P A Y T O N   G R O U P
I N T E R N A T I O N A L

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
June 30, 2006(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, 2006.

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 2006

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 Euro.NM (Today 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 six-month period ended June 30	For the year ended December 31	For the six-month period ended June 30
	2006	2005	2005
Customer A	13.8%	14.7%	14.6%
Customer B	10.1%	*	13.1%
Customer C	17.5%	17.4%	13.4%

* Less then 10% of the Group’s consolidated sales

D. Marketing

On March 2006 the Company participated in: “APEC 2006” exhibition in Dallas Texas, U.S.A. in “Electronica & Productronica China 2006 with PCIM” exhibition in Shanghai, China, in “Del Mar” exhibition in California, U.S.A and in “Electronica” exhibition in Tel-Aviv, Israel. On June 2006 the Company participated in “PCIM” exhibition in Nuremberg, Germany

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of June 30, 2006 was USD 7,366 thousand (December 31, 2005 - USD 3,620 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 30.6.06 will be supplied until the end of year 2006.

[1] The financial statements as at June 30, 2006 form an integral part thereof.

2. Financial position

A. Balance Sheet as at June 30, 2006.

Cash and cash equivalents including Short-term Deposits – these two items amounted to a total of USD 6,483 thousand at June 30, 2006 compared to USD 4,211 thousand as at December 31, 2005 and USD 3,113 thousand at June 30, 2005. This increase resulted mainly of the net income for the period.
An amount of USD 550 thousands out of the Short-term deposits serves as a guaranty against the short-term loan.

Trade accounts receivable, net – these amounted to USD 4,009 thousand at June 30, 2006 compared to USD 3,151 thousand as at December 31, 2005 and USD 2,180 thousand at June 30, 2005. The increase in this item as of June 30, 2006 is mainly due to the increase in sales volume.

Deferred Taxes – As of June 30, 2006, these amounted to USD 488 thousands. A net increase USD 45 thousands compare with December 31, 2005 resulted of reassessed estimations in respect of previously unrecognized deferred tax assets related to the carryforward of unused tax losses (See note 2D to the Financial Statements).

Short-term bank credit – these amounted to USD 400 thousand at June 30, 2006 compared to USD 580 thousand as at December 31, 2005 and USD 750 thousand at June 30, 2005. The decrease in this item is due to gradual monthly repayments of short-term bank loan.

Trade payables - these amounted to USD 1,593 thousand at June 30, 2006 compared to USD 1,223 thousand as at December 31, 2005 and USD 745 thousand at June 30, 2005. The increase in this item resulted mainly due to an increase in material purchasing as result of insures in the Company's operation volume.

Other payables - these amounted to USD 1,341 thousand at June 30, 2006 compared to USD 883 thousand as at December 31, 2005 and USD 885 thousand at June 30, 2005. The increase at June 30, 2006 resulted mainly due to an increase in liabilities to related parties.

B. Operating results

Summary of Consolidated Quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 4-6/06	Quarter 1-3/06	Quarter 10-12/05	Quarter 7-9/05	Quarter 4-6/05
Sales revenues	5,064	3,670	4,056	3,353	2,747
Cost of sales	2,411	2,030	2,193	1,790	1,555
Gross profit	*2,653*	*1,640*	*1,863*	*1,563*	*1,192*
Development costs	133	129	116	120	117
Selling & marketing expenses	388	299	322	251	264
General & administrative expenses	459	408	375	339	292
Operating income	*1,673*	*804*	*1,050*	*853*	*519*
Net financial result	41	47	(9)	(6)	(35)
Net operating profit after financial result	*1,714*	*851*	*1,041*	*847*	*484*
Other income	-	-	2	-	3
Profit before taxes on income	*1,714*	*851*	*1,043*	*847*	*487*
Taxes on income	(35)	80	443	-	-
Net profit for the period	*1,679*	*931*	*1,486*	*847*	*487*

The Group's sales revenues for the six-month period ended June 30, 2006 were USD 8,734 thousand compared with USD 5,534 thousand in the six-month period ended June 30, 2005, an increase of 57.8%.
The Group's sales revenue for the three-month period ended June 30, 2006 amounted to USD 5,064 thousand compared with USD 2,747 thousand in the three-month period ended June 30, 2005, an increase of 84.3%.
The sales increase attributed of recurring sales to existing customers and sales to new ones.

Gross result **–**The Group's gross result for the six-month period ended June 30, 2006 was USD 4,293 thousand (49.2% of sales) compared with USD 2,442 thousand (44.1% of sales) in the six-month period ended June 30, 2005. .
This improvement in the gross results was achieved mainly through the over-all growth in the sales volume as well as improved production efficiency.

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 six-months period ended June 30, 2006 were USD 262 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' that are calculated as a portion of sales. The Group's marketing efforts are concentrated through participation in major power electronic shows throughout the world and by collaborating with its worldwide rep's Network.

General & Administrative expenses -The increase in these expenses in the six-month period ended June 30, 2006 compared with the first half of previous year is explained mainly by two factors:

1) Starting January 1st, 2006, as a result of the increase in the business activity of the Company, the allocation of the Parent Company's joint G&A expenses was adjusted; 85% (instead of 75%) are allocated to the Company and 15% to Payton Technologies (a subsidiary of the parent company).
2) The Parent Company's joint G&A expenses increased mainly due management incentives derived of the Group improved sales and profitability.

3. Liquidity

A. Liquidity Ratios

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

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	June 30, 2006	**December 31, 2005**	**June 30, 2005**
Current ratio[2]	3.73	3.42	3.08
Quick ratio[3]	3.21	2.81	2.36

B. Net operating activities

Cash flows provided by operating activities for the six-month period ended June 30, 2006 amounted USD 2,534 thousand, compared with the cash flow provided by operating activities of USD 1,131 thousand for the six-month period ended June 30, 2005. The Increase in Cash flow provided by operating activities resulted mainly of the increase in the net profit for the period; from the changes of increase in trade receivables and of other changes in the cash flow adjustments items as detailed in the consolidated statement of cash flow.

C. Investing activities.

Cash flows used for investing activities in the six-month period ended June 30, 2006, amounted USD 481 thousand, compared with cash flows provided by investing activities of USD 26 thousand in the six-month period ended June 30, 2005.

Cash flow used for investing activities in the first half of 2006 resulted mainly from investments in deposits.

D. Cash flows used for financing activities.

Cash flow used for financing activities in the six-month period ended June 30, 2006, amounted USD 180 thousand, compared with cash flow used for financing activities of USD 550 thousand in the six-month period ended June 30, 2005. In the first half of 2006 the cash flow used for financing activities resulted from monthly repayments of short-term bank loan.

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

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

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from a credit facility taken from a bank.

5. External factors effecting the Group

To the best of the Board of Directors and management's knowledge, 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 continued confidence in the Group and to extend 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 17, 2006.

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To the Board of Directors
Payton Planar Magnetics Ltd.

We have reviewed the accompanying condensed interim consolidated balance sheet of Payton Planar Magnetics Ltd. as at June 30, 2006 and the related condensed consolidated interim statements of income, changes in shareholders' equity and cash flows for the six and three months then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our 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 a review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 7.9% of the total consolidated assets as at June 30, 2006 and whose revenues constitute 11.8% and 11.0% of the total consolidated revenues for the six and three months then ended, respectively.

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.)
(Member Firm of KPMG International)

August 17, 2006

Condensed Consolidated Interim Balance Sheets

	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**5,055**	2,100	3,182
Short-term deposits	**1,428**	1,013	1,029
Trade accounts receivable	**4,009**	2,180	3,151
Other accounts receivable	**197**	323	176
Inventory	**1,732**	1,721	1,635
Total current assets	**12,421**	7,337	9,173
Non-current assets			
Deposits	**6**	6	6
Other investments	**348**	348	348
Property, plant and equipment, net	**550**	610	562
Deferred taxes	**488**	-	443
Total non-current assets	**1,392**	964	1,359
Total assets	**13,813**	8,301	10,532

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

Michael Perez
Director

Michal Lichtenstein
V.P. Finance & CFO

August 17, 2006

	June 30 2006	June 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current liabilities			
Short-term bank credit	**400**	750	580
Trade payables	**1,593**	745	1,223
Other payables	**1,341**	885	883
Total current liabilities	**3,334**	2,380	2,686
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**406**	814	406
Liability for employee severance benefits, net	**115**	104	104
Total non-current liabilities	**521**	918	510
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**9,020**	9,008	9,008
Accumulated deficit	**(3,881)**	(8,824)	(6,491)
Total shareholders' equity	**9,958**	5,003	7,336
Total liabilities and shareholders' equity	**13,813**	8,301	10,532

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

Condensed Consolidated Interim Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Revenues	**8,734**	5,534	**5,064**	2,747	12,943
Cost of sales	**4,441**	3,092	**2,411**	1,555	7,075
Gross profit	**4,293**	2,442	**2,653**	1,192	5,868
Development costs	**262**	233	**133**	117	469
Selling and marketing expenses	**687**	552	**388**	264	1,125
General and administrative expenses	**867**	624	**459**	292	1,338
Operating income	**2,477**	1,033	**1,673**	519	2,936
Net financial results	**88**	(65)	**41**	(35)	(80)
Other income	**-**	2	**-**	3	4
Profit before income taxes	**2,565**	970	**1,714**	487	2,860
Income taxes	**45**	-	**(35)**	-	443
Net profit for the period	**2,610**	970	**1,679**	487	3,303
Basic and diluted earnings per ordinary share (in US$)	**0.148**	0.055	**0.095**	0.028	0.188

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 deficit	Total
		US$ thousands			
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)	**-**	**-**	**12**	**-**	**12**
Net profit for the period (unaudited)	**-**	**-**	**-**	**2,610**	**2,610**
Balance at June 30, 2006 (Unaudited)	**17,600,000**	**4,819**	**9,020**	**(3,881)**	**9,958**
Balance at January 1, 2005 (Audited)	17,600,000	4,819	8,986	(9,794)	4,011
Capital reserve from transaction with controlling shareholder (unaudited)	-	-	22	-	22
Net profit for the period (unaudited)	-	-	-	970	970
Balance at June 30, 2005 (Unaudited)	17,600,000	4,819	9,008	(8,824)	5,003
Balance at April 1, 2006 (Unaudited)	**17,600,000**	**4,819**	**9,014**	**(5,560)**	**8,273**
Capital reserve from transaction with controlling shareholder (unaudited)	**-**	**-**	**6**	**-**	**6**
Net profit for the period (unaudited)	**-**	**-**	**-**	**1,679**	**1,679**
Balance at June 30, 2006 (Unaudited)	**17,600,000**	**4,819**	**9,020**	**(3,881)**	**9,958**
Balance at April 1, 2005 (Unaudited)	17,600,000	4,819	8,997	(9,311)	4,505
Capital reserve from transaction with controlling shareholder (unaudited)	-	-	11	-	11
Net profit for the period (unaudited)	-	-	-	487	487
Balance at June 30, 2005 (Unaudited)	17,600,000	4,819	9,008	(8,824)	5,003
Balance at January 1, 2005 (Audited)	17,600,000	4,819	8,986	(9,794)	4,011
Capital reserve from transaction with controlling shareholder (audited)	-	-	22	-	22
Net profit for the year (audited)	-	-	-	3,303	3,303
Balance at December 31 2005 (Audited)	17,600,000	4,819	9,008	(6,491)	7,336

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

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	December 31 2005
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Net operating activities					
Net profit for the period	**2,610**	970	**1,679**	487	3,303
Adjustments to reconcile net result to net cash used for operating activities:					
Depreciation	**101**	123	**51**	60	233
Capital gain on sale of equipment	**-**	(2)	**-**	(3)	(4)
Increase (decrease) in employee severance benefits, net	**11**	(5)	**5**	(10)	(5)
(Increase) decrease in trade receivables	**(858)**	425	**(1,263)**	(57)	(546)
(Increase) decrease in other accounts receivables	**(21)**	(119)	**(20)**	(164)	28
(Increase) decrease in inventory	**(97)**	(71)	**(203)**	(41)	15
Increase (decrease) in trade payables	**363**	(142)	**541**	(146)	332
Increase (decrease) in other payables	**458**	(70)	**460**	21	(72)
Deferred taxes	**(45)**	-	**35**	-	(443)
Finance expenses from transaction with a controlling shareholder	**12**	22	**6**	11	44
Cash flows provided by operating activities	**2,534**	1,131	**1,291**	158	2,885
Net investing activities					
Investment in property, plant and equipment	**(82)**	(71)	**(49)**	(18)	(139)
(Investment in) proceeds from deposits, net	**(399)**	87	**(9)**	99	71
Proceeds from sale of equipment	**-**	10	**-**	4	22
Cash flows (used for) provided by investing activities	**(481)**	26	**(58)**	85	(46)
Net financing activities					
Decrease in short-term bank credit	**(180)**	(550)	**(90)**	(175)	(720)
Repayment of loan to parent company	**-**	-	**-**	-	(430)
Cash flows used for financing activities	**(180)**	(550)	**(90)**	(175)	(1,150)
Increase in cash and cash equivalents	**1,873**	607	**1,143**	68	1,689
Cash and cash equivalents at beginning of period	**3,182**	1,493	**3,912**	2,032	1,493
Cash and cash equivalents at end of period	**5,055**	2,100	**5,055**	2,100	3,182

Appendix A - Non-Cash Activities

Purchase of property and equipment	**15**	4	**15**	4	8
Capital reserve from transactions with controlling shareholder	**12**	22	**6**	11	22
Supplementary disclosure					
Interest paid	**4**	16	**2**	7	35

Note 1 - General

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992 in Israel. 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 subsidiary and distributors. Its manufacturing activities include 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 Financial Reporting Standard (IFRS) 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, 2005.

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, 2005.

C. Results of operations for the six and three months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

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.

Except as described below, 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, 2005.

During the six months ended June 30, 2006, management reassessed its estimates in respect of previously unrecognized deferred tax assets related to the carryforward of unused tax losses. Previously unrecognized tax losses were recognized in the current period as management now considers it probable that future taxable profits will be available against which they can be utilized.

E. Until December 31, 2005, the joint general and administrative expenses (the expenses) of the Company and of Payton Technologies Ltd. (a subsidiary of the parent company) were allocated 75% to the Company and 25% to Payton Technologies Ltd. Beginning January 1, 2006, due to an increase in the business activity of the Company, the allocation was changed so that 85% of the expenses are allocated to the Company and 15% to Payton Technologies Ltd.

Note 3 - Operating Segments

Segment information, according to the revised IAS 14, 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 location of customers.

	Six months ended June 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**3,768**	**1,760**	**3,206**	**8,734**
Segment result	**1,069**	**499**	**909**	**2,477**

	Six months ended June 30, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	3,023	1,286	1,225	5,534
Segment result	564	240	229	1,033

	Three months ended June 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**2,002**	**951**	**2,111**	**5,064**
Segment result	**682**	**322**	**669**	**1,673**

	Three months ended June 30, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	1,526	627	594	2,747
Segment result	288	118	113	519

	Year ended December 31, 2005 (Audited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	5,697	3,067	4,179	12,943
Segment result	1,292	696	948	2,936