PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
March 31, 2007 (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, 2007.

1. <u>A concise description of the corporation and its business environment</u>

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 2007

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.

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
	2007	**2006**	**2006**
Customer A	10.9%	13.3%	11.9%
Customer B	21.1%	16.7%	15.7%

D. Marketing

On February 2007 the Company participated in: "APEC 2007" exhibition in Los Angeles, U.S.A, in March 2007 the Company participated in: "Electronica & Productronica China 2007 with PCIM" exhibition in Shanghai, China, and in "Electronica" exhibition in Tel-Aviv, Israel.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2007 were USD 6,541 thousand (December 31, 2006 - USD 5,332 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.3.07 will be supplied until September 30, 2007.

[1] The financial statements as at March 31, 2007 form an integral part thereof.

2. Financial position

A. Balance Sheet as at March 31, 2007

Cash and cash equivalents, Marketable securities and Short-term Deposits – these three items amounted to a total of USD 12,559 thousand as at March 31, 2007 compared to USD 10,018 thousand as at December 31, 2006 and USD 5,331 thousand as at March 31, 2006. This increase resulted mainly of the cash flow provided by operating activities including net income for the period.
(As of 31.03.06 an amount of USD 550 thousands out of the Short-term deposits serves as a back-to-back guaranty against the short-term loan).

Trade accounts receivable – these amounted to USD 4,176 thousand as at March 31, 2007 compared to USD 5,293 thousand as at December 31, 2006 and USD 2,746 thousand as at March 31, 2006. The decrease in this item as of March 31, 2007 compared with 31.12.06 is mainly due to a decrease in sales volume during the period close to the reports date.

Deferred Taxes – these amounted to USD 176 thousand as at March 31, 2007 compared to USD 167 thousand as at December 31, 2006 and USD 523 thousand as at March 31, 2006. A net decrease of USD 347 thousands compared with March 31, 2006 due to use of deferred tax asset as result of taxable income. (See also note 11 to the consolidated financial statements as at December 31, 2006).

Short-term bank credit **–** this amounted to USD 0 thousand as at March 31, 2007 and as at December 31, 2006 compared to USD 490 thousand as at March 31, 2006. This decrease resulted from repayments of short-term bank loan.

Current tax liability - these amounted to USD 692 thousand as at March 31, 2007 compared to USD 445 thousand as at December 31, 2006 and USD 0 thousand as at March 31, 2006. The increase of USD 247 thousands compared with December 31, 2006 represent increase in company's liability for income tax payment resulted of the net profit for the period.

B. **Operating results**

Summary of Consolidated Quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/07	Quarter 10-12/06	Quarter 7-9/06	Quarter 4-6/06	Quarter 1-3/06
Sales revenues	4,575	6,953	5,877	5,064	3,670
Cost of sales	2,305	2,992	2,842	2,411	2,030
Gross profit	*2,270*	*3,961*	*3,035*	*2,653*	*1,640*
Development costs	158	159	122	133	129
Selling & marketing expenses	381	415	363	388	299
General & administrative expenses	453	573	505	459	408
Operating income	*1,278*	*2,814*	*2,045*	*1,673*	*804*
Finance income	117	115	60	60	65
Finance expense	(31)	(6)	(33)	(19)	(18)
Other income	-	4	-	-	-
Profit before taxes on income	*1,364*	*2,927*	*2,072*	*1,714*	*851*
Taxes on income	(234)	(420)	(346)	(35)	80
Net profit for the period	*1,130*	*2,507*	*1,726*	*1,679*	*931*

Sales revenues - The Group's sales revenue for the three-month period ended March 31, 2007 were USD 4,575 thousand compared with USD 3,670 thousand in the three-month period ended March 31, 2006 (an increase of 24.7%), and compared with USD 6,953 thousand in the three-month period ended December 31, 2006 (a decrease of 34.2%).

Gross profit – The Group's gross profit for the three-month period ended March 31, 2007 is USD 2,270 thousand (50% of sales) compared with USD 1,640 thousand (45% of sales) in the three-month period ended March 31, 2006. The Group's gross profit ratio for the year ended December 31, 2006 was 52% of sales.
This improvement in the gross profit between the first quarter of 2007 and the first quarter of 2006 was achieved mainly through the over-all growth in sales volume, production efficiency and decrease in labor costs ratio as a result of subcontracting production to Chinese venture.

Development costs – Payton's R&D strategy is aimed on maintaining the leadership of 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-month period ended March 31, 2007 were USD 158 thousand.

Selling & marketing expenses – 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, that 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.

Taxes on income – These amounted to a net tax expense of USD 234 thousands in the three-month period ended March 31, 2007 compared with a net income tax benefit amounting USD 80 thousand in the three-month period ended March 31, 2006. In the first quarter of 2006 the group recognized a net deferred tax asset amounting USD 80 thousand generated from updating the net tax assets. As of March 31, 2007 the Company used most of its deferred tax assets and its profit is taxable.

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the balance sheet:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	March 31, 2007	**December 31, 2006**	**March 31, 2006**
Current ratio[2]	4.29	4.32	4.05
Quick ratio[3]	3.84	3.83	3.42

B. Cash flow provided by operating activities

Cash flow provided by operating activities for the three-month period ended March 31, 2007 amounted USD 2,673 thousand, compared with the cash flow provided by operating activities of USD 1,243 thousand for the three-month period ended March 31, 2006. The Increase in Cash flow provided by operating activities resulted mainly of the decrease in trade receivables, increase in current taxes liability and increase in the net profit for the period.

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

C. Cash flow used for investing activities

Cash flow used for investing activities in the three-month period ended March 31, 2007, amounted USD 1,649 thousand, compared with cash flow used for investing activities of USD 423 thousand in the three-month period ended March 31, 2006.

Cash flow used for investing activities in the first quarter of 2007 resulted mainly from investments in deposits and marketable securities.

4. Financing sources

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

5. External factors effects

The global devaluation of the U.S. Dollar and especially its devaluation with relation to the local Israeli currency causes an increase in the Group’s labor costs. It is noted that, most of the Group’s salaries and other operating costs are fixed in local New Israeli Shekel ("NIS"). The devaluation of the U.S. Dollar with relation to the NIS might influence the operating results of the second quarter of 2007.

The company management cannot foresee, at this stage, the financial effect of the U.S. Dollar devaluation.

To the best of the Board of Directors’ and management’s knowledge, except the above mentioned U.S. Dollar devaluation, there have been no significant changes in external factors that may materially effect 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, May 28, 2007.

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Review Report to the Board of Directors
Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying condensed interim consolidated balance sheet of Payton Planar Magnetics Ltd. as at March 31, 2007 and the related condensed consolidated interim statements of income, changes in shareholder's equity and cash flows for the three-month period then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Reporting Standard 34 Interim Financial Reporting. Our responsibility is to express a conclusion on these interim financial statements 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 identifiable in an audit. Accordingly, we do not express an audit opinion.

We received review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 6.9% of the total consolidated assets as at March 31, 2007 and whose revenues constitute 11.5% of the total consolidated revenues for the three month period then ended.

Conclusion

Based on our review, including the reading of the review report of the other auditor as stated above, nothing has come to our attention that causes us to believe that the accompanying interim financial information is 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 28, 2007

Condensed Interim Consolidated Balance Sheets

	March 31 2007	March 31 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**8,293**	3,912	7,269
Marketable securities	**919**	-	414
Short-term deposits	**3,347**	1,419	2,335
Trade accounts receivable	**4,176**	2,746	5,293
Other accounts receivable	**47**	177	68
Inventory	**1,969**	1,529	1,944
Total current assets	**18,751**	9,783	17,323
Non-current assets			
Deposits	**6**	6	6
Other investment	**348**	348	348
Property, plant and equipment, net	**617**	544	543
Deferred taxes	**176**	523	167
Total non-current assets	**1,147**	1,421	1,064
Total assets	**19,898**	11,204	18,387

David Yativ	Michael Perez	Michal Lichtenstein
Chief Executive Officer and Chairman of the Board of Directors	Director	V.P. Finance & CFO

May 28, 2007

	March 31 2007	March 31 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Liabilities and shareholder's equity			
Current liabilities			
Short-term bank credit	**-**	490	-
Trade payables	**1,542**	1,044	1,580
Other payables	**2,138**	881	1,987
Current tax liability	**692**	-	445
Total current liabilities	**4,372**	2,415	4,012
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**-**	406	-
Liability for employee severance benefits, net	**215**	110	194
Total non-current liabilities	**215**	516	194
Shareholders' equity			
Share capital	**4,836**	4,819	4,836
Share premium	**8,993**	9,014	8,993
Accumulated earnings (deficit)	**1,482**	(5,560)	352
Total shareholders' equity	**15,311**	8,273	14,181
Total liabilities and shareholders' equity	**19,898**	11,204	18,387

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

Condensed Interim Consolidated Statements of Income

	Three months ended March 31		Year ended December 31
	2007	2006	2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Revenues	**4,575**	3,670	21,564
Cost of sales	**2,305**	2,030	10,275
Gross profit	**2,270**	1,640	11,289
Development costs	**158**	129	543
Selling and marketing expenses	**381**	299	1,465
General and administrative expenses	**453**	408	1,945
Operating income	**1,278**	804	7,336
Finance income	**117**	65	280
Finance expense	**(31)**	(18)	(56)
Other income	**-**	-	4
Profit before income taxes	**1,364**	851	7,564
Income taxes	**(234)**	80	(721)
Profit for the period	**1,130**	931	6,843
Basic and diluted earnings per ordinary share (in US$)	**0.06**	0.05	0.39

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

Condensed Interim Statement of Changes in Shareholders' Equity

	Share capital				
	Number of shares	Amount	Share premium	Accumulated earnings (deficit)	Total
		US$ thousands			
Balance at January 1, 2007 (Audited)	**17,670,775**	**4,836**	**8,993**	**352**	**14,181**
Profit for the period (Unaudited)	**-**	**-**	**-**	**1,130**	**1,130**
Balance at March 31, 2007 (Unaudited)	**17,670,775**	**4,836**	**8,993**	**1,482**	**15,311**
Balance at January 1, 2006 (Audited)	17,600,000	4,819	9,008	(6,491)	7,336
Capital reserve from transaction with controlling shareholder (Unaudited)	-	-	6	-	6
Profit for the period (Unaudited)	-	-	-	931	931
Balance at March 31, 2006 (Unaudited)	17,600,000	4,819	9,014	(5,560)	8,273
Balance at January 1, 2006 (Audited)	17,600,000	4,819	9,008	(6,491)	7,336
Capital reserve from transaction with controlling shareholder (Audited)	-	-	2	-	2
Exercise of option warrant into shares (Audited)	70,775	17	(17)	-	-
Profit for the year (Audited)		-	-	6,843	6,843
Balance at December 31, 2006 (Audited)	17,670,775	4,836	8,993	352	14,181

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

Condensed Interim Consolidated Statements of Cash Flows

	Three months ended March 31		Year ended December 31,
	2007	**2006**	**2006**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	US$ thousands	**US$ thousands**	**US$ thousands**
Net operating activities			
Net profit for the period	**1,130**	931	6,843
Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation	**53**	50	207
Capital gain on sale of equipment	**-**	-	(4)
Increase in liability for employee severance benefits, net	**21**	6	90
Decrease (increase) in trade receivables	**1,117**	405	(2,142)
Decrease (increase) in other accounts receivables	**21**	(1)	108
(Increase) decrease in inventory	**(25)**	106	(309)
(Decrease) increase in trade payables	**(29)**	(178)	347
Increase (decrease) in other payables and tax liability	**398**	(2)	1,549
Deferred taxes	**(9)**	(80)	276
Finance expenses from transactions with controlling shareholder	**-**	6	24
Gain on marketable securities	**(4)**	-	* (14)
Cash flows generated from operating activities	**2,673**	1,243	6,975
Investing activities			
Purchase of marketable securities, net	**(501)**	-	* (400)
Investment in property, plant and equipment	**(136)**	(33)	(178)
Investment in deposits, net	**(1,012)**	(390)	(1,306)
Proceeds from sale of equipment	**-**	-	4
Cash flows used for investing activities	**(1,649)**	(423)	(1,880)
Financing activities			
Short-term bank credit, net	**-**	(90)	(580)
Repayment of loan to parent company	**-**	-	(428)
Cash flows used for financing activities	**-**	(90)	(1,008)
Increase in cash and cash equivalents	**1,024**	730	4,087
Cash and cash equivalents at beginning of period	**7,269**	3,182	3,182
Cash and cash equivalents at end of period	**8,293**	3,912	7,269

* Reclassified

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

	Three months ended March 31		Year ended December 31,
	2007	2006	2006
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Appendix A - Non-Cash Activities			
Purchase of property and equipment	**9**	7	18
Capital reserve from transactions with controlling shareholder	**-**	6	2
Supplementary disclosure			
Interest paid	**-**	2	16
Interest received	**77**	27	207
Tax paid	**1**	-	1

Note 1 - General

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company").

B. The Company 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.

Note 2 - Financial Reporting and Accounting Policies

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, 2006.

B. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at December 31, 2006.

C. Results of operations for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

D. The preparation of interim financial statements requires management to make judgements, 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 judgements 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 consolidated financial statements as at and for the year ended December 31, 2006.

Note 3 - Operating Segments

Segment information is presented in respect of the Group's geographical segments, which is based on the Group's management and internal reporting structure.

The primary format of reporting segment information is geographical, based on the location of customers.

	Three months ended March 31, 2007 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**1,506**	**1,020**	**2,049**	**4,575**
Segment result	**421**	**285**	**572**	**1,278**

	Three months ended March 31, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	1,766	809	1,095	3,670
Segment result	387	177	240	804

	Year ended December 31, 2006 (Audited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	7,989	4,548	9,027	21,564
Segment result	2,718	1,547	3,071	7,336