-	81	-	81
Fixed assets, net	-	-	-	-	-	34,587	34,587
Other assets and deferred expenses	-	-	-	-	527	215	742
	<b>17,086</b>	<b>-</b>	<b>-</b>	<b>18,869</b>	<b>5,586</b>	<b>32,568</b>	<b>74,109</b>

Liabilities

Short-term bank credits	1,226	1,112	2,486	1,425	7,357	-	13,606
Trade payables	161	-	-	-	2,187	-	2,348
Other payables and credit balances	6,930	-	-	-	3,261	-	10,191
Long-term loans	5,824	5,280	-	6,412	-	-	17,516
	<b>14,141</b>	<b>6,392</b>	<b>2,486</b>	<b>7,837</b>	<b>12,805</b>	<b>-</b>	<b>43,661</b>
<b>Excess of assets (liabilities)</b>	<b>2,945</b>	<b>(6,392)</b>	<b>(2,486)</b>	<b>11,032</b>	<b>(7,219)</b>	<b>32,568</b>	<b>30,448</b>

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

*(NIS in Thousands)***NOTE 20 - FINANCIAL DATA REGARDING SEGMENTS ACCORDING TO COMMERCIAL AND GEOGRAPHICAL AREAS**1. General

The Company operates in two operational segments: robotic products, automation products, software and distance learning in the field of education and training ( education segment ) and motion control products for the industrial market ( motion control for industry ).

In previous years the Company operated in addition in developing a technology whose aim was to reduce the time required for locating and retrieving information in computers and communication networks, through its consolidated companies, MemCall LLC and MemCall Ltd. ( MemCall ). This operation was significantly reduced in the year 2004 and is no longer qualified as a reportable segment.

## 2. Financial data regarding the reportable operational segments:

<b>Consolidated</b>			
<b>Education segment</b>	<b>Motion control for industry</b>	<b>Adjustments</b>	<b>Total</b>
<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>

**For the year ended December 31, 2004****Information regarding operations:****Revenues:**

From customers	51,233	10,501	-	61,734
Inter-segment	-	71	(71)	-
<b>Total revenues</b>	<b>51,233</b>	<b>10,572</b>	<b>(71)</b>	<b>61,734</b>

<b>Segment operations</b>	(2,059)	(422)	1,577	(924)
Non allocated expenses				(4,050)
Operating loss				(4,974)
Other income				809
Financial expenses				(2,111)
Taxes on income				(1,411)
<b>Net loss</b>				<b>(7,687)</b>

**Other information:**

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Segment s assets	28,907	9,685	-	38,592
Non allocated assets				33,358
<b>Total consolidated assets</b>				<b>71,950</b>
Segment s liabilities	19,874	3,601	-	23,475
Non allocated liabilities				25,341
<b>Total consolidated liabilities</b>				<b>48,816</b>
Costs of purchase of fixed assets	263	258		
Depreciation and amortization	1,148	182		
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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 20 - FINANCIAL DATA REGARDING SEGMENTS ACCORDING TO COMMERCIAL AND GEOGRAPHICAL AREAS**  
(cont.)

2. Financial data regarding the reportable operational segments: (cont.)

Consolidated			
Education segment	Motion control for industry	Adjustments	Total
\$ (K)	\$ (K)	\$ (K)	\$ (K)

For the year ended December 31, 2004

Information regarding operations:

Revenues:

From customers	11,892	2,438	-	14,330
Inter-segment	-	16	(16)	-
<b>Total revenues</b>	<b>11,892</b>	<b>2,454</b>	<b>(16)</b>	<b>14,330</b>
<b>Segment operations</b>	<b>(478)</b>	<b>(98)</b>	<b>361</b>	<b>(215)</b>
Non allocated expenses				(940)
Operating loss				(1,155)
Other income				188
Financial expenses				(490)
Taxes				(327)
<b>Net loss</b>				<b>(1,784)</b>

**Other information:**

Segment s assets	6,710	2,248	-	8,958
Non allocated assets				7,743
<b>Total consolidated assets</b>				<b>16,701</b>
Segment s liabilities	4,613	836	-	5,449
Non allocated liabilities				5,882
<b>Total consolidated liabilities</b>				<b>11,331</b>
Costs of purchase of fixed assets	61	60		
Depreciation and amortization	267	42		
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**RoboGroup T.E.K. Ltd.****Notes to Financial Statements***(NIS in Thousands)***NOTE 20 - FINANCIAL DATA REGARDING SEGMENTS ACCORDING TO COMMERCIAL AND GEOGRAPHICAL AREAS (cont.)**

## 2. Financial data regarding the reportable operational segments: (cont.)

**Consolidated**

<b>Education segment</b>	<b>Motion control for industry</b>	<b>MemCall</b>	<b>Adjustments</b>	<b>Total</b>
<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>

**For the year ended December 31, 2003**

Revenues from customers	49,155	6,961	-	-	56,116
Inter-segment revenues	-	110	-	(110)	-
	49,155	7,071	-	(110)	56,116
Financing expenses, net	(3,249)	(403)	(131)	-	(3,783)
Depreciation and amortization	(2,138)	(161)	(298)	-	(2,597)
Segment loss	(10,649)	(1,752)	(5,482)	(110)	(17,993)

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Assets (at end of year)	36,961	962	300	-	38,223
Acquisition of fixed assets	948	112	15	-	1,075
<b>Consolidated</b>					
	<b>Education segment</b>	<b>Motion control for industry</b>	<b>MemCall</b>	<b>Adjustments</b>	<b>Total</b>
	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>
<b>For the year ended December 31, 2002</b>					
Revenues from customers	76,511	9,648	-	-	86,159
Inter-segment revenues	-	166	-	(166)	-
Revenues	76,511	9,814	-	(166)	86,159
Financing income (expenses), net	(1,650)	248	-	-	(1,402)
Depreciation and amortization	(2,247)	(154)	(284)	-	(2,685)
Segment profit (loss)	9,288	1,632	(7,445)	(166)	3,309
Assets (at end of year)	38,477	1,019	571	-	40,067
Acquisition of fixed assets	1,869	111	191	-	2,171

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 20 - FINANCIAL DATA REGARDING SEGMENTS ACCORDING TO COMMERCIAL AND GEOGRAPHICAL AREAS (cont.)**

3. Financial Data by Geographical Areas

Revenues by geographical areas:

Consolidated				Company		
Year ended December, 31				Year ended December, 31		
2004	2004	2003	2002	2004	2003	2002
U.S. \$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)

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North America	6,428	27,692	24,562	37,311	5,725	5,574	7,321
Israel	1,636	7,047	8,170	9,445	4,284	871	1,666
Far East	2,827	12,181	8,983	16,078	6,938	2,667	6,430
Europe	1,665	7,174	5,487	2,028	4,354	5,144	4,101
South America	1,438	6,195	3,699	10,129	6,195	3,699	10,129
Others	336	1,445	5,215	11,168	1,445	5,214	9,164
<b>Total</b>	<b>14,330</b>	<b>61,734</b>	<b>56,116</b>	<b>86,159</b>	<b>28,941</b>	<b>23,169</b>	<b>38,811</b>

Fixed assets by geographical areas

	Consolidated			Company	
	Year ended December, 31			Year ended December, 31	
	2004	2004	2003	2004	2003
	U.S. \$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Israel	8,018	34,541	36,031	33,294	34,587
U.S.A	465	2,004	2,192	-	-
	<b>8,483</b>	<b>36,545</b>	<b>38,223</b>	<b>33,294</b>	<b>34,587</b>

4. Major customers

A shareholder of proportionately consolidated company is a major customer of the Company with total sales to him in the year 2004 of approximately 12% of the consolidated sales.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 21 - REVENUES

	Consolidated				Company		
	Year ended December, 31				Year ended December, 31		
	2004	2004	2003	2002	2004	2003	2002
	U.S. \$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Production operations	12,588	54,228	42,639	68,129	28,941	23,169	38,481
Trade activities	515	2,220	7,166	8,217	-	-	-
Management fees	-	-	-	166	-	-	330
Development services							



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and royalties	1,227	5,286	6,311	9,647	-	-	-
	<u>14,330</u>	<u>61,734</u>	<u>56,116</u>	<u>86,159</u>	<u>28,941</u>	<u>23,169</u>	<u>38,811</u>

**NOTE 22 - COST OF REVENUES**

	Consolidated				Company		
	Year ended December, 31				Year ended December, 31		
	2004	2004	2003	2002	2004	2003	2002
	U.S. \$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Cost of manufacturing operations	7,870	33,905	28,851	37,519	16,667	14,558	19,008
Cost of commercial operations	149	640	2,721	2,754	-	-	-
Cost of development services and royalties	301	1,298	1,026	1,139	-	-	-
	<u>8,320</u>	<u>35,843</u>	<u>32,598</u>	<u>41,412</u>	<u>16,667</u>	<u>14,558</u>	<u>19,008</u>
Materials consumed	4,189	17,924	12,548	22,188	6,039	4,524	7,891
Payroll and related expenses	2,171	9,355	10,925	11,503	4,746	6,141	5,801
Subcontractors	299	1,287	1,986	2,629	1,261	1,946	2,841
Depreciation and amortization	105	451	341	495	308	203	231
Other	1,183	5,098	5,194	5,390	2,696	2,774	2,171
	<u>7,947</u>	<u>34,115</u>	<u>30,994</u>	<u>42,205</u>	<u>15,050</u>	<u>15,588</u>	<u>18,935</u>
Acquisition of commercial goods	127	549	2,406	2,762	-	-	-
Decrease (increase) in inventories of work-in-process	(45)	717	181	(444)	(196)	181	(444)
Decrease (increase) in finished products	269	343	(1,298)	(3,103)	1,813	(1,211)	517
Decrease (increase) in commercial products	21	119	315	(8)	-	-	-
	<u>245</u>	<u>1,179</u>	<u>(802)</u>	<u>(3,555)</u>	<u>1,617</u>	<u>(1,030)</u>	<u>73</u>
	<u>8,320</u>	<u>35,843</u>	<u>32,598</u>	<u>41,412</u>	<u>16,667</u>	<u>14,558</u>	<u>19,008</u>

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## NOTE 23 - ADDITIONAL DATA RELATING TO STATEMENTS OF OPERATIONS

	Consolidated				Company		
	Year ended December, 31				Year ended December, 31		
	2004	2004	2003	2002	2004	2003	2002
U.S. \$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	
<b>A. Research and Development</b>							
<b>Costs, Net</b>							
Research and development expenses	1,769	7,619	13,352	15,775	3,570	4,765	3,004
Less grants	-	-	701	3,020	-	-	-
	<u>1,769</u>	<u>7,619</u>	<u>12,651</u>	<u>12,755</u>	<u>3,570</u>	<u>4,765</u>	<u>3,004</u>
<b>B. Marketing and Sales</b>							
<b>Expenses</b>							
Payroll and related expenses	1,909	8,226	8,150	7,347	2,249	3,133	2,337
Advertising and trade shows	145	624	854	1,485	154	341	24
Depreciation and amortization	30	131	258	539	131	150	202
Others	981	4,223	3,360	4,869	2,058	1,662	968
	<u>3,065</u>	<u>13,204</u>	<u>12,622</u>	<u>14,240</u>	<u>4,592</u>	<u>5,286</u>	<u>3,531</u>
<b>C. Administrative and General Expenses</b>							
Payroll and related expenses	1,022	4,403	6,551	8,049	2,257	2,673	4,219
Depreciation and amortization	93	398	480	393	156	159	186
Doubtful debts	66	285	480	178	-	155	70
Others	1,150	4,956	7,058	5,010	3,048	3,672	2,948
	<u>2,331</u>	<u>10,042</u>	<u>14,569</u>	<u>13,630</u>	<u>5,461</u>	<u>6,659</u>	<u>7,423</u>
<b>D. Financial Income (Expenses), Net</b>							
Income (expenses) due from long-term debts	(273)	(1,175)	(88)	326	(764)	107	221
Expenses due from short-term credit	(217)	(936)	(3,695)	(1,728)	(982)	(3,750)	(2,326)
	<u>(490)</u>	<u>(2,111)</u>	<u>(3,783)</u>	<u>(1,402)</u>	<u>(1,746)</u>	<u>(3,643)</u>	<u>(2,105)</u>
<b>E. Other Income (Expenses)</b>							
Income from building rental, net	236	1,015	2,022	1,474	1,660	2,700	2,296
Profit (loss) from negotiable securities, net	21	92	(152)	166	95	(152)	(166)
Others	(69)	(298)	162	-	(112)	251	-

188	809	2,032	1,640	1,643	2,799	2,130
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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 24 - TAXES ON INCOME**A. Israeli income tax law (inflationary adjustments) 1985

Pursuant the law, the Company and consolidated companies measure results for tax purposes, on real basis according to changes in the Israeli CPI.

B. Composition of Tax Expense

	Consolidated				Company		
	Year ended December, 31				Year ended December, 31		
	2004	2004	2003	2002	2004	2003	2002
U.S. \$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	
Current taxes	74	320	-	859	266	-	-
Deferred taxes	244	1,053	444	101	853	350	-
Previous year taxes	9	38	(526)	91	43	(392)	-
	327	1,411	(82)	1,051	1,162	(42)	-

- Current taxes expenses as of 2004 include an amount of 240 thousands NIS due to dividend distribution from approved enterprise income of proportionately consolidated company.
- Deferred taxes expenses as of 2004 include an amount of 330 thousand NIS due to the company's share in approved enterprise income of proportionately consolidated company, that have yet been distributed and due to depreciation of tax benefits receivable as a result of a lack in certainty on its realization.

C. Changes in Deferred Taxes:

	Consolidated			Company			
	Balance at Dec. 31	Changes in the year	Balance at Dec. 31	Balance at Dec. 31	Balance at Dec. 31	Changes in the year	Balance at Dec. 31
	2003	2004	2004	2004	2004	2004	2003
	NIS (K)	NIS (K)	NIS (K)	U.S.\$	NIS (K)	NIS (K)	NIS (K)

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Short-term deferred taxes	201	-	201	47	-	-	-
Long-term deferred taxes	414	(45)	369	85	-	-	-
Provision for short term taxes	-	(163)	(163)	(38)	-	(163)	(163)
Provision for long term taxes	-	(163)	(163)	(38)	-	(163)	(163)
	<u>615</u>	<u>(371)</u>	<u>244</u>	<u>56</u>	<u>-</u>	<u>(326)</u>	<u>(326)</u>
Tax advances on account of undeductible expenses	682	(682)	-	-	527	(527)	-
	<u>1,297</u>	<u>(1,053)</u>	<u>244</u>	<u>56</u>	<u>527</u>	<u>(853)</u>	<u>(326)</u>

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 24 - TAXES ON INCOME (cont. )

D. Below is a reconciliation between the theoretical tax expense (the regular tax rates applied to the reported income before tax) and the tax expense for the Group:

	Consolidated				Company		
	Year ended December, 31 2004	Year ended December, 31 2004	Year ended December, 31 2003	Year ended December, 31 2002	Year ended December, 31 2004	Year ended December, 31 2003	Year ended December, 31 2002
	U.S. \$ (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)	NIS (K)
Income (loss) before taxes	(1,457)	(6,276)	(18,075)	4,360	(1,452)	(8,943)	5,870
Statutory tax rate	35%	35%	36%	36%	35%	36%	36%
Theoretical tax	(510)	(2,197)	(6,507)	1,570	(508)	(3,219)	2,112
Increase (decrease) in tax due to:							
Losses utilized during previous years	(3)	(15)	-	(3,043)	-	-	(2,218)
Permanent differences	(12)	(51)	345	283	16	271	194
Previous years taxes	9	38	(526)	91	43	(392)	-
Items in respect of which no tax benefits were recorded	846	3,647	6,606	2,690	1,611	3,298	(88)
Tax benefits from an approved enterprise	(3)	(12)	-	(540)	-	-	-
	<u>837</u>	<u>3,608</u>	<u>6,425</u>	<u>(519)</u>	<u>1,670</u>	<u>3,177</u>	<u>(2,112)</u>
Taxes on income	<u>327</u>	<u>1,411</u>	<u>(82)</u>	<u>1,051</u>	<u>1,162</u>	<u>(42)</u>	<u>-</u>

E. Tax rates at which the taxes were calculated:

Current taxes 22% - 35%

Deferred taxes 22% - 35%

In a proportionately consolidated company, the tax rate that was taken into account for the calculation of deferred taxes was 22%, which is the weighted tax rate that is expected to apply upon utilization of the benefits due to the approved enterprise (See note 24G).

The Company and consolidated companies have carry forward tax losses amounting to approximately NIS 13 million and NIS 33 million, respectively.

The Company and consolidated companies did not state deferred taxes asset regarding these losses, as there is an uncertainty in utilization possibility.

Consolidated company has a carry forward loss of NIS 6 million that can be utilized between 2005 and 2024.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

NOTE 24 - TAXES ON INCOME (cont. )

F. Decrease in corporate tax rates:

On June 29, 2004 an amendment to the Income Tax Law (number 140 and hourly instruction), 2004 was passed by the Knesset (Israeli Parliament). This amendment asserts a gradual reduction in the rate of corporate tax from 36% to 30% as follows:

In the year 2004 the tax rate will be 35%, in the year 2005 the tax rate will be 34%, in the year 2006 the tax rate will be 32% and from the year 2007 and forward the tax rate will be 30%.

The impact of changes in tax rate over the consolidated financial statements, results of operations and cash flows is not material.

G. Benefits of approved enterprise:

Certain investments in fixed assets made by proportionately consolidated company have been granted an approved enterprise status subject to the law. The Company chose the alternative income course, accordingly income from the approved enterprise will be exempt from taxes for two years after which a reduced tax rate of 20% will be enacted for the remaining benefit period. The benefit period is a 10 year period beginning in the year in which the company first generates taxable income and contingent to a time period limitation as stated in the law. These benefits are contingent on an investment by foreigners of at least 50%. The program was enacted in 2000 and accordingly the benefit period is expected to end in 2009. Dividends distributed from approved enterprise income will be liable for a 15% corporate tax rate. If the company should distribute dividends from exempt income, at 20% tax rate will be withheld of the amount distributed (see note 2 O). The above mentioned benefits are contingent on the company meeting the terms of the law and regulations and an authorization letter according to which the company invested in an approved enterprise. Non-fulfillment of these terms may lead to the cancellation of some or all of the above mentioned benefits and a demand for the repayment of certain amounts including interest.

H. Tax Benefits as an Industrial Company

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The Company and its proportionately consolidated company are Industrial companies, as defined by the Law for the Encouragement of Industry (Taxation) 1969 and, as such, are entitled to certain benefits, mainly accelerated depreciation and the right to claim expenses and amortization of intangible rights, at a period of 8 years, and expenses of registration of stock to commerce at a period of 3 years.

### I. Final tax assessments

The Company, its consolidated companies and its proportionately consolidated company have final tax assessments under the Law up to and including the tax year 2000.

### J. Consolidated companies abroad

Consolidated companies, incorporated abroad, are taxed according to tax laws in countries of their residence.

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**RoboGroup T.E.K. Ltd.**

**Notes to Financial Statements**

*(In Thousands NIS)*

## NOTE 25 - DATA IN NOMINAL TERMS FOR TAX PURPOSES

### A. Balance Sheets

	December 31,	
	2004	2003
	NIS (K)	NIS (K)
<b>Current Assets</b>		
Cash and cash equivalents	3,351	9,460
Short-term investments	99	-
Trade receivables	5,726	2,764
Other receivables and debit balances	1,086	1,487
Inventories	3,261	4,974
	13,523	18,685
<b>Long-term investments</b>		
Investments in investee and other companies	14,462	20,442
Funds in respect of employee rights upon retirement, net	563	81
	15,025	20,523
<b>Fixed Assets, net</b>	28,087	29,156

December 31,

Other assets and deferred expenses	672	531
------------------------------------	-----	-----

	<u>672</u>	<u>531</u>
--	------------	------------

	<u>57,307</u>	<u>68,895</u>
--	---------------	---------------

**Current Liabilities**

Credit from banks	12,952	13,606
-------------------	--------	--------

Trade payables	2,629	2,348
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Other payables and credit balances	6,308	10,191
------------------------------------	-------	--------

	<u>6,308</u>	<u>10,191</u>
--	--------------	---------------

	<u>21,889</u>	<u>26,145</u>
--	---------------	---------------

**Long-Term Liabilities**

Long-term bank loans	17,100	17,516
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Provision for deferred taxes	163	
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Liability for termination of employee/employer relationship, net		
--	--	--

	<u>17,100</u>	<u>17,516</u>
--	---------------	---------------

	<u>17,263</u>	<u>17,516</u>
--	---------------	---------------

**Shareholders Equity**

Share capital and capital reserves	28,850	28,679
------------------------------------	--------	--------

Accumulated deficit	(9,952)	(2,500)
---------------------	---------	---------

	<u>18,898</u>	<u>26,179</u>
--	---------------	---------------

Treasury stock	(743)	(945)
----------------	-------	-------

	<u>18,155</u>	<u>25,234</u>
--	---------------	---------------

	<u>18,155</u>	<u>25,234</u>
--	---------------	---------------

	<u>57,307</u>	<u>68,895</u>
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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

*(In Thousands NIS)*

NOTE 25 - DATA IN NOMINAL TERMS FOR TAX PURPOSES (cont. )

**B. Statements of Operations**

For the year ended  
December 31,

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For the year ended  
December 31,

	2004	2003	2002
	NIS (K)	NIS (K)	NIS (K)
Revenues	28,941	23,485	39,388
Cost of revenues	16,571	14,769	19,193
<b>Gross profit</b>	<b>12,370</b>	<b>8,716</b>	<b>20,195</b>
<b>Operating Expenses</b>			
Research and development expenses, net	3,553	4,840	3,038
Marketing and selling expenses	4,576	5,356	3,554
Administrative and general expenses	5,453	6,763	7,396
	13,582	16,959	13,988
<b>Operating Income (Loss)</b>	<b>(1,212)</b>	<b>(8,243)</b>	<b>6,207</b>
Financing expenses, net	(1,746)	(3,562)	(1,771)
Other income, net	1,742	2,965	2,372
Income (loss) before taxes	(1,216)	(8,840)	6,808
Taxes on income	1,163	(42)	-
Income (loss) before Company's share in results of Investee companies	(2,379)	(8,798)	6,808
Company's share in loss of Investee companies	(5,073)	(9,029)	(2,397)
<b>Net income (loss)</b>	<b>(7,452)</b>	<b>(17,827)</b>	<b>4,411</b>

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(In Thousands NIS)

NOTE 25 - DATA IN NOMINAL TERMS FOR TAX PURPOSES (cont. )

C. Statement of Changes in Shareholders' Equity

AUDITORS' REPORT

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	Number of shares (1)	Share capital	Premium on shares	Capital reserves	Adjustments on translation of financial statement of an autonomous consolidated company	Treasury stock	Retained Earnings (loss)	Total
	NIS	NIS	NIS	NIS	NIS	NIS	NIS	NIS
<b>Balance at January 1, 2002</b>	10,727,831	5,615	21,618	1,842	-	(945)	10,916	39,046
Exercise of options	3,000	1	4	-	-	-	-	5
Adjustment on translation of financial statements of an autonomous consolidated company	-	-	-	-	122	-	-	122
Net income	-	-	-	-	-	-	4,411	4,411
<b>Balance at December 31, 2002</b>	10,730,831	5,616	21,622	1,842	122	(945)	15,327	43,584
Exercise of options	13,200	7	19	-	-	-	-	26
Adjustment on translation of financial statements of an autonomous consolidated company	-	-	-	-	(549)	-	-	(549)
Net loss	-	-	-	-	-	-	(17,827)	(17,827)
<b>Balance at December 31, 2003</b>	10,744,031	5,623	21,641	1,842	(427)	(945)	(2,500)	25,234
Exercise of options	1,600	1	3	-	-	-	-	4
Issuance of treasury stock	105,396	-	247	-	-	202	-	449
Adjustment on translation of financial statements of an autonomous consolidated company	-	-	-	-	(80)	-	-	(80)
Net loss	-	-	-	-	-	-	(7,452)	(7,452)
<b>Balance at December 31, 2004</b>	10,851,027	5,624	21,891	1,842	(507)	(743)	(9,952)	18,155

(1) Issued and paid up after deduction of treasury stock.

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 26 - EFFECT OF VARIANCES BETWEEN ISRAELI GAAP AND U.S. GAAP IN THE CONSOLIDATED STATEMENTS**

The financial statements are represented according to Israeli GAAP.

The significant differences between the Israeli GAAP and the U.S. GAAP relate primarily to the following matters:

A. Proportional Consolidation

According to Israeli GAAP, an investment in jointly held investee companies is presented according to the proportionate consolidation method. According to U.S. GAAP, such an investment is presented according to the equity method.

B. Presentation of liability for termination of employee/employer relationship

According to Israeli GAAP, the sum of a funded provision in a provident fund is deducted from the related liability. According to U.S. GAAP, the offsetting of assets and liabilities in these circumstances is not acceptable.

C. Amortization of goodwill

According to Israeli GAAP, goodwill is amortized over the period it is expected to grant the Company future economic benefits. According to US GAAP, goodwill is only amortized in case of impairment.

D. Following are the effects of the differences on the financial statements:

	December 31, 2004				December 31, 2003		
	Financial Statements	Effect of Differences	After effect of differences	After effect of differences	Financial Statements	Effect of differences	After effect of differences
	NIS (K)	NIS (K)	NIS (K)	U.S.\$ (K) (*)	NIS (K)	NIS (K)	NIS (K)

**Balance Sheet**

Current assets	33,803	(8,125)	25,678	5,960	43,990	(11,778)	32,212
Fixed assets, net	36,548	(1,101)	35,447	8,228	38,233	(961)	37,272
Long-term investments	563	6,243	6,806	1,580	96	10,290	10,386
Other assets and deferred expenses	1,036	(369)	667	155	428	108	536
Current liabilities	31,414	(3,595)	27,819	6,458	35,680	(3,441)	32,239
Long-term liabilities	17,402	243	17,645	4,096	17,716	577	18,293

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RoboGroup T.E.K. Ltd.

Notes to Financial Statements

(NIS in Thousands)

**NOTE 26 - EFFECT OF VARIANCES BETWEEN ISRAELI GAAP AND U.S. GAAP IN THE CONSOLIDATED STATEMENTS**  
(cont. )

D. Following are the effects of the differences on the financial statements: (cont.)

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December 31, 2004

Financial Statements	Effect of differences	After effect of differences	After effect of differences
NIS (K)	NIS (K)	NIS (K)	U.S.\$ (K) *

**Profit and Loss**

Revenues	61,734	(10,501)	51,233	11,893
Gross profit	25,891	(4,875)	21,016	4,879
Operating loss	4,974	351	(4,623)	(1,072)

**Cash Flows**

Operating activities	(6,020)	6,450	430	100
Investment activities	(583)	258	(325)	(75)
Financing activities	(1,283)	-	(1,283)	(298)

December 31, 2003

Financial Statements	Effect of differences	After effect of differences
NIS (K)	NIS (K)	NIS (K)

**Profit and Loss**

Revenues	56,116	(6,960)	49,156
Gross profit	23,518	(4,182)	19,336
Operating loss	(16,324)	657	(15,667)

**Cash Flows**

Operating activities	(9,217)	2,729	(6,488)
Investment activities	(357)	104	(253)
Financing activities	174	-	174

December 31, 2002

Financial Statements	Effect of differences	After effect of differences
NIS (K)	NIS (K)	NIS (K)

**Profit and Loss**

Revenues	86,159	(9,488)	76,671
Gross profit	44,747	(7,836)	36,911
Operating income	4,122	(3,603)	519

**Cash Flows**

Operating activities	13,383	(4,195)	9,188
Investment activities	(748)	32	(716)
Financing activities	428	(244)	184

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RoboGroup T.E.K. Ltd.

AUDITORS REPORT

(NIS in Thousands)

**NOTE 26 - EFFECT OF VARIANCES BETWEEN ISRAELI GAAP AND U.S. GAAP IN THE CONSOLIDATED STATEMENTS (cont. )****E. Proforma Information with Regard to the Effect of FAS-123**

Following is the proforma data of the net loss and basic loss per share had the company chosen to apply FAS 123 and calculated the cost of the benefits of the stock option plan to the employees according to their fair value.

	<b>Financial Statements</b>	<b>Effect of FAS 123</b>	<b>Pro-forma</b>	<b>Pro-forma</b>
	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>NIS (K)</b>	<b>U.S.\$ (K) *</b>
Loss	(7,687)	(606)	(8,293)	(1,925)
Loss per share	(0.71)	(0.06)	(0.77)	(0.18)

According to the rules set forth in FAS 123, the fair value of the options is calculated at presentation date according to the Black & Scholes Option Pricing Model.

The assumptions used are:

1. Expected life length of the options 3-4 years.
2. Expected dividend distribution rate 0%.
3. Expected standard deviation 101%-110% per year.
4. No-risk interest rate 3.5% per year.

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**RoboGroup T.E.K. Ltd.**

(NIS in Thousands)

**Appendix to Financial Statements**

<b>Name of company</b>	<b>Percent of direct holding (%)</b>	<b>Name of holding company</b>
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**Consolidated companies:**

Intelitek Inc.	100	RoboGroup T.E.K. Ltd.
Robotec Technologies Ltd.	100	RoboGroup T.E.K. Ltd.

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Intelitek Training Systems (1989) Ltd. (formerly Sim-Lev Ltd)	100	RoboGroup T.E.K. Ltd.
Computras Computerized Training Systems Ltd.	100	RoboGroup T.E.K. Ltd.
Computras Marketing Training Systems Equipment (1988) Ltd.	100	RoboGroup T.E.K. Ltd.
Robotec Industries Ltd.	100	RoboGroup T.E.K. Ltd.
MemCall Inc.	100	RoboGroup T.E.K. Ltd.
Eshed Robotec BV.	100	RoboGroup T.E.K. Ltd.
Burelco N.V	100	Eshed Robotec BV .
MemCall LLC	82	Burelco N.V
MemCall Ltd.	100	MemCall LLC

**Proportionately consolidated companies:**

Yaskawa Eshed Technology Ltd.	50	RoboGroup T.E.K. Ltd.
Yet US Inc.	100	Yaskawa Eshed Technology Ltd.

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