PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
September 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 nine-months ended on September 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 September 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).

On August 2005 a bank renew the payment terms regarding USD 700 thousand-credit facility. The new terms set with the bank are: Half of the credit facility amount will be paid gradually within 12 months (starting September 2005). The remaining balance was fixed as a loan for a period of one year that its return terms shall be discussed near the end of its period. It is noted that the Company mortgaged US$ 550 thousands in favor of the bank; this lien was decreased (On November 2005) to US$ 350 thousands.

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 nine-month period ended September 30	For the year ended December 31	For the nine-month period ended September 30
	2005	**2004**	**2004**
Customer A	16.0%	13.5%	14.0%
Customer B	10.2%	14.2%	13.4%
Customer C	14.0%	14.5%	12.4%

D. Marketing

During year 2005 the Group participated in the following exhibitions:

- March 2005, “APEC 2005” exhibition in Austin, Texas, U.S.A.
- March 2005,“Electronica & Productronica China 2005 with PCIM” exhibition in Shanghai, China.
- June 2005, “PCIM” exhibition in Nuremberg, Germany.
- September 2005, “Welding Germany” in Essen, Germany.
- October 2005, “Power Electronics Technology Exhibition and Conference” in Baltimore, Maryland, USA.

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

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2005 was USD 4,520 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 30.9.05 will be supplied until the end of third quarter 2006.

2. Financial position

A. Balance Sheet as at September 30, 2005.

Cash and cash equivalents – these amounted to a total of USD 2,449 thousand at September 30, 2005 compared to USD 1,493 thousand as at December 31, 2004 and USD 1,147 thousand at September 30, 2004. This increase results mainly from the net profit for the period.

Short-term Deposits – As of September 30, 2005, these amounted to USD 1,181 thousands. An amount of USD 550 thousands out of the Short-term deposits serves as a guaranty against the short-term loan.

Deposits – As of September 30, 2005, these amounted to USD 6 thousands compared to USD 256 thousand as at December 31, 2004 and at September 30, 2004. As of September 30, 2005 an originally two years bank deposit amounting USD 250 thousands was classified as Short-term Deposits.

Short-term bank credit – this amounted to USD 670 thousand at September 30, 2005 compared to USD 1,300 thousand as at December 31, 2004 and USD 1,122 thousand at September 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.

Other payables - these amounted to USD 840 thousand at September 30, 2005 compared to USD 955 thousand as at December 31, 2004 and USD 862 thousand at September 30, 2004. The decrease at September 30, 2005 compared with December 31, 2004 is mainly due to a decrease in liabilities to employees and 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 7-9/05	Quarter 4-6/05	Quarter 1-3/05	Quarter 10-12/04	Quarter 7-9/04
Sales revenues	**3,353**	2,747	2,787	3,375	3,422
Cost of sales	**1,790**	1,555	1,537	1,873	1,805
Gross profit	***1,563***	*1,192*	*1,250*	*1,502*	*1,617*
Development costs	**120**	117	116	133	127
Selling & marketing expenses	**251**	264	288	366	258
General & administrative expenses	**339**	292	332	340	348
Operating income	***853***	*519*	*514*	*663*	*884*
Financial expenses, net	**(6)**	(35)	(30)	(9)	(19)
Net operating profit after financial result	***847***	*484*	*484*	*654*	*865*
Other income (expense)	**-**	3	(1)	-	1
Net profit for the period	***847***	*487*	*483*	*654*	*866*

The Group's sales revenues for the three-month period ended September 30, 2005 were USD 3,353 thousand compared with USD 2,747 thousand in the three-month period ended June 30, 2005 , increase of 22.1%.
The Group's sales revenue for the nine-month period ended September 30, 2005 were USD 8,887 thousand maintaining almost the same sales level of same period last year (USD 9,097 thousand in the nine-month period ended September 30, 2004).

Gross result – The Group's gross result for the three-month period ended September 30, 2005 was USD 1,563 thousand (46.6% of sales) compared with USD 1,192 thousand (43.4% of sales) in the three-month period ended June 30, 2005.
The Group's gross result for the nine-month period ended September 30, 2005 was USD 4,005 thousand (45.1% of sales) the same gross result as in the nine-month period ended September 30, 2004 which represented 44.0% of sales. The improvement in the gross results is explained by cost of sales reduction mainly in labor costs. This decrease in labor cost resulted of using subcontract manufacturers and the devaluation of the NIS in which local salaries are paid.

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.

3. Liquidity

A. Liquidity Ratios

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

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	September 30, 2005	**December 31, 2004**	**September 30, 2004**
Current ratio[2]	3.43	2.16	1.94
Quick ratio[3]	2.76	1.63	1.38

B. Cash flows provided by operating activities

Cash flows provided by operating activities for the nine-month period ended September 30, 2005 amounted USD 1,768 thousand, compared with the cash flow provided by operating activities of USD 823 thousand for the nine-month period ended September 30, 2004. The increase in cash flows provided by operating activities resulted mainly 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.

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[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 used for investing activities in the nine-month period ended September 30, 2005, amounted to USD 182 thousand, compared with cash flows used for investing activities of USD 36 thousand in the nine-month period ended September 30, 2004. The increase in cash flow used for investing activities resulted mainly from the increase in investment in deposits.

D. Cash flows used for financing activities.

Cash flows used for financing activities in the nine-month period ended September 30, 2005, amounted USD 630 thousand, compared with cash flows used for financing activities of USD 468 thousand in the nine-month period ended September 30, 2004.

In the nine-month period ended September 30, 2005 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, November 24, 2005.

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Review Report 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 September 30, 2005 and the related condensed interim statements of income, changes in shareholders' equity and cash flows for the nine 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 review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 8.2% of the total consolidated assets as at September 30, 2005 and whose revenues constitute 12.86% and 12.12% of the total consolidated revenues for the nine 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.)
(A member of KPMG International)

November 24, 2005

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Condensed Consolidated Interim Balance Sheets

	September 30 2005	September 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current assets			
Cash and cash equivalents	**2,449**	1,147	1,493
Short-term deposits	**1,181**	400	850
Trade accounts receivable, net	**2,864**	2,563	2,605
Other accounts receivable	**106**	280	204
Inventory	**1,608**	1,789	1,650
Total current assets	**8,208**	6,179	6,802
Non-current assets			
Deposits	**6**	256	256
Other investment	**348**	348	348
Property, plant and equipment, net	**609**	718	684
Total non-current assets	**963**	1,322	1,288
Total assets	**9,171**	7,501	8,090

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

November 24, 2005

	September 30 2005	September 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current liabilities			
Short-term bank credit	**670**	1,122	1,300
Trade payables	**885**	1,199	901
Other payables	**840**	862	955
Total current liabilities	**2,395**	3,183	3,156
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**814**	858	814
Liability for employee severance benefits, net	**101**	147	109
Total long-term liabilities	**915**	1,005	923
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**9,019**	8,942	8,986
Accumulated deficit	**(7,977)**	(10,448)	(9,794)
Total shareholders' equity	**5,861**	3,313	4,011
Total liabilities and shareholders' equity	**9,171**	7,501	8,090

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

Condensed Interim Consolidated Statements of Income

	For the nine months ended		For the three months ended		For the Year ended
	September 30 2005	September 30 2004	September 30 2005	September 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand	US$ thousand	US$ thousand
Sales revenues	**8,887**	9,097	**3,353**	3,422	12,472
Cost of sales	**(4,882)**	(5,092)	**(1,790)**	(1,805)	(6,965)
Gross profit	**4,005**	4,005	**1,563**	1,617	5,507
Development expenses	**(353)**	(350)	**(120)**	(127)	(483)
Selling and marketing expenses	**(803)**	(820)	**(251)**	(258)	(1,186)
General and administrative expenses	**(963)**	(893)	**(339)**	(348)	(1,233)
Operating profit	**1,886**	1,942	**853**	884	2,605
Financial expenses, net	**(71)**	(56)	**(6)**	(19)	(65)
Other income	**2**	1	**-**	1	1
Net profit for the period	**1,817**	1,887	**847**	866	2,541
Basic and diluted net earning per ordinary share (in US$)	**0.10**	0.11	**0.05**	0.05	0.14

The accompanying notes are an integral part of the interim consolidated 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)	**-**	**-**	**33**	**-**	**33**
Net profit for the period (Unaudited)	**-**	**-**	**-**	**1,817**	**1,817**
Balance at September 30, 2005 (Unaudited)	**17,600,000**	**4,819**	**9,019**	**(7,977)**	**5,861**
Balance at January 1, 2004 (Audited)	17,600,000	4,819	8,942	(12,335)	1,426
Net profit for the period (Unaudited)	-	-	-	1,887	1,887
Balance at September 30, 2004 (Unaudited)	17,600,000	4,819	8,942	(10,448)	3,313
Balance at July 1, 2005 (Unaudited)	**17,600,000**	**4,819**	**9,008**	**(8,824)**	**5,003**
Capital reserve from transaction with controlling shareholder (Unaudited)	**-**	**-**	**11**	**-**	**11**
Net profit for the period (Unaudited)	**-**	**-**	**-**	**847**	**847**
Balance at September 30, 2005 (Unaudited)	**17,600,000**	**4,819**	**9,019**	**(7,977)**	**5,861**
Balance at July 1, 2004 (Unaudited)	17,600,000	4,819	8,942	(11,314)	2,447
Net profit for the period (Unaudited)	-	-	-	866	866
Balance at September 30, 2004 (Unaudited)	17,600,000	4,819	8,942	(10,448)	3,313
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 consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

	For the nine months ended		For the three months ended		For the Year ended
	September 30 2005	**September 30 2004**	**September 30 2005**	**September 30 2004**	**December 31 2004**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	US$ thousand	**US$ thousand**	**US$ thousand**	**US$ thousand**	**US$ thousand**
Net operating activities					
Net profit for the period	**1,817**	1,887	**847**	866	2,541
Adjustments to reconcile net income to net cash used for operating activities:					
Depreciation and amortization	**180**	173	**57**	61	230
Capital gain from sale of equipment	**(2)**	-	**-**	-	-
(Decrease) increase in employee severance benefits, net	**(8)**	16	**(3)**	(5)	(22)
Increase in trade receivables	**(259)**	(925)	**(684)**	(334)	(967)
Decrease (increase) in other accounts receivable	**98**	(241)	**217**	10	(165)
Decrease (increase) in inventory	**42**	(95)	**113**	166	44
(Decrease) increase in trade payables	**(18)**	221	**124**	(204)	(56)
Decrease in other payables	**(115)**	(213)	**(45)**	(163)	(120)
Finance expenses from transactions with controlling shareholder	**33**	-	**11**	-	-
Cash flows provided by operating activities	**1,768**	823	**637**	397	1,485
Investing activities					
Investment in property, plant and equipment	**(111)**	(143)	**(40)**	(21)	(187)
Investments in deposits, net	**(81)**	100	**(168)**	250	(350)
Proceeds from sale of equipment	**10**	7	**-**	7	7
Cash flows (used for) provided by investing activities	**(182)**	(36)	**(208)**	236	(530)
Financing activities					
Repayment of long-term debt	**-**	(1,248)	**-**	(1,121)	(1,248)
(Decrease) increase in short-term bank credit, net	**(630)**	780	**(80)**	895	958
Cash flows used for financing activities	**(630)**	(468)	**(80)**	(226)	(290)
Increase in cash and cash equivalents	**956**	319	**349**	407	665
Cash and cash equivalents at beginning of period	**1,493**	828	**2,100**	740	828
Cash and cash equivalents at end of period	**2,449**	1,147	**2,449**	1,147	1,493

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

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

	For the nine months ended		For the three months ended		For the Year ended
	September 30 2005	September 30 2004	September 30 2005	September 30 2004	December 31 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US$ thousand	US$ thousand	US$ thousand	US$ thousand	US$ thousand
Appendix A - Non-cash activities					
Purchase of property and equipment	**20**	17	**16**	10	18
Capital reserve from transactions with controlling shareholder	**33**	-	**11**	-	44
Supplementary disclosure:					
Interest paid	**28**	37	**12**	13	44

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

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

C. Results of operations for the nine months ended September 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%.

The Amendment has no effect on the Company's financial statements.

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.

	Nine months ended September 30, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**4,506**	**2,248**	**2,133**	**8,887**
Segment result	**956**	**477**	**453**	**1,886**

	Nine months ended September 30, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	5,122	2,651	1,324	9,097
Segment result	1,094	566	282	1,942

	Three months ended September 30, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**1,483**	**962**	**908**	**3,353**
Segment result	**392**	**237**	**224**	**853**

Note 3 - Operating Segments (cont'd)

	Three months ended September 30, 2004 (Unaudited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	1,850	735	837	3,422
Segment result	484	209	191	884

	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