PAYTON GROUP
INTERNATIONAL

# Payton Planar Magnetics Ltd.
# and its Consolidated Subsidiaries
# Financial Statements
# June 30, 2010 (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 six months ended on June 30, 2010.

***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 do 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 June 2010

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 Company completed its initial public offering in 1998 on the Euronext Stock Exchange.

- **Signing MOU licensing mass production - January 13, 2010 -** The Company signed a Memorandum of Understanding ("MOU") with the Korean company Bujeon Electronics Co. ("Bujeon"). Under the terms of the MOU, Bujeon will be licensed to manufacture Planar Transformers for the TV and monitor markets.

Bujeon has mass production capabilities and specializes in manufacturing conventional inductive components to telecom, acoustic and computing markets.

Both companies have been introduced to each other by a present customer of Payton, a major global electronics company in Korea, in order to enable it to integrate the Planar Transformers in its mass consumer electronic products.

According to the MOU, Bujeon is granted manufacturing and sales rights of Payton's unique Planar Transformers, to the TV and monitors markets, for 5 years, subject to minimum quotas of sales. In a first phase, Payton's products will be manufactured and supplied by Bujeon to Payton on an OEM-basis. The second phase will include royalty payments to Payton once Bujeon is recognized as an approved vendor.

The Company considers this engagement as a strategic opportunity for the mass consumer electronics market.

As planned, the manufacturing & deliveries from this facility started on April 2010.

[1] The financial statements as at June 30, 2010 form an integral part thereof.

**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 six-month period ended June 30 | For the year ended December 31 | For the six-month period ended June 30 |
|---|---|---|---|
| | 2010 | 2009 | 2009 |
| Customer A | 26.0% | * | * |
| Customer B | * | **16.7% | **21.9% |
| Customer C | * | 11.9% | 11.2% |
| Customer D | 20.9% | * | * |

* Less than 10% of the Group's consolidated sales.
** It is noted that the major project of this customer ended on September 2009.

**D. Marketing**

During 2010 the Group participated in the following exhibitions:

- January 2010, "Hespek & Bakara, New-tech 2010" exhibition in Tel-Aviv, Israel.
- February 2010, "APEC 2010" exhibition in California, U.S.A.
- March 2010, "Technology Hi-tech 2010" exhibition in Tel-Aviv, Israel.
- May 2010, "Technology & Military" exhibition in Airport City, Israel.
- May 2010, "PCIM in Nurnberg", Germany.
- June 2010, "EP&T Electronic products & Technology magazine" exhibition in Vancouver, Canada.

**E. Order and Purchase Backlog**

Order and purchase backlog of the Group as of June 30, 2010 were USD 10,786 thousand (December 31, 2009 - USD 6,400 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 30.6.10 will be supplied until March 31, 2011.

## 2. <u>Financial position</u>

**A. Statement of Financial Position as at June 30, 2010**

***Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits -*** these items amounted to a total of USD 14,331 thousand as at June 30, 2010 compared to USD 14,176 thousand as at December 31, 2009 and USD 14,023 thousand as at June 30, 2009. The company maintained these items level in spite of the dividend payment on January 2010 amounting USD 1,679 thousand and in spite of financing its working capital.

***Trade accounts receivable -*** these amounted to USD 6,126 thousand as at June 30, 2010 compared to USD 2,487 thousand as at December 31, 2009 and USD 3,782 thousand as at June 30, 2009. The increase in this item at June 30, 2010, is explained by the sales volume increase.

***Marketable securities available for sale (non- current assets)* -** these amounted to USD 937 thousand as at June 30, 2010 compared to USD 2,813 thousand as at December 31, 2009 and USD 2,774 thousand as at June 30, 2009. The decrease in this item, during the first half of 2010, resulted by the sales of two (out of three) ARS securities, at USD 1,886 thousand (Par value - USD 1,975 thousand).

The remaining balance represents Company's holding of securities with an Auction Reset feature ("ARS"), which their fair value was assessed by a professional external appraisers company. See detailed information regarding Fair value analysis at paragraph B below.

***Trade payables* -** these amounted to USD 2,860 thousand as at June 30, 2010 compared to USD 1,128 thousand as at December 31, 2009 and USD 1,616 thousand as at June 30, 2009. The increase at June 30, 2010 is explained by the increase in business activity.

***Dividend payable* -** As at December 31, 2009 these amounted to USD 1,679 thousand. The dividend announced on November 2009 was paid off on January 2010.

**B. Fair value analysis of Marketable Securities available for sale**

The Company invested in U.S. Auction Rate Securities ("ARS"), a debt instrument issued by local authorities, high education institutions and others, with a long-term nominal maturity (much more than 10 years), for which the interest rate is regularly reset through an auction. In the said auction, broker-dealers submit bids on behalf of potential buyers and sellers of the bond. Based on the submitted bids, the auction agent will set the next interest rate as the lowest rate to match supply and demand. Auctions are typically held every 7 or 28 days; interest on these securities is paid at the end of each auction period.

Starting year 2008 and in light of the liquidity crisis in the American market, the Company appealed for a valuation regarding the fair value of the ARS it holds.

During the first and the second quarters of 2010 the Company accepted offers to materialize two of its ARS securities at a rate of 96% and 95% respectively, from their par value, (Par value - USD 1,975 thousand). In exchange for these sales of ARS the Company received USD 1,886 thousand.

As at June 30, 2010 the fair value of the remaining ARS was assessed at the amount of USD 937 thousand, compared to USD 949 thousand as at December 31, 2009 (Par value - USD 1,000 thousand). The valuation was prepared by an external, independent appraiser (Houlihan Smith & Company Inc.) having suitable professional skills.

The Company included the total of this fair value decline in a capital reserve. It is noted that, according to that valuation, the change in fair value of the aforementioned securities is due to changes in current market conditions and in the liquidity of the markets, and is not due to financial difficulties or liquidity problems of the instrument's issuer.

Furthermore, management of the Company estimated that it will not be possible to materialize the said securities at their stated value in the short-term, therefore it intends to hold them for a long-term or until their value rises back to their par value or near to it. Therefore and in accordance with IAS 39, the Company did not recognize impairment of the securities.

The balance of the securities as at June 30, 2010 and 2009 and as at December 31, 2009 was presented as long-term available for sale securities.

**C. Operating results**

**Summary of Consolidated quarterly Statements of Income**
**US Dollars in thousands**

**Payton Planar Magnetics Ltd.**
**Consolidated Income Statements**

| | Quarter 4-6/10 | Quarter 1-3/10 | Quarter 10-12/09 | Quarter 7-9/09 | Quarter 4-6/09 |
|---|---|---|---|---|---|
| Sales revenues | 7,059 | 3,944 | 3,603 | 4,017 | 3,673 |
| Cost of sales | 3,764 | 2,533 | 2,201 | 2,451 | 2,318 |
| *Gross profit* | *3,295* | *1,411* | *1,402* | *1,566* | *1,355* |
| Development costs | (158) | (164) | (151) | (162) | (148) |
| Selling & marketing expenses | (569) | (368) | (342) | (306) | (227) |
| General & administrative expenses | (661) | (511) | (641) | (503) | (502) |
| Other (expenses) income | (2) | - | - | - | 1 |
| ***Operating income*** | *1,905* | *368* | *268* | *595* | *479* |
| Finance (expenses) income, net | (142) | (40) | 54 | 248 | 353 |
| ***Profit before income taxes*** | *1,763* | *328* | *322* | *843* | *832* |
| Income taxes | (16) | (92) | (65) | (228) | (270) |
| ***Net profit for the period*** | *1,747* | *236* | *257* | *615* | *562* |

***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/devaluation of the local Israeli currency drives to an increase/decrease (respectively) in labor costs and other operating costs, thus, affects the operating results of the Company. The average rate of the USD with relation to the NIS, during the first six months of 2010, went down by 4% compared with average rate of year 2009, and by 8% compared with average rate of the first six months of 2009, reflecting an increase in the above-mentioned costs when they are presented in USD.

***Sales revenues* -** The Group's sales revenue for the six-month period ended June 30, 2010 were USD 11,003 thousand compared with USD 6,385 thousand in the six-month period ended June 30, 2009. The Group's sales revenues for the three-month period ended June 30, 2010 were USD 7,059 thousand compared to USD 3,673 thousand in the three-month period ended June 30, 2009.
The sales growth is an outcome of few new projects matured and transferred to production. The sales were also affected by the global upturn.

***Gross profit*** **-** The Group’s gross profit for the six-month period ended June 30, 2010 amounted USD 4,706 thousand (42.8% of sales) compared with USD 2,351 thousand (36.8% of sales) in the six-month period ended June 30, 2009. The Group’s gross profit for the three-month period ended June 30, 2010 amounted USD 3,295 thousand (46.7% of sales) compared to USD 1,355 thousand (36.9% of sales) in the three-month period ended June 30, 2009.

The increase in the gross profit relates to the growth in sales, whereas, part of the expenses included in the cost of sales did not increase in a similar proportion.

***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 six months ended June 30, 2010 were USD 322 thousand.

***Selling & marketing expenses*** **-** The Group’s selling & marketing expenses are based on the management policy and are not related to sales, except sales commissions to the Group's reps’ and Marketing Personnel, which are calculated as a portion of sales. 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 six-month period ended June 30, 2010 amounted USD 937 thousand compared with USD 412 thousand in the six-month period ended June 30, 2009. The increase in these expenses is inline with the increase in sales.

***General & Administrative expenses*** **-** The increase in these expenses in the six-month period ended June 30, 2010 compared with the six-month period ended June 30, 2009 stemmed of increase in Parent Company’s joint G&A expenses mainly due to management incentives derived of the Group’s improved profitability.

***Finance income (expenses), net*** **-** The Group’s finance expenses, net, for the six-month period ended June 30, 2010 amounted USD 182 thousand. Erosion of cash & cash equivalent in Euro versus the US Dollar, and loss from selling the ARS Marketable Securities available for sale, attributed to these expenses.

***Income Taxes*** **-** Tax expenses for the six-month period ended June 30, 2010 amounted to USD 108 thousand. Tax expenses for the six-month period ended June 30, 2009 amounted to USD 222 thousand. The decrease in tax expenses resulted mainly from local tax benefits and recognition of tax assets (deferred taxes) on losses.

## 3. Liquidity

### A. Liquidity Ratios

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

| Payton Planar Magnetics Ltd.<br>Consolidated financial ratios | | | |
|---|---|---|---|
| | **June 30, 2010*** | **December 31, 2009*** | **June 30, 2009** |
| Current ratio[2] | 4.18 | 3.61 | 5.42 |
| Quick ratio[3] | 3.77 | 3.22 | 4.83 |

* As at June 30, 2010 and as at December 31, 2009 - USD 2,038 thousand and USD 2,014 thousand, respectively, are presented as Long-term Deposits consisted of 3 years time deposits; enable a penalty free exit point after each year.

### B. Operating activities

Cash flow generated from operating activities for the six-month period ended June 30, 2010 amounted USD 304 thousand, compared with Cash flow generated from operating activities of USD 298 thousand for the six-month period ended June 30, 2009. The cash flow for the first half of 2010 was mostly affected by increase in trade receivables and payables, as result of the growth in business activity.

### C. Investing activities

Cash flow generated from investing activities in the six-month period ended June 30, 2010, amounted USD 1,042 thousand, compared with a use of cash flow in the amount of USD 96 thousand in the six-month period ended June 30, 2009.

Cash flow generated from investing activities in the first six months of 2010 resulted mainly from proceed from sale of marketable securities offset by investment in short-term deposits and in fixed-assets.

### D. Financing activities

Cash flow used for financing activities in the six-month period ended June 30, 2010, amounted USD 1,679 thousand representing a payment of dividend.

## 4. Financing sources

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

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

## 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.

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.

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

**Rishon Lezion, August 19, 2010.**

**Somekh Chaikin**
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

# Review Report to the Shareholders of Payton Planar Magnetics Ltd.

*Introduction*

We have reviewed the accompanying financial information of Payton Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of June 30, 2010 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six and three-month periods 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.

We did not review the condensed interim financial information of a subsidiary whose assets constitute 8% of the total consolidated assets as at June 30, 2010, and whose revenues constitute 13% and 11% of the total consolidated revenues for the six and three-month periods then ended, respectively. The condensed interim financial information of the subsidiary was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such company, is based solely on the said review reports of the other auditors.

*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 and the review reports of other auditors, 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)

August 19, 2010

**Condensed Consolidated Interim Statement of Financial Position as at**

| | June 30 2010 | June 30 2009 | December 31 2009 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | $ thousands | $ thousands | $ thousands |
| **Current assets** | | | |
| Cash and cash equivalents | **7,449** | 8,429 | 7,961 |
| Marketable securities held for trading | **1,687** | 1,106 | 1,683 |
| Short-term deposits | **5,195** | 4,488 | 4,532 |
| Trade accounts receivable | **6,126** | 3,782 | 2,487 |
| Other accounts receivable | **176** | 68 | 111 |
| Inventory | **2,208** | 2,170 | 2,004 |
| **Total current assets** | **22,841** | 20,043 | 18,778 |
| **Non-current assets** | | | |
| Long-term deposits | **2,038** | - | 2,014 |
| Marketable securities available for sale | **937** | 2,774 | 2,813 |
| Other investment | **348** | 348 | 348 |
| Property, plant and equipment, net | **1,789** | 1,742 | 1,758 |
| Deferred taxes | **181** | 87 | 71 |
| **Total non-current assets** | **5,293** | 4,951 | 7,004 |
| **Total assets** | **28,134** | 24,994 | 25,782 |

David Yativ
Chief Executive Officer and
Chairman of the Board of Directors

Michal Lichtenstein
V.P. Finance & CFO

August 19, 2010

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

| | June 30 2010 (Unaudited) $ thousands | June 30 2009 (Unaudited) $ thousands | December 31 2009 (Audited) $ thousands |
|---|---|---|---|
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade payables | **2,860** | 1,616 | 1,128 |
| Other payables | **1,500** | 922 | 1,238 |
| Dividend payable | **-** | - | 1,679 |
| Current tax liability | **1,110** | 1,159 | 1,158 |
| **Total current liabilities** | **5,470** | 3,697 | 5,203 |
| **Non-current liabilities** | | | |
| Employee benefits | **197** | 144 | 194 |
| **Total non-current liabilities** | **197** | 144 | 194 |
| **Equity** | | | |
| Share capital | **4,836** | 4,836 | 4,836 |
| Share premium | **8,993** | 8,993 | 8,993 |
| Capital fund for available-for-sale assets | **(63)** | (201) | (162) |
| Accumulated earnings | **8,701** | 7,525 | 6,718 |
| **Total equity** | **22,467** | 21,153 | 20,385 |
| **Total liabilities and equity** | **28,134** | 24,994 | 25,782 |

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

## Condensed Consolidated Interim Statements of Comprehensive Income

| | For the six months ended June 30 | | For the three months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** | **2009** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Audited)** |
| | **$ thousands** | **$ thousands** | **$ thousands** | **$ thousands** | **$ thousands** |
| Revenues | **11,003** | 6,385 | **7,059** | 3,673 | 14,005 |
| Cost of sales | **(6,297)** | (4,034) | **(3,764)** | (2,318) | (8,686) |
| **Gross profit** | **4,706** | 2,351 | **3,295** | 1,355 | 5,319 |
| Development costs | **(322)** | (294) | **(158)** | (148) | (607) |
| Selling and marketing expenses | **(937)** | (412) | **(569)** | (227) | (1,060) |
| General and administrative expenses | **(1,172)** | (928) | **(661)** | (502) | (2,072) |
| Other (expenses) income | **(2)** | - | **(2)** | 1 | - |
| **Operating income** | **2,273** | 717 | **1,905** | 479 | 1,580 |
| Finance income | **115** | 280 | **66** | 359 | 599 |
| Finance expenses | **(297)** | (12) | **(208)** | (6) | (29) |
| Finance (expenses) income, net | **(182)** | 268 | **(142)** | 353 | 570 |
| **Profit before income taxes** | **2,091** | 985 | **1,763** | 832 | 2,150 |
| Income taxes (Note 4) | **(108)** | (222) | **(16)** | (270) | (515) |
| **Net profit for the period** | **1,983** | 763 | **1,747** | 562 | 1,635 |
| **Other comprehensive income** | | | | | |
| Net change in fair value of available-for-sale assets transferred to profit or loss | **89** | - | **49** | - | - |
| Net change in fair value of available-for-sale assets | **10** | 114 | **21** | 64 | 153 |
| **Total comprehensive income for the period** | **2,082** | 877 | **1,817** | 626 | 1,788 |
| **Basic earnings per ordinary share (in $)** | **0.11** | 0.04 | **0.10** | 0.03 | 0.09 |

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 | Capital fund for available- | Accumulated | |
|---|---|---|---|---|---|---|
| | Number of shares | $ thousands | premium $ thousands | for-sale assets $ thousands | earnings $ thousands | Total $ thousands |
| **For the six months ended June 30, 2010 (Unaudited)** | | | | | | |
| **Balance at January 1, 2010** | **17,670,775** | **4,836** | **8,993** | **(162)** | **6,718** | **20,385** |
| **Total comprehensive income for the period** | | | | | | |
| Net profit for the period | **-** | **-** | **-** | **-** | **1,983** | **1,983** |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of available-for-sale assets transferred to profit or loss | **-** | **-** | **-** | **89** | **-** | **89** |
| Net change in fair value of available-for-sale assets | **-** | **-** | **-** | **10** | **-** | **10** |
| **Balance at June 30, 2010** | **17,670,775** | **4,836** | **8,993** | **(63)** | **8,701** | **22,467** |
| **For the six months ended June 30, 2009 (Unaudited)** | | | | | | |
| **Balance at January 1, 2009** | 17,670,775 | 4,836 | 8,993 | (315) | 6,762 | 20,276 |
| **Total comprehensive income for the period** | | | | | | |
| Net profit for the period | - | - | - | - | 763 | 763 |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of available-for-sale assets | - | - | - | 114 | - | 114 |
| **Balance at June 30, 2009** | 17,670,775 | 4,836 | 8,993 | (201) | 7,525 | 21,153 |
| **For the three months ended June 30, 2010 (Unaudited)** | | | | | | |
| **Balance at April 1, 2010** | **17,670,775** | **4,836** | **8,993** | **(133)** | **6,954** | **20,650** |
| **Total comprehensive income for the period** | | | | | | |
| Net profit for the period | **-** | **-** | **-** | **-** | **1,747** | **1,747** |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of available-for-sale assets transferred to profit or loss | **-** | **-** | **-** | **49** | **-** | **49** |
| Net change in fair value of available-for-sale assets | **-** | **-** | **-** | **21** | **-** | **21** |
| **Balance at June 30, 2010** | **17,670,775** | **4,836** | **8,993** | **(63)** | **8,701** | **22,467** |

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

## Condensed Consolidated Interim Statement of Changes in Equity (cont'd)

| | Share capital | | Share | Capital fund for available- | Accumulated | |
|---|---|---|---|---|---|---|
| | Number of shares | $ thousands | premium $ thousands | for-sale assets $ thousands | earnings $ thousands | Total $ thousands |
| **For the three months ended June 30, 2009 (Unaudited)** | | | | | | |
| **Balance at April 1, 2009** | 17,670,775 | 4,836 | 8,993 | (265) | 6,963 | 20,527 |
| **Total comprehensive income for the period** | | | | | | |
| Net profit for the period | - | - | - | - | 562 | 562 |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of available-for-sale assets | - | - | - | 64 | - | 64 |
| **Balance at June 30, 2009** | 17,670,775 | 4,836 | 8,993 | (201) | 7,525 | 21,153 |
| **For the year ended December 31, 2009 (Audited)** | | | | | | |
| **Balance at January 1, 2009** | 17,670,775 | 4,836 | 8,993 | (315) | 6,762 | 20,276 |
| **Total comprehensive income for the period** | | | | | | |
| Net profit for the year | - | - | - | - | 1,635 | 1,635 |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of available-for-sale assets | - | - | - | 153 | - | 153 |
| Total comprehensive income for the year | - | - | - | 153 | 1,635 | 1,788 |
| **Transactions with owners, recorded directly in equity, contributions by and distribution to owners** | | | | | | |
| Dividend to equity holders | - | - | - | - | (1,679) | (1,679) |
| **Balance at December 31, 2009** | 17,670,775 | 4,836 | 8,993 | (162) | 6,718 | 20,385 |

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

## Condensed Consolidated Interim Statements of Cash Flows

| | For the six months ended June 30 | | For the three months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** | **2009** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Audited)** |
| | **$ thousands** | **$ thousands** | **$ thousands** | **$ thousands** | **$ thousands** |
| **Net Operating activities** | | | | | |
| Net profit for the period | **1,983** | 763 | **1,747** | 562 | 1,635 |
| Adjustments to reconcile net profit to net cash generated from (used for) operating activities: | | | | | |
| Depreciation | **135** | 131 | **68** | 68 | 256 |
| Capital loss (gain) on sale of equipment | **2** | - | **2** | (1) | - |
| Increase (decrease) in employee benefits | **3** | (8) | **(7)** | 10 | 42 |
| (Increase) decrease in trade receivables | **(3,639)** | (66) | **(2,607)** | (766) | 1,229 |
| Increase in other accounts receivable | **(35)** | (10) | **(40)** | (4) | (53) |
| (Increase) decrease in inventory | **(204)** | (98) | **(143)** | (28) | 68 |
| Increase (decrease) in trade payables | **1,745** | 147 | **1,191** | 397 | (344) |
| Increase (decrease) in other payables and tax liability | **184** | (576) | **465** | (206) | (261) |
| (Increase) decrease in deferred taxes | **(110)** | 3 | **(94)** | (14) | 19 |
| Finance expenses (income), net | **240** | 12 | **179** | (220) | (112) |
| **Cash flows generated from (used for) operating activities** | **304** | 298 | **761** | (202) | 2,479 |
| **Investing activities** | | | | | |
| Investments in marketable securities held for trading | **-** | - | **-** | - | (784) |
| Proceeds from sale of marketable securities held for trading | **-** | 140 | **-** | 140 | 442 |
| Proceeds from sale of marketable securities available for sale | **1,886** | - | **926** | - | - |
| (Investments in) proceeds from short-term deposits, net | **(663)** | 11 | **(17)** | 1,351 | (33) |
| Investments in long-term deposits | **-** | - | **-** | - | (2,014) |
| Investment in property, plant and equipment | **(203)** | (254) | **(136)** | (40) | (392) |
| Proceeds from sale of equipment | **22** | 7 | **22** | 2 | 7 |
| **Cash flows generated from (used for) investing activities** | **1,042** | (96) | **795** | 1,453 | (2,774) |

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

## Condensed Consolidated Interim Statements of Cash Flows (cont'd)

| | For the six months ended June 30 | | For the three months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2009 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Financing activities** | | | | | |
| Dividend paid | **(1,679)** | - | **-** | - | - |
| **Cash flows used for financing activities** | **(1,679)** | - | **-** | - | - |
| **Net (decrease) increase in cash and cash equivalents** | **(333)** | 202 | **1,556** | 1,251 | (295) |
| **Cash and cash equivalents at beginning of the period** | **7,961** | 8,230 | **6,002** | 7,113 | 8,230 |
| **Effect of exchange rate fluctuations on cash held** | **(179)** | (3) | **(109)** | 65 | 26 |
| **Cash and cash equivalents at end of the period** | **7,449** | 8,429 | **7,449** | 8,429 | 7,961 |
| **Supplementary disclosure** | | | | | |
| Interest received included in cash flows generated from (used for) operating activities | **76** | 127 | **37** | 69 | 309 |
| Tax paid included in cash flows generated from (used for) operating activities | **295** | 665 | **189** | 660 | 943 |

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

## Note 1 - General

**A.** 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.

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

## Note 2 - Basis of Preparation

**A.** The 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, 2009 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on August 19, 2010.

**B.** 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 Group’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

Except as described below in Item (1), 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.

Presented hereunder is a description of the changes in accounting policies that were applied in these condensed consolidated interim financial statements and their effect:

**(1) Initial implementation of new standards**

**Business combinations and transactions with non-controlling interests**

As from January 1, 2010 the Group implements IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – IFRS 3 and IAS 27, respectively).

## Note 3 - Significant Accounting Policies (cont'd)

### (1) Initial implementation of new standards (cont'd)

**Business combinations and transactions with non-controlling interests (cont'd)**

The principal revisions are as follows:

- The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.
- Transactions resulting in the parent company losing control over a subsidiary are to be accounted for so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.
- In business combinations achieved in stages, the difference between the fair value at the first date of consolidation and the carrying amount of the original investment at that date, is recognized in profit or loss.
- Non-controlling interests will be measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Transactions with non-controlling interests while retaining control are accounted for as equity transactions, so that any difference between the consideration paid or received and the change in non-controlling interests is included in the share of the Company's owners in equity.
- Costs associated with the acquisition that were incurred by the acquirer in respect of the business combination are accounted for as an expense in the period they are incurred and the services are received.
- Contingent consideration is measured at fair value at the date of the business combination. Subsequent to the date of acquisition, changes in the fair value of a contingent consideration classified as a financial liability are recognized in profit or loss.
- Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.
- Profit or loss and any part of other comprehensive income are allocated to the equity holders of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.
- The discounted exercise price of a put option granted by the Group to non-controlling interests is recognized as a financial liability. In subsequent periods, changes in value of the liability are recognized in profit or loss.
- On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination, even if it is not included in the financial statements of the acquiree, if there is a present obligation resulting from past events and its fair value can be reliably measured.
- The definition of non-controlling interests has been broadened and includes in it additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

The revisions to the accounting policies that are described above are applied on a prospective basis.

## Note 3 - Significant Accounting Policies (cont'd)

**(2) New standards and interpretations not yet adopted**

In the framework of *Improvements to IFRSs* 2010, in May 2010 the IASB published and approved 11 amendments to IFRS and to one interpretation on various accounting issues. Most of the amendments shall apply to periods beginning on or after January 1, 2011 and permit early adoption, subject to the specific conditions of each amendment.

Presented hereunder are the amendments that have not been early adopted and may be relevant to the Group, and which are expected to have an effect on the financial statements:

- Amendment to IAS 34 *Interim Financial Reporting* - Significant events and transactions (hereinafter - "the Amendment") - The Amendment expanded the list of events and transactions that require disclosure in interim financial statements, such as the recognition of a loss from the impairment of financial assets and changes in the classification of assets as a result of changes in their purpose or use.
  In addition, the materiality threshold was removed from the minimum disclosure requirements included in the Standard before its amendment. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- Amendment to IAS 1 *Presentation of Financial Statements* - Presentation of statement of changes in equity (hereinafter - "the Amendment") - In accordance with the Amendment a reconciliation between the carrying amount at the beginning of the period and the carrying amount at its end for each component of equity is required to be presented in the statement of changes in equity, while separately disclosing changes arising from profit or loss, other comprehensive income and transactions with the owners in their capacity as owners. Such a reconciliation should also be presented for each component of other comprehensive income either in the statement of changes in equity or in the notes. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

## Note 4 - Income Taxes

**Non-application of International Financial Reporting Standards (IFRS) for tax purposes**

On February 4, 2010 Amendment 174 to the Income Tax Ordinance – Temporary Order for Tax Years 2007, 2008 and 2009 was published in the official gazette (hereinafter – "the Amendment to the Ordinance"). In accordance with the Amendment to the Ordinance, Israeli Accounting Standard No. 29 regarding the adoption of International Financial Reporting Standards (IFRS) shall not apply when determining the taxable income for those years even if it was applied when preparing the financial statements.

As yet there is no legislation regarding the non-application of International Financial Reporting Standards (IFRS) with respect to the taxable income for 2010.

The effect on the financial statements of the Amendment to the Ordinance with respect to the taxable income for the years 2007-2009 is immaterial.

## Note 5 - Dividend Paid

A dividend in the amount of USD 1,679 (USD 0.095 per share) announced in November 2009 was paid off in January 2010.