PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
March 31, 2005(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, 2005.

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 2005

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 Company).

	For the three-month period ended March 31	For the year ended December 31	For the three-month period ended March 31
	2005	**2004**	**2004**
Customer A	12.9%	13.5%	13.3%
Customer B	14.8%	14.2%	*
Customer C	13.5%	14.5%	*
Customer D	*	*	10.7%

* Less then 10% of the Company's consolidated sales

D. Marketing

On March 2005 the Company participated in "APEC 2005" exhibition in Austin Texas, U.S.A. and in "Electronica & Productronica China 2005 with PCIM" exhibition in Shanghai, China.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2005 were USD 3,052 thousand (December 31, 2004 - USD 2,279 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.3.05 will be supplied until the end of first quarter 2006.

2. Financial position

[1] The financial statements as at March 31,2005 form an integral part thereof.

A. Balance Sheet as at March 31, 2005.

Cash and cash equivalents – these amounted to a total of USD 2,032 thousand at March 31, 2005 compared to USD 1,493 thousand as at December 31, 2004 and USD 570 thousand at March 31, 2004. This increase in resulted mainly of the net income for the period.

Short-term Deposits – As of March 31, 2005, these amounted to USD 862 thousands. An amount of USD 300 thousands out of the Short-term deposits uses as a guaranty against short-term loan.

Trade accounts receivable, net – these amounted to USD 2,123 thousand at March 31, 2005 compared to USD 2,605 thousand as at December 31, 2004 and USD 1,827 thousand at March 31, 2004. The decrease in this item as of March 31, 2005 compare with 31.12.04 is mainly due to a decrease in the sales volume in the first quarter of 2005 compare with the last quarter of 2004..

Short-term bank credit – these amounted to USD 925 thousand at March 31, 2005 compared to USD 1,300 thousand as at December 31, 2004 and USD 1,449 thousand at March 31, 2004. The decrease in this item is due to a decrease in short term bank credit and gradual monthly payments of short-term bank loan.

Other payables - these amounted to USD 864 thousand at March 31, 2005 compared to USD 955 thousand as at December 31, 2004 and USD 1,004 thousand at March 31, 2004. The decrease in March 31, 2005 compare with December 31, 2004 is mainly due to a decrease in accrued expenses.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/05	Quarter 10-12/04	Quarter 7-9/04	Quarter 4-6/04	Quarter 1-3/04
Sales revenues	2,787	3,375	3,422	2,995	2,680
Cost of sales	1,537	1,873	1,805	1,737	1,550
Gross profit	*1,250*	*1,502*	*1,617*	*1,258*	*1,130*
Development costs	116	133	127	108	115
Selling & marketing expenses	288	366	258	299	263
General & administrative expenses	332	340	348	263	282
Operating income (loss)	*514*	*663*	*884*	*588*	*470*
Net financial result	(30)	(9)	(19)	(35)	(2)
Net operating profit after financial result	*484*	*654*	*865*	*553*	*468*
Other income (expense)	(1)	-	1	-	-
Net profit for the period	*483*	*654*	*866*	*553*	*468*

The Group's sales revenue for the three-month period ended March 31, 2005 were USD 2,787 thousand compared with USD 2,680 thousand in the three-month period ended March 31, 2004 (an increase of 4%), and compared with USD 3,375 thousand in the three-month period ended December 31, 2004 (a Decrease of 17%).

Gross result – The Group's gross margin remained about the same level in the first quarter of 2005 and in the forth quarter of 2004 (about 45%), an improvement of about 3% compare to the gross margin in first quarter of 2004.

Development costs – Payton's R&D strategy is aimed on maintaining the leadership of planar technology. Payton's R&D department work in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were estimated upon employees' hours dedication. The group's development costs for the period ended March 31, 2005 were USD 116 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 done through participation in major power electronic shows throughout the world and by collaborating with its worldwide rep's Network.

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, 2005	**December 31, 2004**	**March 31, 2004**
Current ratio[2]	2.56	2.16	1.45
Quick ratio[3]	1.93	1.63	0.94

B. Cash flow provided by operating activities

Cash flow provided by operating activities for the three-month period ended March 31, 2005 amounted USD 973 thousand, compared with the cash flow provided for operating activities of USD 61 thousand for the three-months period ended March 31, 2004. The Increase in Cash flow provided by operating activities resulted mainly of the decrease in trade receivables and in other receivables; and from the other changes in the cash flow adjustments items as detailed in the consolidated statement of cash flow.

C. Cash flow used for investing activities.

Cash flow used for investment activities in the three-month period ended March 31, 2005, amounted USD 59 thousand, compared with cash flow used for financing activities of USD 178 thousand in the three-month period ended March 31, 2004. (In the first quarter of 2004 most of the cash flow used for investing activities resulted from investment in deposits).

D. Cash flow used for financing activities.

Cash flow used for financing activities in the three-month period ended March 31, 2005, amounted USD 375 thousand, compared with cash flow used for financing activities of USD 141 thousand in the three-month period ended March 31, 2004. In the three-months period ended March 31, 2005 the cash flow used for financing activities result from repayment of short-term bank credit and monthly payments of short-term bank loan.

4. Financing sources

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

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

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

5. External factors effects

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 continuance trust and belief.

The Company's Board of Directors wishes to extent its sincere thanks to the entire personnel of 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 26, 2005.

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

We have reviewed the accompanying condensed consolidated balance sheet of Payton Planar Magnetics Ltd. as at March 31, 2005 and the related statements of income and cash flows for the three-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and this provides less assurance than an audit. We have not performed an audit and, 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 7.1% of the total consolidated assets as at March 31, 2005 and whose revenues constitute 14.8% of the total consolidated revenues for the three month period then e
nded.

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 financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

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

May 26, 2005

Condensed Consolidated Interim Balance Sheets

	March 31 2005	March 31 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**2,032**	570	1,493
Short-term deposits	**862**	650	850
Trade accounts receivable, net	**2,123**	1,827	2,605
Other accounts receivable	**159**	295	204
Inventory	**1,680**	1,819	1,650
Total current assets	**6,856**	5,161	6,802
Non-current assets:			
Deposits	**256**	256	256
Other investment	**348**	348	348
Property, plant and equipment, net	**655**	701	684
Total non-current assets	**1,259**	1,305	1,288
Total assets	**8,115**	6,466	8,090

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

Michal Lichtenstein
V.P. Finance & CFO

May 26, 2005

	March 31 2005 (Unaudited) US$ thousands	March 31 2004 (Unaudited) US$ thousands	December 31 2004 (Audited) US$ thousands
Short-term bank credit and current maturities of long-term bank debt	**925**	1,449	1,300
Trade payables	**893**	1,114	901
Other payables	**864**	1,004	955
Total current liabilities	**2,682**	3,567	3,156
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**814**	858	814
Liability for employee severance benefits, net	**114**	147	109
Total long-term liabilities	**928**	1,005	923
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**8,997**	8,942	8,986
Accumulated deficit	**(9,311)**	(11,867)	(9,794)
Total shareholders' equity	**4,505**	1,894	4,011
Total liabilities and shareholders' equity	**8,115**	6,466	8,090

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
	2005	2004	2004
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Sales revenues	**2,787**	2,680	12,472
Cost of sales	**(1,537)**	(1,550)	(6,965)
Gross profit	**1,250**	1,130	5,507
Development costs	**(116)**	(115)	(483)
Selling and marketing expenses	**(288)**	(263)	(1,186)
General and administrative expenses	**(332)**	(282)	(1,233)
Operating profit	**514**	470	2,605
Net financial result	**(30)**	(2)	(65)
Other (loss) income	**(1)**	-	1
Net profit for the period	**483**	468	2,541
Basic and diluted earnings per ordinary share (in US$)	**0.027**	0.027	0.144

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, 2005 (Audited)	**17,600,000**	**4,819**	**8,986**	**(9,794)**	**4,011**
Capital reserve from transaction with controlling shareholder	**-**	**-**	**11**	**-**	**11**
Net profit for the period	**-**	**-**	**-**	**483**	**483**
Balance at March 31, 2005 (Unaudited)	**17,600,000**	**4,819**	**8,997**	**(9,311)**	**4,505**
Balance at January 1, 2004 (Audited)	17,600,000	4,819	8,942	(12,335)	1,426
Net profit for the period	-	-	-	468	468
Balance at March 31, 2004 (Unaudited)	17,600,000	4,819	8,942	(11,867)	1,894
Balance at January 1, 2004 (Audited)	17,600,000	4,819	8,942	(12,335)	1,426
Capital reserve from transaction with controlling shareholder	-	-	44	-	44
Net profit for the year	-	-	-	2,541	2,541
Balance at December 31, 2004 (Audited)	17,600,000	4,819	8,986	(9,794)	4,011

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
	2005	2004	2004
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Net operating activities			
Net profit for the period	**483**	468	2,541
Adjustments to reconcile net result to net cash used for operating activities:			
Depreciation and amortization	**63**	56	230
Capital loss on sale of equipment	**1**	-	-
Increase (decrease) in employee severance benefits, net	**5**	16	(22)
Decrease (increase) in trade receivables	**482**	(189)	(967)
Decrease (increase) in other accounts receivables	**45**	(256)	(165)
(Increase) decrease in inventory	**(30)**	(125)	44
Increase (decrease) in trade payables	**4**	162	(56)
Decrease in other payables	**(91)**	(71)	(120)
Finance expenses from transactions with controlling shareholders	**11**	-	-
Cash flows provided by operating activities	**973**	61	1,485
Investing activities			
Investment in property, plant and equipment	**(53)**	(28)	(187)
Investment in deposits, net	**(12)**	(150)	(350)
Proceeds from sale of equipment	**6**	-	7
Cash flows used for investing activities	**(59)**	(178)	(530)
Financing activities			
Repayment of long-term debt	**-**	(63)	(1,248)
(Decrease) increase in short-term bank credit	**(375)**	(78)	958
Cash flows used for financing activities	**(375)**	(141)	(290)
Increase (decrease) in cash and cash equivalents	**539**	(258)	665
Cash and cash equivalents at beginning of period	**1,493**	828	828
Cash and cash equivalents at end of period	**2,032**	570	1,493

Appendix A - Non-Cash Activities

Purchase of property and equipment	**6**	13	18
Capital reserve from transactions with controlling shareholder	**11**	-	44
Supplementary disclosure			
Interest paid	**9**	5	44

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 unaudited interim financial statements comply with the recognition criteria and the measurement methods of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. The accounting conventions and accounting policies are the same as those applied in the 2004 consolidated accounts except for those noted in “D” below.

B. The interim financial statements as at March 31, 2005 (the interim statements) have been prepared in a condensed form in accordance with IAS 34.

C. Results of operations for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

D. Application of New IFRS

As of January 1, 2005, the Company complies with new standards, as well as with revised IASs. These standards comprise in particular IFRS 2 on share-based payments, IFRS 3 on business combinations together with the consequential changes of IAS 36 on impairment of assets and IAS 38 on intangible assets, IFRS 5 on non-current assets held for sale and discontinued operations as well as the revision of existing of IAS such as the revisions of IAS on presentation of financial statements, IAS 16 on property, plant and equipment, and IAS 32 and 39 on financial instruments. The adoption of these standards had no material effect on the financial statements of the Company.

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.

	Three months ended March 31, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**1,497**	**659**	**631**	**2,787**
Segment result	**276**	**122**	**116**	**514**

	Three months ended March 31, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	1,581	998	101	2,680
Segment result	277	175	18	470

	Year ended December 31, 2004 (Audited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	6,733	3,632	2,107	12,472
Segment result	1,408	757	440	2,605