PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
March 31, 2003 (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-month period ended on March 31, 2003.

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"), Payton Asia Planar Magnetics Ltd. ("Payton Asia").

B. The Group's main fields of activity and changes that occurred in the period from January to March 2003

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 on the Euro.NM (Today Euronext Stock exchange).

Payton Asia

On March 2003, at Company's request a board meeting of Payton Asia was held in order to pursue the matter of the formal registration of the real estate on the name of Payton Asia. The board resolved that Payton Asia should issue a demanding letter to the Sellers demanding immediate transfer of the title of the real estate. Such demanding letter was issued by Payton Asia on March 13, 2003.

In return, the sellers answered that "due to the world economic recession" they are short of financial resources needed in order to finalize the title transfer.

In the above mentioned circumstances and as at the date of approval of these financial statements the Company decided to materialize its right to pay back the loan in the amount of $ 3.5 million, by the shares of Payton Asia issued to the company against said amount, at cost price. After the return of the said shares the Company share holding in Payton Asia will be 10.7%. The company engaged local law firm in Taiwan in order to handle the formal legal procedures needed with this respect.

During the First quarter of 2003 the production volume of the Taichung facility (Taiwan) remain similar what it was in the last quarter of 2002 in which it was lowered, mainly due to a decrease in orders allocated for production in Taiwan.

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
	2003	2002	2002
Customer A	12.6%	13.4%	11.4%
Customer B	12.9%	12.5%	12.2%
Customer C	*	12.4%	12.4%
Customer D	*	*	18.7%

* Less then 10% the Company's consolidated sales

[1] The financial statements as at March 31, 2003 form an integral part thereof.

D. Marketing

On February 2003 the Company participated in "APEC" exhibition in Florida, U.S.A.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2003 were USD 4,550 thousand (December 31, 2002 totaled USD 4,500 thousand). This backlog is composed of both firm orders, frame purchase orders and operating rolling forecast. Nowadays, customers due to a cautious order policy, tend to place orders with short lead-time while in the past long term orders were common. Management estimates that most of this current backlog will be supplied until the first quarter of year 2004.

2. Financial position

A. Balance Sheet as at March 31, 2003.

Cash and cash equivalents – these amounted to USD 643 thousand at March 31, 2003 compared to USD 677 thousand as at December 31, 2002 and USD 1,767 thousand at March 31, 2002
The decrease in cash and cash equivalents at March 31, 2003, compared with March 31,2002 is mainly due to two reasons: A decrease of USD 550 thousands resulting of the decrease in other payable in Payton Asia against last payment for the real estate; and a decrease of USD 400 thousands due to an increase in long-term deposit using as a guaranty against long-term loan.

Short-term Deposit – As of March 31, 2003, most of the deposit uses as a guaranty against short-term credit taken from a Bank.

Trade accounts receivable, net – these amounted USD 1,538 thousand at March 31, 2003 compared with USD 1,579 thousand at December 31, 2002 and USD 1,236 thousands at March 31,2002. There is no material change in this item as at March 31, 2003 compare with December 31, 2002. The increase in this item at March 31,2003 compare with March 31, 2002 resulted mainly due to higher sales volume in the months prior to the report dates.

Inventory – Total of USD 2,386 thousand at March 31, 2003 compared with USD 2,440 thousand as at December 31, 2002 and USD 3,131 thousand at March 31, 2002. The decrease compared with March 31, 2002 is mainly due to the following: inventory consumption, slow-moving inventory write-offs and application of more cautious and efficient inventory maintenance and purchase policies.

Long-term bank deposit – see paragraph "Cash and cash equivalents".

Other assets – The decrease in this item compare with March 31, 2002, resulted from the write-off of the balance of goodwill, aroused from the acquisition of MTC amortized in the third quarter of 2002.

Sort-term Bank Credit and current maturities of long-term debts - these amounted to USD 416 thousand at March 31, 2003 compared with USD 544 thousand at December 31, 2002 and USD 431 thousand at March 31, 2002. The decrease in this item compared with December 31,2002 is mainly due to decrease in short-term credit balance with banks.

Other Payables - Total of USD 1,023 thousand at March 31, 2003 compared with USD 1,066 thousand at December 31, 2002 and with USD 1,784 thousand as at March 31, 2002. The decrease compare with March 31,2002, is mainly due to decrease in other payable (related parties in Payton Asia) as result of final payment made against the real estate purchase.

Long-term liabilities, net- Total of USD 5,715 thousand at March 31, 2003 compared with USD 5,777 thousand at December 31, 2002 and with USD 6,007 thousand as at March 31, 2002. As of March 31, 2003 and December 31, 2002, according to the new credit agreement, USD 253 thousand out of the US$ 1.5 million credit facility are considered and presented as current maturities of long term debt (At March 31, 2002 this amount was a part of the long-term liabilities)

C. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/03	Quarter 10-12/02	Quarter 7-9/02	Quarter 4-6/02	Quarter 1-3/02
Sales revenues	1,987	1,876	2,253	2,031	1,632
Cost of sales	1,433	1,407	*1,683*	*1,526*	*1,589*
Gross result	*554*	*469*	*570*	*505*	*43*
Development costs	131	129	137	110	133
Selling & marketing expenses	246	248	253	244	219
General & administrative expenses	327	313	1,704	400	383
Operating loss	*(150)*	*(221)*	*(1,524)*	*(249)*	*(692)*
Net financial result	(9)	(54)	18	58	33
Net operating loss after financial result	*(159)*	*(275)*	*(1,506)*	*(191)*	*(659)*
Issue of share capital in a consolidated subsidiary & Other (expenses) income	17	24	9	10	11
Result before Minority interest in losses of subsidiaries	*(142)*	*(251)*	*(1,497)*	*(181)*	*(648)*
Minority interest in losses of subsidiaries	19	32	5	33	78
Net loss for the period	*(123)*	*(219)*	*(1,492)*	*(148)*	*(570)*

The Group’s sales revenue for the three-month period ended March 31, 2003 were USD 1,987 thousand compared with USD 1,876 thousand in the three-month period ended December 31, 2002, (increase of 6%), and with USD 1,632 thousand in the three-month period ended March 31, 2002, (increase of 22%).

Gross result – The Group’s gross result for the three-month period ended March 31, 2003 were USD 554 thousand, 28%, compared with USD 469 thousand, 25% in the three-month period ended December 31, 2002, and with USD 43 thousand, 3%, in the three-month period ended March 31, 2002.
The improvement in the gross results between the first quarter of 2003 compared with the same quarter last year was attributed due to cost of sales reduction achieved mainly through improved efficiency in material consumption.

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. 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 for distribution 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. There were no material changes in the group’s Selling & marketing expenses between the above-presented quarters.

General & Administrative expenses – The Group’s General & Administrative expenses for the three-month period ended March 31, 2003 were USD 327 thousand compared with USD 313 thousand in the three-month period ended December 31, 2002, and with USD 383 thousand in the three-month period ended March 31, 2002.

The Group's General & Administrative expenses for the year ended December 31, 2002 were USD 2,800 thousand. In the third quarter of 2002 year the Company wrote-off the remaining balance of goodwill arose from the acquisition of it's subsidiary's in America amounting US$ 1.3 million and this explains the increase in the Group's General & Administrative expenses during said quarter.

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, 2003	**December, 2002**	**March 31, 2002**
Current ratio[2]	1.94	2.01	2.02
Quick ratio[3]	1.02	1.06	1.09

B. Cash flow provided by operating activities

Cash flow provided by operating activities for the three month period ended March 31, 2003 amounted 199 thousand, compared with the use of cash flow for operating activities of USD 75 thousand for the three-months period ended March 31, 2002. This Increase in Cash flow provided by operating activities resulted mainly of a decrease in the net loss for the period. In addition to the losses decrease the above-mentioned increase resulted of the changes in the following cash flow adjustments items: increase in trade payable and decrease in trade receivable that were offset by decrease 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, 2003, amounted USD 41 thousand, compared with cash flow used for investment activities of USD 272 thousand in the three-month period ended March 31, 2002. Most of the cash flow used for investing activities in the three-months period ended March 31 ,2002 result from increase in long-term deposit, as part of the conditions of the new payment terms of the US$ 1.5 million credit facility from a bank.

D. Cash flow used for financing activity

Cash flow used for financing activity for the three-month period ended March 31, 2003, amounted USD 192 thousand, compared with Cash flow provided by financing activity of USD 113 thousand, in the three-month period ended March 31, 2002. This change in cash flow provided by financing activity resulted mostly from the decrease in short-term bank credit.

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from credit facilities taken from banks.

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

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

5. External factors effects

The global resection in the High-Tech industries especially the telecommunication industry, which is one of Payton’s important operating markets, is still relevant. Some of Payton’s major customers that operate in Europe and in the U.S. are being affected as a result of this resection and thus influence Payton’s volume of operation.
The end of the global slowdown is hard to foresee, as a result the whole market is more cautious.
Management cannot foresee the financial effect of this global scaling-down.

To the best of the Board of Directors’ and management’s knowledge, except the above mentioned external factors, 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 28, 2003.

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, 2003 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 reports of other auditors, regarding the interim financial statements of certain subsidiaries whose assets constitute 60.6% of the total consolidated assets as at March 31, 2003 and whose revenues constitute 16% of the total consolidated revenues for the three month period then ended.

Based on our review, including the reading of the review reports of other auditors 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 Accounting Standards.

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

May 28, 2003

Consolidated Balance Sheets

	March 31 2003 (Unaudited) US$ thousand	March 31 2002 (Unaudited) US$ thousand	December 31 2002 (Audited) US$ thousand
Current Assets			
Cash and cash equivalents	**643**	1,767	677
Short-term deposit	**350**	597	350
Trade accounts receivable, net	**1,538**	1,236	1,579
Other accounts receivable	**120**	78	98
Inventory	**2,386**	3,131	2,440
Total current assets	**5,037**	6,809	5,144
Long-term bank deposit	**400**	-	400
Property, plant and equipment, net	**8,225**	8,530	8,289
Other assets, net	**13**	1,472	16
Total assets	**13,675**	16,811	13,849

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

Michal Lichtenstein
V.P. Finance & C.F.O

Rishon Le Zion May 28, 2003

	March 31 2003 (Unaudited) US$ thousand	March 31 2002 (Unaudited) US$ thousand	December 31 2002 (Audited) US$ thousand
Current Liabilities			
Short-term bank credit and current maturities of long-term bank debt	**416**	431	544
Trade payables	**1,153**	1,150	952
Other payables	**1,023**	1,784	1,066
Total current liabilities	**2,592**	3,365	2,562
Unrealized gain from issue of share capital in a subsidiary company	**-**	21	-
Loan from Payton Industries Ltd. - parent company	**858**	858	858
Long-term debt, net of current maturities	**4,684**	5,001	4,748
Liability for employee severance benefits, net	**173**	127	171
Total long-term liabilities	**5,715**	6,007	5,777
Minority interest in consolidated subsidiaries	**3,912**	4,001	3,931
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**8,942**	8,942	8,942
Accumulated deficit	**(12,305)**	(10,323)	(12,182)
Total shareholders' equity	**1,456**	3,438	1,579
Total liabilities and shareholders' equity	**13,675**	16,811	13,849

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

Consolidated Statements of Income

	Three months ended March 31		Year ended December 31
	2003	**2002**	**2002**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	US$ thousand	**US$ thousand**	**US$ thousand**
Sales revenues	**1,987**	1,632	7,792
Cost of sales	**(1,433)**	(1,589)	(6,205)
Gross result	**554**	43	1,587
Development costs	**(131)**	(133)	(509)
Selling and marketing expenses	**(246)**	(219)	(964)
General and administrative expenses	**(327)**	(383)	(2,800)
Operating result	**(150)**	(692)	(2,686)
Net financial result	**(9)**	33	55
Other income	**17**	11	54
Result before minority interest in losses of subsidiaries	**(142)**	(648)	(2,577)
Minority interest in losses of subsidiaries	**19**	78	148
Net result for the period	**(123)**	(570)	(2,429)
Basic and diluted net loss per ordinary share (in US$)	**(0.007)**	(0.03)	(0.14)

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, 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, 2002 (Audited)	17,600,000	4,819	8,942	(9,753)	4,008
Net result for the period	-	-	-	(570)	(570)
Balance at March 31, 2002 (Unaudited)	17,600,000	4,819	8,942	(10,323)	3,438
Balance at January 1, 2002 (Audited)	17,600,000	4,819	8,942	(9,753)	4,008
Net result for the year	-	-	-	(2,429)	(2,429)
Balance at December 31, 2002 (Audited)	17,600,000	4,819	8,942	(12,182)	1,579

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
	2003	**2002**	**2002**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	US$ thousands	**US$ thousands**	**US$ thousands**
Operating activities			
Net result for the period	**(123)**	(570)	(2,429)
Adjustments to reconcile net income to net cash used for operating activities:			
Depreciation and amortization	**79**	145	1,915
Capital loss (gain) on sale of equipment	**-**	(4)	4
Increase (decrease) in employee severance benefits, net	**2**	(14)	30
Translation gain on long - term debt	**-**	(4)	(4)
Minority interests in losses of subsidiaries	**(19)**	(78)	(148)
Gain from issue of shares of a subsidiary	**(7)**	(7)	(28)
Loss from short term investments	**-**	2	2
Decrease (increase) in trade receivables	**41**	291	(52)
Decrease (increase) in other accounts receivables	**(22)**	22	2
Decrease in inventory	**54**	315	1,006
Increase (decrease) in trade payables	**230**	(127)	(215)
Decrease in other payables	**(36)**	(46)	(764)
Cash flows provided by (used for) operating activities	**199**	(75)	(681)
Investing activities			
Long-term deposit	**-**	-	(400)
Investment in property, plant and equipment	**(41)**	(34)	(216)
Short-term deposit	**-**	(247)	-
Proceeds from sale of equipment	**-**	9	-
Cash flows used for investing activities	**(41)**	(272)	(616)
Financing activities			
Repayment of long-term debt	**(65)**	(73)	(185)
Increase (decrease) in short-term bank credit	**(127)**	186	158
Cash flows provided by (used for) financing activities	**(192)**	113	(27)
Decrease in cash and cash equivalents	**(34)**	(234)	(1,324)
Cash and cash equivalents at beginning of period	**677**	2,001	2,001
Cash and cash equivalents at end of period	**643**	1,767	677
Appendix A - Non cash activities:			
Purchase of property and equipment	**-**	34	29
Supplementary disclosure:			
Interest paid	9	67	14

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. A global trend of slowdown in the High-Tech industries prevailed during the first quarter of 2001. This global slowdown in the High-Tech industries especially the telecommunication industry, which is one of Payton's important operating markets, is still valid. Some of Payton's major customers that operate in Europe and the U.S. are being affected as a result of this slowdown and thus influence Payton's volume of operation.
The end of the global slowdown is hard to foresee, as a result, the whole market is more cautious.
The Company's management cannot foresee, at this stage, the financial effect of this global scaling-down.

D. The Company has an accumulated deficit at March 31, 2003 of $ 12,305 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.

Note 2 - Financial Reporting and Accounting Policies

A. The accounting principles used in the preparation of the consolidated interim statements are consistent with those principles used in the preparation of the annual statements as at December 31, 2002.

B. The interim financial statements as at March 31, 2003 and for the period of three months than ended (the interim statements) have been prepared in a condensed form in accordance with accepted accounting principles related to the preparation of interim financial statements.

C. These financial statements do not include all the information and explanations required for annual financial statements. Results of operations for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

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.

	Three months ended March 31, 2003 (Unaudited)				
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Adjustments**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**	**US$ thousands**
Net sales and revenues from external customers	1,670	191	126	-	1,987
Inter segment net sales and revenues	-	33	88	(121)	-
Total net sales and revenues	1,670	224	214	(121)	1,987
Operating result	(1)	(99)	(50)	-	(150)

	Year ended December 31, 2002 (Audited)				
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Adjustments**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**	**US$ thousands**
Net sales and revenues from external customers	6,393	1,075	324	-	7,792
Inter segment net sales and revenues	174	87	725	(986)	-
Total net sales and revenues	6,567	1,162	1,049	(986)	7,792
Operating result	(592)	(234)	(353)	(1,507)	(2,686)

Note 3 - Operating Segments (cont'd)

	Three months ended March 31, 2002 (Unaudited)				
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Net sales and revenues from external customers	1,297	278	57	-	1,632
Inter segment net sales and revenues	70	12	97	(179)	-
Total net sales and revenues	1,367	290	154	(179)	1,632
Operating result	(406)	(83)	(145)	(58)	(692)

Note 4 - Subsequent Events

On March 2003, at Company's request a board meeting of Payton Asia was held in order to pursue the matter of the formal registration of the real estate on the name of Payton Asia. The board resolved that Payton Asia should issue a demanding letter to the Sellers demanding immediate transfer of the title of the real estate. Such demanding letter was issued by Patyon Asia on March 13, 2003.

In return, the sellers answered that "due to the world economic recession" they are short of financial resources needed in order to finalize the title transfer.

In the above mentioned circumstances and as at the date of approval of these financial statements the Company decided to materialize its right to pay back the loan in the amount of $ 3.5 million, by the shares of Patyon Asia issued to the company against said amount, at cost price. After the return of the said shares the Company share holding in Payton Asia will be 10.7%. The company engaged local law firm in Taiwan in order to handle the formal legal procedures needed with this respect.