PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2012 (Unaudited)

Contents

The Board of Directors' Report[1] on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries
for the three months ended on March 31, 2012.

***Notice**: This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events. Management emphasizes that the assumptions does not in any way imply commitment towards realization. The outcome of which is subject to certain risks and other factors, which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.*

Reference in this report to forward looking statement shall be by stating that such information is given by way of estimation, evaluation, assessment, intentions, expectations, beliefs and similar terms, but it is possible that such information shall be given under other phrases.

1. A concise description of the corporation and its business environment

A. The Group

Payton Planar Magnetics Ltd. ("the Company") and its consolidated subsidiaries: Payton America Inc. ("Payton America"), Payton Planar Holdings (1996) Ltd. ("Payton Holdings").

B. The Group's main fields of activity and changes that occurred in the period from January to March 2012

The Company, an Israeli high-tech enterprise, develops, manufactures and markets Planar transformers worldwide. The Company was founded in order to revolutionize the traditional approach to the design and manufacture of transformers through the concept of planar transformers. The invention is patented in North America, Europe and Japan. The Company completed its initial public offering in 1998 on the Euronext Stock Exchange.

Starting January 1st, 2012, following the purchase agreement approved on November 8, 2011, the business activity of Payton Technologies (1991) Ltd ("Payton Technologies"), a sister-company fully owned by the parent company (Payton Industries), was merged into the Company. All operational assets and liabilities of Payton Technologies as of January 1, 2012 were transferred into the Company for the consideration of the amount of NIS 5.6 million (about € 1.1 million). In order to estimate the fair value of the intangible assets acquired, a Purchase Price Allocation ("PPA") was conducted by Fair Value Ltd., an independent business appraiser, part of EEBC Economic Advisory Group.
Based on the PPA the surplus on the investment was allocated to: production files, open orders and goodwill. See also Note 4 to the Consolidated Interim Financial Statements as of 31.3.12.

By merging the business activity of Payton Technologies, which markets and sells Conventional Transformers, into Payton Planar, the Company will become a "one stop shop" for transformers of all kinds and will be able to

[1] The financial statements as at March 31, 2012 form an integral part thereof.

answer both Planar and Conventional Magnetic needs. Furthermore, merging the two business activities, combined with their centralization in the new building, will lead to economies of scale and also offer opportunities for synergies between the products.

In addition, according to the said Purchase Agreement, all key executive officers, employed by the parent company, as of January 1, 2012, are employed directly by the Company, and no participation in parent company management fees is allocated to the Company.

In May 2012, the Company has reached final tax assessments until the end of year 2010, following which a tax income has been recognized during the first quarter of 2012 at the amount of USD 929 thousand. This income represents a write-off of excess tax liability. In addition, an interest for delayed tax payments, at the amount of USD 138 thousand was recorded accordingly as a part of this final tax assessment.

Real-estate property - The purchase agreement of a real-estate property, signed March 10, 2011, for a total amount of NIS 13,250 thousands, excluding 16% VAT (about € 2.7 million excl. VAT). On August 16, 2011, the real-estate transaction was completed and the Company received the possession rights.
The industrial property will house the activities of the three currently-leased local facilities in one single new building. Management expects that centralizing the activities in the new building will lead to economies of scale and also offer opportunities for synergies between product lines.
Company plans that by middle of year 2013 the building will be fully operational. The additional costs required for the completion are estimated to additional € 4 million (total value € 7 million). As at the date of signing these financial statements**,** the Company completed the planning stage and is currently negotiating with few key construction contractors to carry out the project.

C. Principal customers

The consolidated sales revenues include sales to major customers (which make up in excess of 10% of the sales of the Group).

	For the three-month period ended March 31	**For the year ended December 31**	**For the three-month period ended March 31**
	2012	**2011**	**2011**
Customer A	*	**19.8%	**29.5%

* Less than 10% of the Group’s consolidated sales.
** It is noted that a major project of this customer ended by June 2011.

D. Marketing

During 2012 the Group participated in the following exhibitions:

- February 2012, “APEC 2012” exhibition in California, USA.
- May 2012, "PCIM" exhibition in Nierenberg, Germany.
- May 2012, “New-Tech” exhibition in Tel-Aviv, Israel.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2012 were USD 7,692 thousand (December 31, 2011 - USD 6,881 thousand, including USD 1,461 thousand relates to the new business activity purchased). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 31.3.12 will be supplied until December 31, 2012.

2. <u>Financial position</u>

A. Statement of Financial Position as at March 31, 2012

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 19,193 thousand as at March 31, 2012 compared to USD 19,291 thousand as at December 31, 2011 and USD 17,593 thousand as at March 31, 2011. It is noted that, deposits currently presented as a short term (since their maturity date is in less then one year) as of March 31, 2011 were still classified as long term deposits. In addition, the "marketable securities available for sale" held on 31.3.2011 were materialized during year 2011.

As of March 31, 2012, out of the NIS 5.6 million (about USD 1.5 million) set as the cost of the business activity purchased from Payton Technologies, only an amount of USD 562 thousand was paid in cash and the remaining will by paid during the second quarter of 2012.

Trade accounts receivable - amounted to USD 3,143 thousand as at March 31, 2012 compared to USD 2,753 thousand as at December 31, 2011 and USD 5,700 thousand as at March 31, 2011. The decrease in this item, compared to March 31, 2011, resulted of the decrease in sales and business activity. The increase in this item, compared to December 31, 2011, attributed by the operational assets purchased from Payton Technologies.

Inventory - this item amounted to USD 3,201 thousand as at March 31, 2012 compared to USD 2,638 thousand as at December 31, 2011 and USD 2,246 thousand as at March 31, 2011. The increase in this item, compared to December 31, 2011, attributed by the operational assets purchased from Payton Technologies.

Intangible assets - as at March 31, 2012 amounted to USD 499 thousand. The fair value of the tangible assets was valuated in a Purchase Price Allocation ("PPA") that was conducted by an independent business appraiser. The surplus on the investment was allocated to: production files, open orders and goodwill.

Trade payables - amounted to USD 1,472 thousand as at March 31, 2012 compared to USD 953 thousand as at December 31, 2011 and USD 1,631 thousand as at March 31, 2011. The decrease in this item, compared to March 31, 2011, resulted mainly from the decrease in business activity. The increase in this item, compared to December 31, 2011 is attributed by the operational liabilities transferred from Payton Technologies.

Other payables **-** amounted to USD 2,118 thousand as at March 31, 2012 compared to USD 981 thousand as at December 31, 2011 and USD 1,235 thousand as at March 31, 2011. The increase in this item, compared to December 31, 2011 results mainly from increase in liability to Payton Technologies due to remaining unpaid consideration against sold business activity.

Current tax liability - amounted to USD 333 thousand as at March 31, 2012 compared to USD 1,157 thousand as at December 31, 2011 and USD 1,326 thousand as at March 31, 2011. The decrease in tax liability resulted due to a write-off of excess tax liability following a final tax assessments finalized on May 2012.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/12	Quarter 10-12/11	Quarter 7-9/11	Quarter 4-6/11	Quarter 1-3/11
Sales revenues	4,047	3,664	3,659	4,916	5,717
Cost of sales	2,563	2,280	1,937	2,479	2,875
Gross profit	*1,484*	*1,384*	*1,722*	*2,437*	*2,842*
Development costs	(220)	(204)	(180)	(231)	(189)
Selling & marketing expenses	(419)	(474)	(409)	(442)	(491)
General & administrative expenses	(636)	(586)	(688)	(620)	(649)
Other expenses	(7)	2	-	-	-
Operating income	*202*	*122*	*445*	*1,144*	*1,513*
Finance income (expenses), net	*43*	(26)	*(141)*	*62*	*204*
Profit before income taxes	*245*	*96*	*304*	*1,206*	*1,717*
Income taxes	839	26	(50)	(260)	(317)
Profit for the period	*1,084*	*122*	*254*	*946*	*1,400*

General Note: The Group is exposed to erosion of the USD in relation to the NIS and to the Euro. Most of the Group's salaries and other operating costs are fixed in NIS. Revaluation of the local Israeli currency drives to an increase in labor costs and other operating costs, thus, negatively affects the operating results of the Company. The average rate of the USD with relation to the NIS in the first quarter of 2012 went up by 5.4% compared to average rate of year 2011, reflecting a decrease in the above-mentioned costs when they are presented in USD.

Sales revenues **-** The Group's sales revenues for the three-month period ended March 31, 2012 were USD 4,047 thousand compared with USD 5,717 thousand in the three-month period ended March 31, 2011. The sales were mostly affected by the global slowdown as well as by the termination of two major projects.

***Gross profit* -** The Group’s gross profit for the three-month period ended March 31, 2012 amounted USD 1,484 thousand (37% of sales) compared with USD 2,842 thousand (50% of sales) in the three-month period ended March 31, 2011.

The decrease in the gross profit relates to the following:

- Decrease in sales, whereas, part of the expenses included in the cost of sales could not be reduced in a similar proportion.
- Change in products mix sold during each quarter.
- The consolidation of Payton Technologies activity, characterized by lower gross margins.

***Development costs* -** Payton’s R&D strategy is aimed on maintaining the leadership of the Planar Technology. The R&D department works in conjunction with R&D departments of the forerunners of today’s global technology, and together they define tomorrow’s technological needs. Costs were based upon time expended by the department’s employees. The group’s development costs for the three months ended March 31, 2012 were USD 220 thousand compared with USD 189 thousand in the three months ended March 31, 2011. The increase in these costs was attributed mainly to engaging team transferred from Payton Technologies.

***Selling & marketing expenses* -** The Group’s selling & marketing expenses are mainly comprised of: (1) commissions to the Group's reps’ and Marketing Personnel, which are calculated as a portion of sales and of (2) other selling expenses (fixed) based on management policy. The Group’s marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.

The Group’s Selling & marketing expenses for the three months ended March 31, 2012 amounted to USD 419 thousand compared with USD 491 thousand in the three months ended March 31, 2011. The decrease in these expenses is inline with the decrease in sales and with incorporation of Payton Technologies sales force .

***Finance income, net* -** The Group’s finance income for the three-month period ended March 31, 2012 amounted USD 43 thousand, compared with an income of USD 204 thousand for the three-month period ended March 31, 2011. Interest expenses, in favor of the tax authorities, as part of the final tax assessments made, attributed the decrease in the finance net income.

***Income Taxes* -** Tax income for the three-month period ended March 31, 2012 amounted to USD 839 thousand, whereas, tax expenses for the three-month period ended March 31, 2011 amounted to USD 317 thousand. Income taxes were mostly affected by the write-off of excess tax liability following a final tax assessment.

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the Statement of Financial Position:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	March 31, 2012	**December 31, 2011**	**March 31, 2011**
Current ratio[2]	6.69	8.09	6.19
Quick ratio[3]	5.87	7.24	5.66

B. Operating activities

Cash flows generated from operating activities for the three-month period ended March 31, 2012 amounted USD 515 thousand, compared with a use of cash flows for operating activities of USD 679 thousand for the three-month period ended March 31, 2011.

C. Investing activities

Cash flows used for investing activities in the three-month period ended March 31, 2012, amounted USD 780 thousand, compared with cash flows used for investing activities of USD 3,324 thousand in the three-month period ended March 31, 2011.

During the first quarter of 2012 most of this cash flows used for a partial payment on account of Payton Technologies business activity acquisition. In the first quarter of last year, most of this cash flows used for investment in short-term bank deposits.

4. Financing sources

The Group financed its activities during the reported period from its own resources.

5. External factors effects

5.1 Revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Group's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are being affected.

5.2 Devaluation of the Euro in relation to the U.S. Dollar leads to a decrease in company's assets in Euro.

To the best of the Board of Directors' and management's knowledge, except the above mentioned, there have been no significant changes in external factors that may materially affect the Company's financial position or results of operations.

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[2] Current ratio calculation – Current assets / Current liabilities

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

6. Statement by senior management in accordance with article 12, § 2 (3°) of the Royal Decree per 14.11.2007

Pursuant to article 12 § 2(3°) of the Royal Decree of 14 November 2007, David Yativ Chairman of the Board of Directors declares, on behalf of and for the account of Payton Planar Magnetics that, as far as is known to him,

a) The financial statements at March 31, 2012 are drawn up in accordance with IFRS and with IAS 34 "Interim Financial Reporting" as adopted by the European Union and present a true and fair view of the equity, financial situation and results of the company.

b) The report gives a true and fair view of the main events of the first three months of year 2012, their impact on the financial statements, the main risk factors and uncertainties for the remaining months of the financial year, as well as the main transactions with related parties and their possible impact on the abbreviated financial statements.

The Company's Board of Directors wishes to thank our shareholders for their continuance trust and belief.

The Company's Board of Directors wishes to extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

Rishon Lezion, May 30, 2012.

David Yativ **Chairman of the Board of Directors**	**Doron Yativ** **Director and C.E.O.**

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Review Report to the Shareholders of Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying financial information of Payton Planar Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of March 31, 2012 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting."

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

May 30, 2012

Condensed Consolidated Interim Statement of Financial Position as at

	Note	March 31 2012 (Unaudited) $ thousands	March 31 2011 (Unaudited) $ thousands	December 31 2011 (Audited) $ thousands
Current assets				
Cash and cash equivalents		**10,737**	8,995	10,964
Short-term deposits		**7,116**	6,929	7,073
Marketable securities held for trading		**1,340**	1,669	1,254
Trade accounts receivable		**3,143**	5,700	2,753
Other accounts receivable		**705**	427	335
Inventory		**3,201**	2,246	2,638
Total current assets		**26,242**	25,966	25,017
Non-current assets				
Long-term deposits		**-**	2,076	-
Marketable securities available for sale		**-**	927	-
Fixed assets		**6,379**	1,906	6,186
Intangible assets	4	**499**	-	-
Deferred taxes		**117**	123	94
Total non-current assets		**6,995**	5,032	6,280
Total assets		**33,237**	30,998	31,297

David Yativ	Doron Yativ	Michal Lichtenstein
Chief Executive Officer	Chairman of the Board of Directors	V.P. Finance & CFO

May 30, 2012

Condensed Consolidated Interim Statement of Financial Position as at (cont'd)

	March 31 2012	March 31 2011	December 31 2011
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Trade payables	**1,472**	1,631	953
Other payables	**2,118**	1,235	981
Current tax liability	**333**	1,326	1,157
Total current liabilities	**3,923**	4,192	3,091
Non-current liabilities			
Employee benefits	**298**	269	274
Total non-current liabilities	**298**	269	274
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Capital fund for available-for-sale assets	-	(73)	-
Retained earnings	**15,187**	12,781	14,103
Total equity	**29,016**	26,537	27,932
Total liabilities and equity	**33,237**	30,998	31,297

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2012	**2011**	**2011**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Revenues	**4,047**	5,717	17,956
Cost of sales	**(2,563)**	(2,875)	(9,571)
Gross profit	**1,484**	2,842	8,385
Development costs	**(220)**	(189)	(804)
Selling and marketing expenses	**(419)**	(491)	(1,816)
General and administrative expenses	**(636)**	(649)	(2,543)
Other (expenses) income	**(7)**	-	2
Operating income	**202**	1,513	3,224
Finance income	**188**	211	246
Finance expenses	**(145)**	(7)	(147)
Finance income, net	**43**	204	99
Profit before income taxes	**245**	1,717	3,323
Income taxes (Note 5)	**839**	(317)	(601)
Profit for the period	**1,084**	1,400	2,722
Other comprehensive income			
Net change in fair value of available-for-sale assets transferred to profit or loss	**-**	-	60
Net change in fair value of available-for-sale assets	**-**	(26)	(13)
Total other comprehensive income	**-**	(26)	47
Total comprehensive income for the period	**1,084**	1,374	2,769
Basic earnings per ordinary share (in $)	**0.06**	0.08	0.15

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital		Share premium	Capital fund for available-for-sale assets	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the three months ended March 31, 2012 (Unaudited)						
Balance at January 1, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**14,103**	**27,932**
Total comprehensive income for the period						
Profit for the period	**-**	**-**	**-**	**-**	**1,084**	**1,084**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,084**	**1,084**
Balance at March 31, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**15,187**	**29,016**
For the three months ended March 31, 2011 (Unaudited)						
Balance at January 1, 2011	17,670,775	4,836	8,993	(47)	11,381	25,163
Total comprehensive income for the period						
Profit for the period	-	-	-	-	1,400	1,400
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	(26)	-	(26)
Total comprehensive income for the period	-	-	-	(26)	1,400	1,374
Balance at March 31, 2011	17,670,775	4,836	8,993	(73)	12,781	26,537
For the year ended December 31, 2011 (Audited)						
Balance at January 1, 2011	17,670,775	4,836	8,993	(47)	11,381	25,163
Total comprehensive income for the year						
Profit for the year	-	-	-	-	2,722	2,722
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	60	-	60
Net change in fair value of available-for-sale assets	-	-	-	(13)	-	(13)
Total comprehensive income for the year	-	-	-	47	2,722	2,769
Balance at December 31, 2011	17,670,775	4,836	8,993	-	14,103	27,932

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31,
	2012	**2011**	**2011**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Operating activities			
Profit for the period	**1,084**	1,400	2,722
Adjustments to reconcile profit to net cash generated from (used for) operating activities:			
Depreciation	**95**	70	324
Amortization of intangible assets	**80**	-	-
Income taxes (Note 5)	**(839)**	317	601
Capital loss (gain) on sale of equipment	**7**	-	(2)
Increase in employee benefits	**10**	19	24
Decrease (increase) in trade accounts receivables	**357**	(272)	2,675
Increase in other accounts receivable	**(278)**	(104)	(238)
Increase in inventory	**(171)**	(1)	(393)
Increase (decrease) in trade payables	**204**	(592)	(1,267)
Increase (decrease) in other payables	**130**	(799)	(1,053)
Interest received	**26**	44	259
Tax paid	**(135)**	(579)	(994)
Finance income, net	**(55)**	(182)	(120)
Cash flows generated from (used for) operating activities	**515**	(679)	2,538
Investing activities			
Proceeds from sale of marketable securities held for trading	**-**	-	319
Proceeds from sale of marketable securities available for sale	**-**	-	940
Investments in short-term deposits, net	**-**	(2,978)	(1,027)
Investment in fixed assets	**(241)**	(358)	(4,684)
Proceeds from sale of fixed assets	**23**	12	21
Acquisition of business activity from related party (Note 4)	**(562)**	-	-
Cash flows used for investing activities	**(780)**	(3,324)	(4,431)
Net decrease in cash and cash equivalents	**(265)**	(4,003)	(1,893)
Cash and cash equivalents at beginning of the period	**10,964**	12,932	12,932
Effect of exchange rate fluctuations on cash held	**38**	66	(75)
Cash and cash equivalents at end of the period	**10,737**	8,995	10,964

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Note 1 - General

Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992 and its headquarters are located at 14 Hahoma Street, Rishon Le Zion. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). In June 1998, the Company completed its initial public offering in the Euro NM.

The condensed consolidated interim financial statements of the Group as at March 31, 2012 comprise the Company and its subsidiaries (together referred as the “Group”).

The Group develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.

See also Note 4 regarding the acquisition of business activity from related party.

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2011 (hereinafter “annual financial statements”). These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on May 30, 2012.

B. Use of estimates and judgments

The preparation of interim financial statements in accordance to IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements.

Note 3 - Significant Accounting Policies

A. Except as described in B. hereunder, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements.

B. Accounting policy for new transactions or events

1. Business combinations under common control

Business combinations arising from transfers of business activities that are under the control of the shareholder that controls the Group are accounted for using the acquisition method. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control is the power to govern the financial and operating policies of the operation acquired as to obtain benefits from the activities. The Group recognizes goodwill at acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed. The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree and the liabilities incurred by the acquirer to the previous owners of the acquiree. Costs associated with the acquisition that were incurred by the acquirer in the business combination such as legal and valuation consulting fees are expensed in the period the services are received.

2. Intangible assets

The intangible assets that were acquired by the Group, which have definite useful lives, are measured at cost less accumulated amortization. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.
Goodwill, having an indefinite useful life, is not systematically amortized but is tested for impairment at least once a year.
Regarding estimated useful lives of intangible assets - see Note 4.

Note 4 - Acquisition of Business Activity from Related Party

On January 1, 2012 (hereinafter - the acquisition date) the Group acquired the full business activity of Payton Technologies (1991) Ltd (hereinafter - Payton Technologies), a sister-company fully owned by the parent company (Payton Industries), for the amount of NIS 5.6 million (USD 1.466 million), of which USD 904 thousand is presented as a liability to a related party under other accounts payable as of March 31, 2012. (See also note 16B to the yearly financial statements as of December 31, 2011).

By merging the business activity of Payton Technologies, which markets and sells Conventional Transformers, into Payton Planar, the Group will become a "one stop shop" for transformers of all kinds and will be able to answer both Planar and Conventional Magnetic needs. Furthermore, merging the two business activities, combined with their centralization in the new building, will lead to economies of scale and also offer opportunities for synergies between the products.

Note 4 - Acquisition of Business Activity from Related Party (cont'd)

The following summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date based on an assessment prepared by an external, independent appraiser:

	$ thousands
Trade and other receivables	**878**
Inventories	**392**
Intangible assets (1)	**579**
Fixed assets	**80**
Trade and other payables	**(449)**
Non-current employee benefits	**(14)**
Total net operational assets	**1,466**

(1) Intangible assets recognized as a result of the acquisition are as follows:

	Estimated useful Life	$ thousands
Production files	5 years	**440**
Order and purchase backlog	0.5 years	**117**
Goodwill		**22**
		579

Note 5 - Income Taxes

In May 2012, the Company has reached final tax assessments until the end of year 2010, following which a tax income in respect of previous years has been recognized at the amount of USD 929 thousand. In addition, an interest for delayed tax payments at the amount of USD 138 thousand was recorded accordingly as a part of this final tax assessment.