PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
March 31, 2004 (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 period ended on March 31, 2004.

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 2004

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).

No material changes have occurred within the reported period.

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
	2004	2003	2003
Customer A	13.3%	18.1%	12.6%
Customer B	*	*	12.9%
Customer C	*	12.3%	*
Customer D	10.7%	*	*

* Less then 10% the Company's consolidated sales

D. Marketing

On February 2004 the Company participated in "APEC" exhibition in los Angeles, U.S.A and on April 2004 in "power supply exhibition" in Tokyo, Japan.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2004 were USD 5,120 thousand (December 31, 2003 - USD 5,100 thousand). This backlog is composed of both firm orders, frame purchase orders and operating rolling forecast. Starting the last quarter of 2003 there is an increase trend in the backlog; however, it is still hard to foresee how long this trend is going to continue.
Management estimates that most of this current backlog will be supplied until the end of first quarter 2005.

[1] The financial statements as at March 31, 2004 form an integral part thereof.

2. **<u>Financial position</u>**

A. Balance Sheet as at March 31, 2004.

General note: In the attached consolidated financial statement the assets and liabilities of Payton Asia as at March 31, 2004 and as at December 31, 2003 are not included in the consolidated balance sheet. The balance of the investment in Payton Asia (10.7%) was stated in the financial statements under the category of long-term investments. (See also - note 7 to the financial statements for the year ended December 31, 2003).

Cash and cash equivalents – these amounted to USD 570 thousand at March 31, 2004 compared to USD 828 thousand as at December 31, 2003 and USD 643 thousand at March 31, 2003.
The decrease in cash and cash equivalents at March 31, 2004, compared with December 31, 2003 is mainly due to an increase in long-term deposit.

Short-term Deposit – As of March 31, 2004, these amounted to USD 650 thousands. Composed out of USD 250 thousands short-term Deposit and additional USD 400 thousands classified from long-term bank deposits uses as a guaranty against long-term loan.

Trade accounts receivable, net – these amounted to USD 1,827 thousand at March 31, 2004 compared to USD 1,638 thousand as at December 31, 2003 and USD 1,538 thousand at March 31, 2003. The increase in this item is mainly due to the sales volume growth in the period near the reports date.

Other accounts receivable – these amounted to USD 295 thousand at March 31, 2004 compared to USD 39 thousand as at December 31, 2003 and USD 120 thousand at March 31, 2003. The increase in this item at March 31, 2004, compared with December 31, 2003 is mainly due to an increase related parties balance.

Inventory – Total of USD 1,819 thousand at March 31, 2004, compared with USD 1,694 thousand at December 31, 2003 and USD 2,386 thousand at March 31, 2003.
The increase in this item at March 31, 2004, compared with December 31, 2003 is mainly due to purchase policy enabling to support the sales growth.
The decrease in this item compared with March 31, 2003 is mainly due to excluding Payton Asia's inventory in the consolidated balance sheet, whereas at March 31, 2003 Payton Asia's inventory, amounted USD 419 thousands was included in the consolidated balance sheet.

Long-term bank deposit **–** As of March 31, 2004, these amounted to USD 250 thousands two years time deposit.
As of March 31, 2003 these amounted to USD 400 thousands that are currently presented as short-term deposit and uses as a guaranty against long-term loan (see above "*Short-term Deposit").*

Property, plant and equipment, net – The decrease in this item compare with March 31, 2003 resulted from excluding Payton Asia's fixed assets (amounting USD 7,361 thousands as of 31.3.03, including land and buildings) from the consolidated Balance Sheet.

Short-term bank credit and current maturities of long-term bank debt- The increase in this item compared with March 31, 2003 item is mainly due to classifying USD 1,100 thousand from Long-term debts, net of current maturities. According to the credit agreement with the bank dated 30.9.2002 it was specifically agreed that the terms of return of the said remaining long-term loan shall be discussed and determined before the end of the loan period (July 2004). Management believes that new long terms of payment to this credit facility will be approved (See also note 13 to the financial statements for the year ended December 31, 2003).

Long-term debts, net of current maturities- Total of USD 0 thousand at march 31, 2004 and at December 31, 2003 compared with USD 4,684 thousand at March 31, 2003. The decrease in this item is mainly explained by:
1) The fact that on July 1, 2003 (effective from June 30, 2003) the Company executed an agreement regarding the return of the loan received from related parties of Payton Asia. According to the terms of the agreement the payback of the loan, in its original value of USD 3.5 million, was effected by providing the amount by shares of Payton Asia accounted at their cost price.
2) Classifying USD 1,100 thousand from Long-term debts, net of current maturities (See also above explanation in "*Short-term bank credit and current maturities of long-term bank debt").*

Minority interest in consolidated subsidiaries – Starting June 30, 2003 the Company's share holding in Payton Asia was reduced from 50% to 10.7% and it is no longer consolidated in the Company's financial statements.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/04	Quarter 10-12/03	Quarter 7-9/03	Quarter 4-6/03	Quarter 1-3/03
Sales revenues	2,680	2,309	1,856	2,333	1,987
Cost of sales	1,550	1,586	1,390	1,509	1,433
Gross result	*1,130*	*723*	*466*	*824*	*554*
Development costs	115	104	109	140	131
Selling & marketing expenses	263	284	197	270	246
General & administrative expenses	282	250	293	369	327
Operating profit (loss)	*470*	*85*	*(133)*	*45*	*(150)*
Net financial result	(2)	(24)	11	(96)	(9)
Net operating profit (loss) after financial result	*468*	*61*	*(122)*	*(51)*	*(159)*
Issue of share capital in a consolidated subsidiary & Other income (expense)	-	5	(1)	14	17
Result before taxes on income	*468*	*66*	*(123)*	*(37)*	*(142)*
Tax (expenses) benefits	-	-	-	-	-
Result after taxes on income	*468*	*66*	*(123)*	*(37)*	*(142)*
Minority interest in losses of subsidiaries	-	-	-	*64*	19
Net profit (loss) for the period	*468*	*66*	*(123)*	*27*	*(123)*

General note: Starting the third quarter of 2003 Payton Asia's results of operations are not included in consolidated statement of operations.

The Group's sales revenue for the three-month period ended March 31, 2004 were USD 2,680 thousand compared with USD 2,309 thousand in the three-month period ended December 31, 2003, (increase of 16%), and with USD 1,987 thousand in the three-month period ended March 31, 2003, (increase of 35%).

Gross result – The Group's gross result for the three-month period ended March 31, 2004 were USD 1,130 thousand, 42%, compared with USD 723 thousand, 31% in the three-month period ended December 31, 2003, and with USD 554 thousand, 28%, in the three-month period ended March 31, 2003.
The improvement in the gross results is explained by cost of sales reduction achieved mainly through improved efficiency in material consumption and by the fact that the gross results in the last quarter of 2003 included a write-off of slow-moving inventory amounting USD 110 thousand (total slow-moving inventory write-off in 2003 amounted to USD 154 thousand).

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 decrease in development cost noted in third of 2003 was mainly due to the end of Payton America's Vice President & C.E.O Mr. Alex Estrov employment on June 2003. Except this change aforementioned there were no material changes in the group's development costs between the above-presented quarters.

Selling & marketing expenses - The 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.

General & Administrative expenses – The Group's General & Administrative expenses for the three-month period ended March 31, 2004 were USD 282 thousand compared with USD 250 thousand in the three-month period ended December 31, 2003, and with USD 327 thousand in the three-month period ended March 31, 2003.
The Decrease in these expenses at the first quarter of 2004 compare with the first quarter of 2003 is explained mainly by two factors: excluding Payton Asia's General & Administrative expenses from the consolidated statement and by ending Payton America's Vice President & C.E.O employment, both, starting the second half of 2003.
The USD 32 thousand increase in these expenses at the first quarter of 2004 compared with the last quarter of 2003 is mainly due to the Company's share increase in the allocation of its Parent Company joint G&A expenses (See note 2A to the attached financial statements).

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, 2004**	**December, 2003****	**March 31, 2003**
Current ratio[2]	1.45	1.36	1.94
Quick ratio[3]	0.94	0.90	1.02

** On March 31, 2004 the remaining of the long-term loan amounting USD 1,100 thousands, is presented as current maturities of long-term debts, where as in March 31, 2003 it was classified as long-term debt. However, according to the credit agreement with the bank dated 30.9.2002 it was specifically agreed that the terms of return of the said remaining long-term loan shall be discussed and determined before the end of the loan period (July 2004). Management believes that new long terms of payment to this credit facility will be approved, See also note no.13 to the financial statements for the year ended December 31, 2003.

B. Cash flow provided by operating activities

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

Cash flow provided by operating activities for the three month period ended March 31, 2004 amounted USD 61 thousand, compared with the cash flow provided for operating activities of USD 199 thousand for the three-months period ended March 31, 2003. The decrease in Cash flow provided by operating activities resulted mainly of the increase in the trade receivables and in other account receivables together with an increase in the inventory level.

C. Cash flow used for investing activities.
Cash flow used for investment activities in the three-month period ended March 31, 2004, amounted USD 178 thousand, compared with cash flow used for investment activities of USD 41 thousand in the three-month period ended March 31, 2003. Most of the cash flow used for investing activities in the three-months period ended March 31 ,2004 result from increase in long-term deposit.

4. <u>Financing sources</u>

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

5. <u>External factors effects</u>

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 30, 2004.

Somekh Chaikin

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

We have reviewed the accompanying consolidated balance sheet of Payton Planar Magnetics Ltd. as at March 31, 2004 and the related statement of income and cash flows for the three months 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% of the total consolidated assets as at March 31, 2004 and whose revenues constitute 11% of the total consolidated revenues for the three month period then ended.

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 30, 2004

Consolidated Balance Sheets

	March 31 2004	March 31 2003	December 31 2003
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**570**	643	828
Short-term deposits	**650**	350	750
Trade accounts receivable, net	**1,827**	1,538	1,638
Other accounts receivable	**295**	120	39
Inventory	**1,819**	2,386	1,694
Total current assets	**5,161**	5,037	4,949
Non-current assets:			
Bank deposit	**250**	400	-
Other investment	**348**	-	348
Property, plant and equipment, net	**701**	8,225	738
Other assets, net	**6**	13	6
Total non-current assets	**1,305**	8,638	1,092
Total assets	**6,466**	13,675	6,041

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

Michal Lichtenstein
V.P. Finance & CFO

Rishon Le Zion May 30, 2004

	March 31 2004 (Unaudited) US$ thousands	March 31 2003 (Unaudited) US$ thousands	December 31 2003 (Audited) US$ thousands
Liabilities and shareholders' equity			
Current Liabilities			
Short-term bank credit and current maturities of long-term bank debt	**1,449**	416	1,590
Trade payables	**1,114**	1,153	961
Other payables	**1,004**	1,023	1,075
Total current liabilities	**3,567**	2,592	3,626
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**858**	858	858
Long-term debt, net of current maturities	**-**	4,684	-
Liability for employee severance benefits, net	**147**	173	131
Total long-term liabilities	**1,005**	5,715	989
Minority interest in consolidated subsidiaries	**-**	3,912	-
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**8,942**	8,942	8,942
Accumulated deficit	**(11,867)**	(12,305)	(12,335)
Total shareholders' equity	**1,894**	1,456	1,426
Total liabilities and shareholders' equity	**6,466**	13,675	6,041

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

Consolidated Statements of Income

	Three months ended March 31		Year ended December 31
	2004	**2003**	**2003**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	US$ thousands	**US$ thousands**	**US$ thousands**
Sales revenues	**2,680**	1,987	8,485
Cost of sales	**(1,550)**	(1,433)	(5,918)
Gross profit	**1,130**	554	2,567
Development costs	**(115)**	(131)	(484)
Selling and marketing expenses	**(263)**	(246)	(997)
General and administrative expenses	**(282)**	(327)	(1,239)
Operating profit (loss)	**470**	(150)	(153)
Net financial result	**(2)**	(9)	(118)
Other income	**-**	17	35
Profit (loss) before minority interest in losses of subsidiaries	**468**	(142)	(236)
Minority interest in losses of subsidiaries	**-**	19	83
Net result for the period	**468**	(123)	(153)
Basic and diluted net profit (loss) per ordinary share (in US$)	**0.027**	(0.007)	(0.009)

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

Statement of Shareholders' Equity

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at January 1, 2004 (Audited)	**17,600,000**	**4,819**	**8,942**	**(12,335)**	**1,426**
Net result 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, 2003 (Audited)	17,600,000	4,819	8,942	(12,182)	1,579
Net result for the period	-	-	-	(123)	(123)
Balance at March 31, 2003 (Unaudited)	17,600,000	4,819	8,942	(12,305)	1,456
Balance at January 1, 2003 (Audited)	17,600,000	4,819	8,942	(12,182)	1,579
Net result for the year	-	-	-	(153)	(153)
Balance at December 31, 2003 (Audited)	17,600,000	4,819	8,942	(12,335)	1,426

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

Consolidated Statements of Cash Flows

	Three months ended March 31		Year ended December 31
	2004	**2003**	**2003**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	US$ thousands	**US$ thousands**	**US$ thousands**
Operating activities			
Net result for the period	**468**	(123)	(153)
Adjustments to reconcile net result to net cash used for operating activities:			
Depreciation and amortization	**56**	79	307
Capital loss on sale of equipment	**-**	-	3
Increase in employee severance benefits, net	**16**	2	7
Minority interests in losses of subsidiaries	**-**	(19)	(83)
Gain from issue of shares of a subsidiary	**-**	(7)	(14)
Decrease (increase) in trade receivables	**(189)**	41	(180)
Increase in other accounts receivables	**(256)**	(22)	(82)
Decrease (increase) in inventory	**(125)**	54	327
Increase in trade payables	**162**	230	255
Increase (decrease) in other payables	**(71)**	(36)	131
Cash flows provided by operating activities	**61**	199	518
Investing activities			
Investment in property, plant and equipment	**(28)**	(41)	(92)
Investment in deposits, net	**(150)**	-	-
Disposal of a subsidiary (Appendix A)	**-**	-	(77)
Proceeds from sale of equipment	**-**	-	4
Cash flows used for investing activities	**(178)**	(41)	(165)
Financing activities			
Repayment of long-term debt	**(63)**	(65)	(255)
Increase (decrease) in short-term bank credit	**(78)**	(127)	53
Cash flows used for financing activities	**(141)**	(192)	(202)
Increase (decrease) in cash and cash equivalents	**(258)**	(34)	151
Cash and cash equivalents at beginning of period	**828**	677	677
Cash and cash equivalents at end of period	**570**	643	828

Consolidated Statements of Cash Flows (cont'd)

Appendix A - Disposal of a Subsidiary, Net

	Three months ended March 31		Year ended December 31
	2004	2003	2003
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Fixed assets and other assets	-	-	(7,332)
Inventory	-	-	(419)
Trade receivables	-	-	(121)
Other receivables	-	-	(140)
Cash and cash equivalents	-	-	(77)
Trade payables	-	-	239
Other payables	-	-	107
Liabilities for employee severance pay	-	-	47
Minority interest as at the date of the disposal	-	-	3,848
Repayment of long-term loan	-	-	3,500
Long-term investment	-	-	348
Consideration of	-	-	-
Cash disposal of a subsidiary	-	-	77
Net cash outflow	-	-	77

Appendix B - Non cash activities:

Purchase of property and equipment	**13**	-	22

Supplementary disclosure:

Interest paid	**5**	9	53

The accompanying notes are an integral part of the 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 subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.

C. The Company has an accumulated deficit at March 31, 2004 of US$ 11,867 thousand. Based on forecast, the Company expects that its future cash flows and working capital requirements will be satisfied through its existing cash, short-term deposits and revenue generation.

The Company has considered its expected cash flows from operations, assuming current sales levels are maintained, and expects to continue to generate positive cash flows from operations. This combined with the cash and short-term deposits on hand, are expected to be sufficient to settle any repayments required of debt due until March 2005.

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 2003 consolidated accounts, except for the following:

Until December 31, 2003, the joint general and administrative expenses (the expenses) of the Company and of Payton Technologies (a subsidiary of the parent company) were allocated 61% to the Company and 39% to Payton Technologies. Beginning from January 1, 2004, due to the increase in the business activity of the Company, the allocation was changed so that 75% of the expenses are allocated to the Company and 25% to Payton Technologies.

B. The interim financial statements as at March 31, 2004 and for the period of three months than ended (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, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

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, 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

	Three months ended March 31, 2003 (Unaudited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	1,670	191	126	1,987
Segment result	(1)	(99)	(50)	(150)

	Year ended December 31, 2003 (Audited)			
	Europe and Israel (mainly Europe)	America	Asia	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Segment revenues	4,740	2,675	1,070	8,485
Segment result	(86)	(48)	(19)	(153)