PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
June 30, 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 six months ended on June 30, 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 June 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 Group).

	For the six-month period ended June 30	For the year ended December 31	For the six-month period ended June 30
	2005	2004	2004
Customer A	14.6%	13.5%	15.5%
Customer B	13.1%	14.2%	14.1%
Customer C	13.4%	14.5%	*

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

D. Marketing

In 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. In June 2005 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, 2005 was USD 3,693 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 30.6.05 will be supplied until the end of first quarter 2006.

[1] The financial statements as at June 30,2005 form an integral part thereof.

2. Financial position

A. Balance Sheet as at June 30, 2005.

Cash and cash equivalents – these amounted to a total of USD 2,100 thousand at June 30, 2005 compared to USD 1,493 thousand as at December 31, 2004 and USD 740 thousand at June 30, 2004. This increase results mainly from cash flows from the net income for the period.

Short-term Deposits – As of June 30, 2005, these amounted to USD 1,013 thousands. An amount of USD 300 thousands out of the Short-term deposits serves as a guaranty against the short-term loan.

Trade accounts receivable, net – these amounted to USD 2,180 thousand at June 30, 2005 compared to USD 2,605 thousand as at December 31, 2004 and USD 2,229 thousand at June 30, 2004. The decrease in this item as of June 30, 2005 compared with 31.12.04 is mainly due to a decrease in the sales volume in the second quarter of 2005 compared with the last quarter of 2004.

Short-term bank credit – this amounted to USD 750 thousand at June 30, 2005 compared to USD 1,300 thousand as at December 31, 2004 and USD 1,348 thousand at June 30, 2004. The decrease in this item is due to a decrease in short term bank credit and gradual monthly repayments of short-term bank loan.

Trade payables - these amounted to USD 745 thousand at June 30, 2005 compared to USD 901 thousand as at December 31, 2004 and USD 1,391 thousand at June 30, 2004. The decrease at June 30, 2005 compared with December 31, 2004 is mainly due to a decrease in the volume of materials purchased in the second quarter of 2005 compared with the last quarter of 2004.

B. Operating results

Summary of Consolidated Quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 4-6/05	Quarter 1-3/05	Quarter 10-12/04	Quarter 7-9/04	Quarter 4-6/04
Sales revenues	2,747	2,787	3,375	3,422	2,995
Cost of sales	1,555	1,537	1,873	1,805	1,737
Gross profit	*1,192*	*1,250*	*1,502*	*1,617*	*1,258*
Development costs	117	116	133	127	108
Selling & marketing expenses	264	288	366	258	299
General & administrative expenses	292	332	340	348	263
Operating income	*519*	*514*	*663*	*884*	*588*
Financial expenses, net	(35)	(30)	(9)	(19)	(35)
Net operating profit after financial result	*484*	*484*	*654*	*865*	*553*
Other income (expense)	3	(1)	-	1	-
Net profit for the period	*487*	*483*	*654*	*866*	*553*

The Group's sales revenues for the three-month period ended June 30, 2005 amounted to USD 2,747 thousand, maintaining almost the same level of previous quarter sales; and in comparison with sales of the same quarter of last year amounting to USD 2,995 thousand, represents a decrease of 8.3%.

The Group's sales revenue for the six-month period ended June 30, 2004 were USD 5,534 thousand compared with USD 5,675 thousand in the six-month period ended June 30, 2004 (a decrease of 2.5%).

Gross result – The Group's gross result for the three-month period ended June 30, 2005 was USD 1,192 thousand (43.4% of sales) compared with USD 1,250 thousand (44.8% of sales) in the three-month period ended March 31, 2005.

The Group's gross result for the six-month period ended June 30, 2005 was USD 2,442 thousand (44.1% of sales) compared with USD 2,388 thousand (42.1% of sales) in the six-month period ended June 30, 2004. This improvement in the gross results is explained by cost of sales reduction mainly in labor costs. The decrease in labor cost resulted mainly as a result of salaries paid in NIS exposed to the erosion of the NIS in relation to the USD.

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.

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, 2005 compared with the first half of previous year is mainly due to an increase in the Parent Company's charge for joint G&A expenses. This increase is primarily related to payment of management incentives as a result of improved Group sales and profitability.

3. <u>Liquidity</u>

A. <u>Liquidity Ratios</u>

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

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	June 30, 2005	**December 31, 2004**	**June 30, 2004**
Current ratio[2]	3.08	2.16	1.49
Quick ratio[3]	2.36	1.63	0.97

B. Cash flows provided by operating activities

Cash flows provided by operating activities for the six-month period ended June 30, 2005 amounted USD 1,131 thousand, compared with the cash flow provided by operating activities of USD 426 thousand for the six-month period ended June 30, 2004. The increase in cash flows provided by operating activities resulted mainly from the decrease in trade receivables offset by the decrease in trade payables.

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

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

C. Cash flows provided by investing activities.

Cash flows provided by investing activities in the six-month period ended June 30, 2005, amounted to USD 26 thousand, compared with cash flows used for investing activities of USD 272 thousand in the six-month period ended June 30, 2004. The increase in cash flow provided by investing activities resulted mainly from a decrease in investment in deposits offset by investment in fixed assets.

D. Cash flows used for financing activities.

Cash flows used for financing activities in the six-month period ended June 30, 2005, amounted USD 550 thousand, compared with cash flows used for financing activities of USD 242 thousand in the six-month period ended June 30, 2004. In the reported periods the cash flows used for financing activities resulted 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 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 25, 2005.

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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, 2005 and the related condensed interim statements of income, changes in shareholders' equity and cash flows for the six and three months 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 a review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 7.6% of the total consolidated assets as at June 30, 2005 and whose revenues constitute 13.3% and 11.8% 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 financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

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

August 25, 2005

Condensed Consolidated Interim Balance Sheets

	June 30 2005	June 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**2,100**	740	1,493
Short-term deposits	**1,013**	400	850
Trade accounts receivable, net	**2,180**	2,229	2,605
Other accounts receivable	**323**	290	204
Inventory	**1,721**	1,955	1,650
Total current assets	**7,337**	5,614	6,802
Non-current assets			
Deposits	**6**	506	256
Other investments	**348**	348	348
Property, plant and equipment, net	**610**	753	684
Total non-current assets	**964**	1,607	1,288
Total assets	**8,301**	7,221	8,090

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

Michael Perez
Director

Michal Lichtenstein
V.P. Finance & CFO

August 25, 2005

	June 30 2005	June 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current liabilities			
Short-term bank credit and current maturities of long-term bank debt	**750**	1,348	1,300
Trade payables	**745**	1,391	901
Other payables	**885**	1,025	955
Total current liabilities	**2,380**	3,764	3,156
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**814**	858	814
Liability for employee severance benefits, net	**104**	152	109
Total non-current liabilities	**918**	1,010	923
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**9,008**	8,942	8,986
Accumulated deficit	**(8,824)**	(11,314)	(9,794)
Total shareholders' equity	**5,003**	2,447	4,011
Total liabilities and shareholders' equity	**8,301**	7,221	8,090

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

Condensed Interim Consolidated Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2005	**June 30 2004**	**June 30 2005**	**June 30 2004**	**December 31 2004**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**	**US$ thousands**
Sales revenues	**5,534**	5,675	**2,747**	2,995	12,472
Cost of sales	**(3,092)**	(3,287)	**(1,555)**	(1,737)	(6,965)
Gross profit	**2,442**	2,388	**1,192**	1,258	5,507
Development costs	**(233)**	(223)	**(117)**	(108)	(483)
Selling and marketing expenses	**(552)**	(562)	**(264)**	(299)	(1,186)
General and administrative expenses	**(624)**	(545)	**(292)**	(263)	(1,233)
Operating profit	**1,033**	1,058	**519**	588	2,605
Financial expenses, net	**(65)**	(37)	**(35)**	(35)	(65)
Other income	**2**	-	**3**	-	1
Net profit for the period	**970**	1,021	**487**	553	2,541
Basic and diluted earnings per ordinary share (in US$)	**0.055**	0.058	**0.028**	0.031	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 (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 January 1, 2004 (Audited)	17,600,000	4,819	8,942	(12,335)	1,426
Net profit for the period (unaudited)	-	-	-	1,021	1,021
Balance at June 30, 2004 (Unaudited)	17,600,000	4,819	8,492	(11,314)	2,447
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 April 1, 2004 (Unaudited)	17,600,000	4,819	8,942	(11,867)	1,894
Net profit for the period (unaudited)	-	-	-	553	553
Balance at June 30, 2004 (Unaudited)	17,600,000	4,819	8,492	(11,314)	2,447
Balance at January 1, 2004 (Audited)	17,600,000	4,819	8,942	(12,335)	1,426
Capital reserve from transaction with controlling shareholder (audited)	-	-	44	-	44
Net profit for the year (audited)	-	-	-	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 interim financial statements.

Condensed Interim Consolidated Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	December 31 2004
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Net operating activities					
Net profit for the period	**970**	1,021	**487**	553	2,541
Adjustments to reconcile net result to net cash used for operating activities:					
Depreciation and amortization	**123**	112	**60**	56	230
Capital gain on sale of equipment	**(2)**	-	**(3)**	-	-
(Decrease) increase in employee severance benefits, net	**(5)**	21	**(10)**	5	(22)
Decrease (increase) in trade receivables	**425**	(591)	**(57)**	(402)	(967)
(Increase) decrease in other accounts receivables	**(119)**	(251)	**(164)**	5	(165)
(Increase) decrease in inventory	**(71)**	(261)	**(41)**	(136)	44
(Decrease) increase in trade payables	**(142)**	425	**(146)**	263	(56)
(Decrease) increase in other payables	**(70)**	(50)	**21**	21	(120)
Finance expenses from transaction with a controlling shareholder	**22**	-	**11**	-	-
Cash flows provided by operating activities	**1,131**	426	**158**	365	1,485
Investing activities					
Investment in property, plant and equipment	**(71)**	(122)	**(18)**	(94)	(187)
Investment in deposits, net	**87**	(150)	**99**	-	(350)
Proceeds from sale of equipment	**10**	-	**4**	-	7
Cash flows provided by (used for) investing activities	**26**	(272)	**85**	(94)	(530)
Financing activities					
Repayment of long-term debt	**-**	(127)	**-**	(64)	(1,248)
(Decrease) increase in short-term bank credit	**(550)**	(115)	**(175)**	(37)	958
Cash flows used for financing activities	**(550)**	(242)	**(175)**	(101)	(290)
Increase (decrease) in cash and cash equivalents	**607**	(88)	**68**	170	665
Cash and cash equivalents at beginning of period	**1,493**	828	**2,032**	570	828
Cash and cash equivalents at end of period	**2,100**	740	**2,100**	740	1,493

Appendix A - Non-Cash Activities

Purchase of property and equipment	**4**	27	**4**	27	18
Capital reserve from transactions with controlling shareholder	**22**	-	**-**	-	44
Supplementary disclosure					
Interest paid	**16**	24	**7**	19	44

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 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 June 30, 2005 (the interim statements) have been prepared in a condensed form in accordance with IAS 34.

C. Results of operations for the six months ended June 30, 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.

E. Amendment of Income Tax Ordinance

On July 25, 2005, the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147 and Temporary Order) - 2005 (hereinafter - the Amendment).

The Amendment provides for a gradual reduction in the company tax rate in the following manner: in 2006 the tax rate will be 31%, in 2007 the tax rate will be 29%, in 2008 the tax rate will be 27%, in 2009 the tax rate will be 26% and from 2010 onward the tax rate will be 25%. Furthermore, as from 2010, upon reduction of the company tax rate to 25%, real capital gains will be subject to tax of 25%.

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, 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**

	Six months ended June 30, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	3,272	1,916	487	5,675
Segment result	610	357	91	1,058

	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**

	Three months ended June 30, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	1,691	918	386	2,995
Segment result	333	182	73	588

	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