ISRAEL HIGH-TECH REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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From the Editor

IS THE SELLING REALLY JUSTIFIED?

The current bear market in the international stock exchanges is not typical. It is global, vicious and ugly. Capitalization of companies listed are being drastically reduced as investors respond to the on-going developments connected to the Gulf crisis.

In just over one month, the market valuation of Scitex and ECI Telecom, has been reduced by 28% and 32% respectively.

Is this downward correction justified? In the past, whenever prospects of war loomed over the Middle East, the business and financial community began to show signs of nervousness leading to an attitude of "play it safe". Institutions and other large investors would then sell off Israeli shares based on the assumption that the business activities of these companies would be affected.

How does an Israeli company maintain a "business as usual" posture? Management at ECI Telecom say that after three weeks of the on-going crisis, only two customers have made enquiries. They were assured that ECI can, as a result of a presence in the USA, ship, deliver, install and service its products from that country.

In case of mobilization of Israel's Reserves, many of ECI Telecom's personnel are likely to be called up for service. Production however, would not be affected because those who are not in the Reserves, mostly women, have been trained specifically to act as replacements for mobilized employees.

As a result of the pummeling to the share prices of these companies, investment in them is becoming attractive especially for those investors who, a month ago, felt that the prices of these shares were fairly valued.

SOLUTIONS TO POLLUTION

As technology advances, it brings with it multiple benefits in such varied fields as health care, communication and transportation, to mention just a few. The advances heve also brought with them concerns about ecology and life quality. These concerns focus on atmospheric pollution dangers as well as the pollution of soil and water. As industrial wastes increase, a solution for their safe transport, removal, incineration and recycling is needed.

Curtailing pollution from automobile exhaust discharges, provision of good quality drinking water, prevention of contamination of subterranean waters, and improved recycling are all areas of research requiring urgent attention.

An exhibition on Ecology and Life Quality at this country's first National Ecology Conference held in Tel Aviv during July, 1990, addressed some of these problems.

Public awareness of these problems was heightened as thousands of Israelis were exposed to projects exhibited by local industry and institutes of higher learning.

Overall the impression is that dealing with these problems of ecology is becoming a meaningful business for a growing number of Israelis.

A solution to field plastic littering was offered by Kibbutz Hazorea based on work of one of its members with a researcher from Aston University, Birmingham, for which a patent has been granted. In their photodegradable plastic sheeting, Hazorea incorporates tiny control features which cause the plastic to disintegrate at a time predetermined by the requirement of the seedlings it covers, with no detrimental affect to the soil into which it finally disappears.

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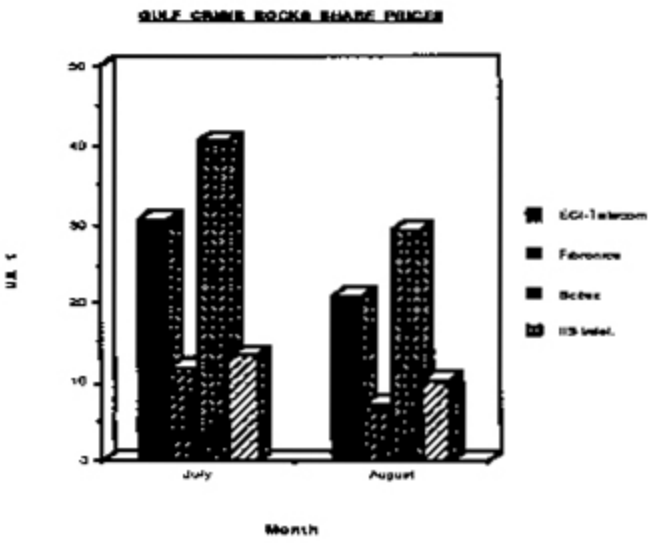

INSTITUTES OF HIGHER LEARNING

THE 18TH INTERNATIONAL CONFERENCE ON MATHEMATICAL GEOPHYSICS

This Conference was held early in Jerusalem. Some 100 leading geophysicists from 16 countries, including the USSR and Bulgaria, attended.

Conference Chairman Prof. Ari Ben-Menahem of the Weizmann Institute explained that Mathematical Geophysics applies mathematics and computer science to problems in seismology, geodesy, oceanography, environmental studies and other related fields in the Earth Sciences.

Arguments for and against the so-called "Fifth Force Theory" were presented. Whereas contemporary physics postulates the existence of four fundamental forces - gravity, electromagnetism, a strong nuclear force and a weak nuclear force - it has recently been suggested that a "fifth force" exists, which is manifested through gravitation but originates in the composition of matter.

Also debated, in the framework of a symposium on the Dead Sea, was the nature of the catastrophe that befell the Biblical cities of Sodom and Gomorrah - a disaster attributed to both earthquakes and climatic changes. Prof. Ben-Menahem, who spoke on "4,000 Years of Seismic History in Israel" said that Israel is, geophysically speaking, the best documented location on earth, thanks to the Bible, Talmud and travelogues written through the ages.

El Al Airlines and Frankfurt Zoo Help Replenish the University of Tel Aviv's Zoology Center's Geese Population.

After ten successful years of breeding White and Blue Snow Geese, Gray Geese, Australian Geese and Hawaiian Geese, at the Tel Aviv University Canadian Center for Ecological Zoology, the flock have begun to lose their fertility properties due to inbreeding.

In order to renew the vitality and fertility of the flocks, Prof. Yoram Yom-Tov, from the University's Department of Zoology, imported new breeding stock from the Frankfurt Zoo in Germany.

"In the past," said Prof. Yom-Tov, "it was common for zoos to restock their wildlife population by hunting down the necessary species in the wild, or by purchasing wildlife from animal dealers. Today, the increased awareness of wildlife preservation has created an alternative method of animal stocking. Trading animals between different zoos around the world can solve the problems of inbreeding that occur in a zoo-like environment."

Prof. Yom-Tov contacted the Director of the Frankfurt Zoo, Prof. Richard Faust, with whom he is close contact. With the help of Israel's airline, El AL, the Frankfurt geese arrived and were quarantined in order to check their health and make sure they had not contacted any disease en route. "Strict monitoring and record-keeping are essential even when trading animals amongst zoos," said Prof. Yom-Tov, "in order to prevent inbreeding in the flock."

AMOS DE SHALIT 27TH YOUTH SCIENCE WORKSHOP

For this year's workshop 37 out of 300 of the country's most talented mathematics and science students were chosen. Of the participants, two girls came from the Israeli Arab village of Taibe to study chemistry and eight are new Russian immigrants. The Head of the Weizmann Institute's Youth Activities Section, Dr. Moshe Rishpon said, "The Russian students are at an extraordinarily high level in mathematics and physics. They will surely raise the national level in these subjects."

In charge of the De-Shalit workshop are Dr. Eyal Lichtman from the Department of Electronics and Dr. Ernesto Rubinstein of the Experimental Animals Center.

HEART TO HEART (Israel/Russia) COOPERATION

The Weizmann Institute and the U.S.S.R. Research Center for Cardiology in Moscow have agreed to collaborate. Signatories to the Cooperation

Agreement were Prof. V.N. Smirnov, Deputy Director of the Russian Institute and Prof. Ruth Arnon, Weizmann Institute Vice President. Prof. Benjamin Geiger of the Weizmann Institute and Dr. Marina Glukhova of the Cardiology Center plan to exchange visits. The first Russian post-doctoral Fellow, Dr. Katja Goncharova, will arrive in October, 1990.

TECHNION PATENT FOR CEREBRAL BLOOD FLOW OXYGENATION MONITOR

A patent has been applied for a new device for non-invasive monitoring of cerebral blood flow and oxygenation, enabling clinicians to monitor the blood flow to the brain. This information is vital for intensive care units where patients' cerebral blood flow and oxygenation are liable to instability and dangerous drops from various causes, and for major operations requiring general anaesthesia.

The device was developed by Dr. Giora Landsberg of Hadassah Hospital and Prof. Uri Dinar, head of Technion's Biomedical Engineering Department in cooperation with Prof. Yehoshua Zeevi of the Department of Electrical Engineering.

The non-invasive monitor is based on the principle of illumination of the ocular fluids and detection of minute pulsatile variations in light reflected from blood vessels at the fundus.

The electronics-based device includes a miniature probe which can be attached to a soft contact lens and placed safely on the cornea of the eye. When the pupils are open, the probe emits light upon the fundus and detects its reflections.

RICKETTSIA - BEER-SHEVA/CAIRO COLLABORATION

Large areas of the world, including the Middle East are affected by spotted fever, one of a number of diseases caused by rickettsiae, intercellular parasites transmitted to humans by the bite of infected ticks. Others are murine typhus, borne by infected fleas, Q fever and epidemic typhus. In Israel spotted fever may be maintained in nature by dogs and small wild animals, including hedgehogs. About 20% of the adult population of the Negev demonstrate antibodies to Israel spotted fever (ISF), generally benign but yet can prove fatal. (In the U.S.A. for example, Rocky Mountain Spotted Fever has recorded case fatality rate as high as 70%.) Early diagnosis, which can prevent complications, is difficult because the clinical signs are unspecific - fever, rash, headaches, etc.

Ben-Gurion University of the Negev and Ain Shams University of Cairo have been collaborating for four years on an epidemiological, clinical and ecological study on the Israeli strain of Rickettsial Spotted Fever. BGU serves as the Israeli sub-contractor to the Hebrew University of Jerusalem for this particular study, within the framework of a wide-scale project on animal to human diseases transmitted through ticks and other animals parasites. Funding is provided by the USA Agency for International Development (AID) under the supervision of the National Institute for Health - Institute for Allergic and Infectious Diseases Regional Scientific Program for Israel-Egypt.

The BGU-AIN SHAMS study has several aims, among which are immunological and biological characterization of the ISF Negev strains, development of techniques for rapid diagnosis and an epidemiological survey of the diseases in southern Israel. This survey focuses at present on the populations of a kibbutz near the Israeli-Egyptian border, a Bedouin town in the Negev, a Jewish suburban locality and patients admitted to the Soroka University Medical Center in Beer-Sheva. A survey will be conducted to pinpoint the ecological conditions under which ISF spreads, and to plan preventive measures. The work at BGU is being conducted by the Virology and Epidemiology Units of the Health Sciences Faculty.

The initial project leader was the late Professor Israel Sarov . He was succeeded by Dr. Batya Sarov.

DESERT GARDENS FLOURISH

For two decades Yossi Ben-Dov, Meir Forti and Prof. Dov Pasternak of Ben Gurion's Institute for Agriculture and Applied Biology have been researching hardy, drought-resistant plants from Australia, Baja California and Chile, as decorative pot-plants, fodder plants as well as trees for landscaping.

According to BGU experts, use of drought-tolerant plants could save Israel 50-60 million cu.m. water annually, since most of the plants can flourish on annual rainfall of 250-350cu.m. with little or no irrigation.

Many bleak areas in the Negev have been transformed by the introduction of greenery and blossom One method of water-conservation explored by the experts is the use of purified sewage (with high saline content) which successfully irrigates the landscaped gardens of tourist hotels on the Dead Sea shore.

Israeli Companies on Wall Street

Selected income and earnings summaries for the 6 months ended June 30, 1990, unless otherwise indicated. Nearly all of these companies are intensively export oriented. Prices are as of August 22, 1990 and the price changes relate to those a month ago.

Company	Revs (in $ mil.)	Net Income (in $ thou.)	Price	Net Change
ELBIT COMPUTERS Defense electronics ELBTF OTC	*84,972	*5,068	11.87	-0.87
ECI TELECOM Telecommunications ECILF OTC	17,696	3,632	21.00	-9.75
ELSCINT Medical imaging ELT NYSE	38,800	2,800	2.50	-0.87
FIBRONICS Fiberoptics FBRX OTC	14,748	.922	7.12	-4.75
INTERPHARM LAB. Biological products IPLLF OTC	4,700.	300	4.75	-0.87
LASER INDUSTRIES Surgical lasers LAS ASE	8,700	(66).	4.25	-1.37
OPTROTECH Electro-optical systems OPTKF OTC	*20,239	.867	6.87	-1.00
SCITEX LTD. Computer graphics SCIXF OTC	84,061	18,555	29.25	-11.25
IIS INTELL. Computer peripherals IISLF OTC	N.A.	N.A.	9.25	-0.87
TEVA PHARMACEUT. Pharmaceuticals TEVYF OTC	70,187	3,746	10.12	-3..25
ELRON ELECTRON. ELRNF OTC	88,000.	3,746	6.00	-1.87

* 3 months only

QUARTERLY RESULTS

SCITEX CORPORATION LTD

Continues to impress. In the second quarter it earned $18.5 million on sales of $84.1 million, a 22% margin. In the second quarter, for the first time ever, sales to Japan exceeded $10 million. Sales to Europe were over $34 million and to the USA more than $31.4 million.

R & D outlays exceeded $6.6 million, or nearly 10% of sales. After six months, it has recorded sales of more than $154 million.

In response to the sharp advance in the price of Scitex shares, the Board of Directors has proposed the distribution of a stock dividend at the rate of one share for each share held as at August 24th. A year ago Scitex shares were quoted under $12. Investor, Mr. Robert Maxwell, who has a major holding in Scitex, will be pleased undoubtedly with the quarterly dividend of $0.125 per share as well as with the paper gain on his investment.

ECI TELECOM'S

Results are very much on target as sales were just under $18 million. The net profit of $3.5 million is a very high 20.5% margin.

In the current quarter, the company is beginning to ship its enhanced version of DTX-240, DTX-240E the Digital Circuit Multiplication system, and the unit for thin traffic route applications. Before the end of the calender year ECI Telecom is expected to begin shipments of its 6-fold Multiplication and Facsimile Traffic unit.

In the USA a number of regional Bell operating companies have completed laboratory tests satisfactorily and are currently evaluating ECI's Digiloop. This product sells well in Europe, especially in Germany and Switzerland. The USA is seen as the next major potential sales outlet

RADA ELECTRONIC INDUSTRIES

Continues to expand sales and profits. In the first six months of the calendar year 1990, sales exceeded $5.9 million. RADA's Tasco Electronic Services Inc. majority owned subsidiary, located in Anaheim, California, is becoming an important contributor to both sales and profits.

INTERPHARM LABORATORIES LTD

In the second quarter of 1990, InterPharm Laboratories Ltd. earned $300,000 on sales of $4.7 million. Dr. Yoram Karmon attributed the improvement in profitability to an increase in production efficiencies and reductions in expenses. In the same quarter the company spent $1.5 million on R & D.

FIBRONICS INTERNATIONAL INC.

Fibronics continued its recent improvement in earnings, with a profit of $922,000 on sales of $14.7 million. Fibronics produces and installs fiber-optic and other high-bandwidth information transfer and distribution systems.

OSHAP TECHNOLOGY LTD BUYS MANOF SYSTEMS LTD

Early in the summer, Oshap Technologies Ltd. acquired Manof Systems Ltd. The latter, in 1989, had sales of $3 million and employed 40. Manof is a local company developing and marketing software information systems used primarily in inter-bank communication systems. Among its customers worldwide, Manof numbers 80 banks and has operating subsidiaries in the U.K. and Switzerland.

Oshap's common stock and Class A warrants trade on the NASDAQ National Market Systems (NMS) under the symbols OSHSF, OSHUF, OSHW.

The company experienced an important increase in net sales in the first six months of 1990, due to a sharp rise in customer demand for its ROBCAD work stations. At the same time, Oshap's cash position improved as evidenced by a financial income of more than $1.0 million in the first six months of 1990. Management expects 1990 results to be positively impacted due to continuous strong demand for ROBCAD workstations. This product line contains a high profit margin. In the first quarter Oshap had a profit of $529,000 and recorded a net profit of $2.1 million for the first half of 1990, as compared with $1.3 million a year ago.

Israel High-Tech Report Index*

132.0 -14.9%

*ISRAEL HIGH-TECH REPORT INDEX is a weighted index made up of the shares of leading high-tech companies.
BASE=100 AS OF Sep 30,1984

Oshap's performance is such that it still has to prove that it can maintain a steady rather than spasmodic profit and loss record.

TEVA PHARMACEUTICAL INDUSTRIES: SALES AND PROFITS HIGHER

In the second calendar quarter of 1990 Teva recorded a 8% sales increase to $70.2 million. Teva had net earnings of $3.74 million, a 5.3% margin on sales.

Eli Hurvitz points to higher export sales as more than compensating for the recessionary conditions in Israel's economy, which included lower sales to Israel's General Health Fund (Kupat Holim).

Hurvitz obviously would have liked to have seen an adjustment in the rate of exchange. He stated that "profitability for the quarter was held back by increased marketing expenses and the 3.3% devaluation of the NIS since June 30, 1989 while the Consumer Price Index rose 17.7% which resulted in rising local costs".

Teva is increasing its R&D and in the first 6 months of 1990 R&D outlays totalled $7.4 million.

Teva is seeking to use its strong financial base to explore investments and strategic alliances in Eastern Europe.

Teva is paying shareholders a quarterly dividend of $0.045 per American Depository Receipt (ADR). A Tax of 15% will be withheld at source and the dividend is payable on September 17th, 1990.

ISRAEL CHEMICALS PROFITS DECLINE

Israel Chemicals Ltd. finished the first quarter of 1990 with a net profit of $10.5 million. In the same period in 1989 ICL had a profit of $38.7 million. The sharp drop in profitability was due to a drop in the world market price of fertilizers. Sales in the first quarter at $300 million were characterized as being relatively strong.

ICL reported that its subsidiaries, including Fertilizers & Chemicals, Rotem Fertilizers and Amfert lost money in the first quarter of this year but the Dead Sea Works had a profit of $14 million.

GULF CRISIS DELAYS FINANCING

One of the companies whose plans for a public financing are being delayed due to the Persian Gulf crisis is Dead Sea Periclase. Expectations are when the issue comes to the Tel Aviv Stock Exchange it will aim to raise more than $7 million. Dead Sea Periclase's parent, Israel Chemicals, in any event will be retaining 51% control.

Periclase's main product, magnesium oxide, besides its conventional applications for refractory is also expanding applications based on fused grade magnesia for nuclear ceramic including superconductivity.

ARYT OPTRONICS INDUSTRIES COMBINES WITH GEOTEK

Aryt has become the largest shareholder in Geotek which manufactures products for the computer and telecommunications industries. Geotek Industries is Philadelphia-based and the strategy appears to be to utilize the American company to promote Aryt diamond-turned optical elements for electro-optical systems.

RECENT DEVELOPMENTS

CYTOSCAN - PINPOINTS & IDENTIFIES MALIGNANCIES

Prof. Arye Weinreb and Dr. Mordechai Deutsch, claims a medical breakthrough with the Cytoscan, an instrument that, through two routine blood tests, taken within an hour, can detect not only a malignancy but can pinpoint, with a high degree of accuracy, its location in the body.

Shortly, clinical application of the Cytoscan will be possible at Ichilov Hospital where a prototype of the instrument was recently installed. According to Prof. Samario Haichek, Head of the hospital's Oncology Institute, over 2,000 blood test experiments with Bar-Ilan's Cytoscan indicated a 97% success in the detection of malignancies, a figure that astounded him and his entire staff.

Prof. Weinreb, who headed the top team of scientists, engineers and biotechnicians in the physics department at Bar-Ilan responsible for this revolutionary discovery, sees in the Cytoscan other important uses in addition to its being a powerful tool for physicians in their war against cancer. It can be utilized in the effective measurement of the adaptability of a transplant in the body of the receiver, automation of microbiology, gynecological examinations and other research subjects.

Nine million dollars have been invested in this development by National Patent Development Corporation (NPDC), a U.S. corporation. Each instrument costs $175,000. Although there are only three prototypes of the Cytoscan in existence, twenty more are scheduled for export by Tamam, an

electronics subsidiary of Israel Aircraft Industries headed by Zvi Rechavi, to hospitals and research institutions in Europe. Tamam and Bar-Ilan joined forces two years ago to aid in developing and financing the project. The instrument and its method of operation have been patented in the United States and in 17 other countries.

AMOS- A COMMUNICATIONS SATELLITE SYSTEM

AMOS is a geostationary communications satellite system which is planned to be place in orbit at 15 deg. East for Israel's domestic communications needs. The system will consist of two satellites totaling 12 transponders, each operating at 72 MHz, mainly in the KU band. The footprint of the satellites will cover Israel for a 1 deg. and 25 deg. beam. The system is to be used for national and private domestic telephone, telex, telefax and television networks.

Three or four television channels will be provided, one or two of which will be capable of Direct Broadcast Services to satellite receptors of less than 1 meter.

The project is under the auspices of General Satellite Corporation, an international company with investors from the U.S. and Europe, while the satellites themselves are to be built by Israel Aircraft Industries. The program received government approval on June 1, 1990.

THE ARROW: AN ANTI-BALLISTIC MISSILE

The joint U.S.-Israel Arrow Missile Project has received American approval for continued development. The first development stage costing just under $160 million was financed 80% U.S. and 20% Israel. The second stage is estimated to cost $240 million. U.S. Secretary of Defense Richard Cheney who approved the second stage reflects American satisfaction with the technological achievements by Israel Aircraft Industries. The Arrow Project is part of the U.S. SDI Program and is an anti-ballistic missile.

The American approval for the second stage came even before August 9th when the Arrow anti-ballistic missiles first experimental launch took place. The approximate one-minute flight was termed to have been a good test of the missile's launch pad and internal systems.

International aerospace trade publications state that the Arrow missile employs at least 2 novel technologies resulting in extremely high speeds and maneuverability in flight. They suggest that the Arrow will reach speeds in excess of 6,500 miles an hour and a height of 18 miles.

ELDAN-TECH BAILED OUT BY EISENBERG

Asia House Ltd., part of the Eisenberg Group of Companies, has purchased 60% of the share capital of Eldan Tech Ltd. Eldan Tech is a public company with shares registered on the Tel Aviv Stock Exchange but trading in them has recently been stopped due to the company's financial difficulties. As part of the transaction, Asia House Ltd. will take over Eldan's debts and provide the company with $1.25 million for this purpose. Eldan develops and manufactures fine research chemicals and medical diagnostic systems.

ELECTRONICS TRADE SHOW

At least seven Israeli companies will be appearing at the Munich Electronics 1990 Show. The biannual Munich Trade Show is considered the most important one for electronic components and system manufacturers who aim to enter the East European market. According to the Israel Export Institute there is a strong demand on the part of East Europe for western electronics systems and components.

ISRAEL-JAPAN BUSINESS LINKS

Early this month a group of Israeli industrialists are scheduled to meet with their counter-parts in Tokyo and Osaka. The Israelis are guests of the Japanese Manufacturers Association, and MITI. Israeli exports to Japan are just under $1 billion, while imports are under $400 million. Israel is one of the few countries in the world to maintain a positive trade balance with Japan.

MAJOR TELECOMMUNICATIONS CONTRACT

Telrad Telecommunications and Electronic Industries Ltd. has announced the signing of a $50 million five-year export order for the supply of a public switching system. For Telrad this is a second-time order as the Israeli company has already supplied $20 million to the same unnamed buyer. The new system will include specialized software and hardware technologies. Telrad develops office communication equipment for the public, private and military sectors. The company's product line includes digital, central office exchanges, serving up to 100,000 lines and digital PABX up to 5,000 subscribers. The company employs more than 1,500 people. In 1989 its sales exceeded $150 million, of that amount, nearly 25% were exports.

NEW FINANCING IN THE PIPELINE

Eshed Robotech manufacturer of industrial training robots and machine vision systems is seeking new investment capital. Eshed's principal product includes SCORBOT-ER which simulates robotic applications and various teaching modules designed for educational applications.

The company, founded in 1982 took five years to achieve annual sales of $1.5 million. In 1990 the company's sales are expected to be $6 million. Eshed is profitable and in 1989 reported earnings of just under $200,000.

Yissum Holdings Ltd. is expected to be registered for trading on the American over the counter market by the end of the current year. Yissum's subsidiaries, ISTEC Industries and Technologies Ltd., which is currently traded over the counter will stop being traded and shareholders will receive Yissum shares.

ALTERNATIVE SOURCES OF ENERGY: SOLAR ENERGY

With the price of a barrel of crude oil escalating above the $30 mark, increasing attention is focussed on alternative sources of energy. Luz Industries (Israel) Ltd. is the country's leading developer and manufacturer of "turn-key" systems of solar energy-based power plants. The company's projects in California have received worldwide attention.

Arnold Goldman, President, has most recently announced a technological breakthrough which will be applied to a new product for the collection, use, and storage of solar energy and its utilization for electricity. The system will be implemented for the first time in Israel.

In its new design the temperature of steam, produced directly in the pipes, is raised in a special heat collecting device to 400 degrees F

and then fed directly into the turbine generator. This allows operation at high direct steam generation temperatures to avoid the losses in temperature which occur in a heat exchanger.

This improvement allows significant cost reductions and is a major technical breakthrough enabling work at the direct steam generation cycle.

SUPERCONDUCTIVITY AGREEMENT

XSIRIUS Superconductivity Inc., the U.S. parent of the Jerusalem based Xsirius Superconductivity Materials Ltd, announced that its Israeli subsidiary has signed a major agreement with the Electronics Systems Division of Rafael in Israel to jointly develop advanced microwave components based on high temperature superconductivity for aerospace and other commercial telecommunication applications. According to industry people the initial development program will take about six months. "Xsirius has defined technologically feasible, market-driven products and turned to Rafael for their knowledge of applications, engineering and marketing. This type of agreement represents the most effective method of commercializing high temperature superconduc-tivity," stated Dr. Huth, President and CEO of the U.S. firm. As Xsirius refines its knowledge of high temperature superconductor technology, its approach to commercialization focuses on recruiting corporate partners.