PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2001 (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 year ended on March 31, 2001.

1. <u>A concise description of the corporation and its business environment</u>

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 2001

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).

No material changes in the business activity of the Group have accrued within the reported period.

The Company believes it is well positioned for growth in the transformer market through mergers and acquisitions. The company further concludes that by merger and/or acquisition a wider range of technologies and/or products would be available, at relatively lower development, maintenance and commercialization costs.

C . Sales

Sales revenues for the three-month period ended March 31, 2001 amounted to USD 2,514 thousand compared with USD 1,399 thousand for the three-month period ended March 31, 2000 indicating growth of 80%. In the recent years more and more customers realize the benefits of the planar technology. It results in growing customer base and sales volume.

Revenues for the three-month period ended March 31, 2001 consisted of recurring sales to existing customers and sales to new ones. There was a change during the first quarter of 2001 in the products mix. The amount of sales from new designs in the stages of pre-production and ramp-up has increased. This change was caused mainly due to slow down in running projects and increasing demand for new projects. These projects are in a relatively low point on the production learning curve.
The Sales were generated primarily from large telecom companies and from portable equipment manufacturers. The Company believes it is effectively penetrated and still penetrating the larger telecom companies in Europe and the US. The telecom market is one of its primary markets the Company address.

[1] The financial statements as at December 31, 2000 form an integral part thereof.

D. 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
	2001	2000	2000
Customer A	6.88%	8.59%	11.4%
Customer B	25.84%	22.9%	20.7%
Customer C	7.40%	7.92%	12.9%

E. Marketing

During the first quarter of 2001 the Company participated in three expiations: "Power Electronics" in England, "Electronica" in Israel and "APEC" in California, USA.

G. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2001 were USD 9,500 thousand (December 31, 2000 were USD 9,300 thousand). Management estimates that most of this current backlog will be supplied by the end of the first quarter 2002.

2. <u>Financial position</u>

I. Balance Sheet as at March 31, 2001.

Cash and cash equivalents – these amounted to USD 2,169 thousand at March 31, 2001 compared to USD 2,470 thousand as at December 31, 2000 and USD 2,678 thousand at March 31, 2000. The decrease in cash and cash equivalents is mainly due to cash consumption for operating activities. Compared with March 31, 2000 this decrease was shorten by USD 600 thousand due to the increase of capital in Payton Asia that accrued on the third and the fourth quarter of 2000.

Short-term Deposit – This item comprise a guaranty against a long-term loan taken from a Bank.

Marketable securities and treasury bonds – these amounted to USD 287 thousand at March 31, 2001 compared to USD 490 thousand as at December 31, 2000 and USD 544 thousand at March 31, 2000. The decrease in this item is mainly due to decrease of treasury bonds used for operating activities.

Property and equipment net – these amounted to USD 8,496 thousand at March 31, 2001 compared to USD 8,329 thousand as at December 31, 2000 and USD 1,097 thousand at March 31, 2000. The increase in this item is the first quarter of 2001 is mainly due to continuous investment process necessary for establishing the new facility in Taichung. The increase in this item compared with March 31, 200 is mainly due to the purchasing of 4,000 sq. meters land with an existing building of 2,000 sq. meters at USD 7 million, according to the investment agreement in Payton Asia.

Other assets – these constitute mainly goodwill in the amount of USD 1,685 thousand arising from the acquisition of MTC. Goodwill is amortized over a period of ten years.

Current liabilities - these amounted to USD 3,334 thousand at March 31, 2001 compared to USD 3,306 thousand as at December 31, 2000 and USD 1,510 thousand at March 31, 2000. The increase in this item compared to December 31, 2000 is composed of both decrease in trade payable and from increase in other payable due to increase in government institution (VAT) debts..

C. Operating results

Summary of quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/01	Quarter 10-12/00	Quarter 7-9/00	Quarter 4-6/00	Quarter 1-3/00
Sales revenues	2,514	2,462	1,835	*1,676	*1,337
Cost of sales	2,054	1,897	1,261	*1,439	*1,145
Gross result	*460*	*565*	*574*	*237*	*192*
Development costs	172	146	170	153	145
Selling & marketing expenses	357	325	209	253	289
General & administrative expenses	468	460	459	443	444
Operating loss	*(537)*	*(366)*	*(264)*	*(612)*	*(686)*
Net financial result	(4)	(9)	(113)	84	13
Net operating loss after financial result	*(541)*	*(375)*	*(377)*	*(528)*	*(673)*
Issue of share capital in a consolidated subsidiary	7	5	-	-	-
Other income	13	23	1	4	7
Result before taxes on income	*(521)*	*(347)*	*(376)*	*(524)*	*(666)*
Tax benefit	-	(27)	-	-	-
Result after taxes on income	*(521)*	*(320)*	*(376)*	*(524)*	*(666)*
Minority interest in losses (earnings) of subsidiaries	13	52	(6)	32	28
Net loss for the period	*(508)*	*(268)*	*(382)*	*(492)*	*(638)*

* Reclassified

The Group's sales revenue for the three-month period ended March 31, 2001 were USD 2,514 thousand compared with USD 1,337 thousand in the three-month period ended March 31, 2000, increase of 88%. The sales growth trend continued in the first quarter of 2001 in spite of the global slowdown in the High-Tech industries. This massive increase was mainly due to the overall growth in sales volume as outcome of product acceptance. Customers realized that the planar technology and products are better than the conventional transformers and therefore they are using it in many of their new designs.

Gross results – The Group's gross results for the three-month period ended March 31, 2001 were USD 460 thousand compared with USD 192 thousand in the three-month period ended March 31, 2000. The increase in this item is mainly due to the over-all growth in the volume of sales, raw materials cost down and production learning curve.
There was a decrease in the Group's gross results for the three-month period ended March 31, 2001 compared with the three-month period ended December 31, 2000. This decrease was caused mainly due to a change within the first quarter of 2001 in the products mix. The amount of sales from new designs in the stages of the pre-production and ramp-up has increased. It resulted in higher cost of sales, being at early stages of the learning curve. The change in the products mix accrued mainly due to slow down in running projects and increasing demand for other designs

Development costs – Payton's R&D strategy is aimed on maintaining the leadership of planar technology. Payton's R&D departments work in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were estimated upon employees' hours dedication. The group's development costs for the three-month period ended March 31, 2001 were USD 172 thousand compared with USD 145 thousand in the three-month period ended March 31, 2000.

Selling & marketing expenses - The Group's Selling & marketing expenses for the three-month period ended March 31, 2001 were USD 357 thousand compared with USD 289 thousand in the three-month period ended March 31, 2000. The Group's Selling & marketing expenses are based on the management policy and are not related to sales, besides 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. Marketing expenses include expenses stemming from a worldwide marketing campaign of the ***Planetics***®, trade shows, travel, salaries and advertising in professional publications.

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the balance sheet:
The decrease in the ratios bellow is mainly due to the cash consumption, which financed the overall global activity of the group.

Payton Planar Magnetics Ltd. Consolidated financial ratios		
	March 31, 2001	**December 31, 2000**
Current ratio[2]	2.30	2.52
Quick ratio[3]	1.50	1.74

B. Cash flow used for operating activities

Cash flow used for operating activities for the three-month period ended March 31, 2001, was USD 238 thousand, compared to the use of cash flow for operating activities of USD 335 thousand for the three-month period ended March 31, 2000. This change reflects an improvement of USD 97 thousand in the use of cash flow for operating activities.

4. Financing sources

The Group financed its activities during the reported period from its own resources.

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

5. External factors effects

A global trend of slowdown in the High-Tech industries prevailed during the first quarter of 2001. This global trend started in the United States and continued to effect the European marketplace and takes its toll there. It merely seems as an adjustment of very high and too optimistic expectations to a more realistic atmosphere.

Some of Payton’s major customers that operate in Europe had to follow this “cooling-down” trend and had trimmed their manpower. This adjustment in the business might effect Payton’s volume of operation. The company management cannot foresee, at this stage, the financial effect of this global scaling-down.

To the best of the Board of Directors’ and management’s knowledge, except for the above mentioned slow down, 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 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 29, 2001.

To the Board of Directors
Payton Planar Magnetics Ltd.
Rishon Le-Zion

Review of the unaudited interim financial statements for the three month period ended March 31, 2001

At your request we reviewed the interim consolidated balance sheet of Payton Planar Magnetics Ltd. and its subsidiaries as at March 31, 2001, the consolidated statement of income, the statements of changes in shareholders' equity and the consolidated statements of cash flows for the three month period then ended.

The financial statements, as at March 31, 2000, and for the three month period then ended, were reviewed by Somekh Chaikin and Shohet Rabinovitch.

Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included inter alia: reading the above financial statements, reading the minutes of shareholders' meetings and meetings of the Board of Directors and of its committees and making inquiries of persons responsible for financial and accounting matters.

We received financ0ial statements reviewed by other auditors of subsidiary companies, the assets of which represent 55% of the total consolidated assets as at March 31, 2001 and the revenues of which represent 14% of the total consolidated revenues for the three month period ended on such date.

Since the review performed was limited in scope and does not constitute an examination in accordance with the Generally Accepted Auditing Standards, we do not express an opinion on the interim financial statements.

Based on our review, which included the reading of the review reports of other auditors as stated above, we are unaware of any material modifications that would be necessary in order for the interim financial statements to be in conformity with generally accepted accounting principles in Israel (Israeli GAAP). As applied to these financial statements, Israeli GAAP is not substantially different from International Accounting Standards (IAS) in all material respects.

Certified Public Accountants (Isr.)

(A Member of KPMG International)

May 29, 2001

Consolidated Balance Sheets

	In thousands of U.S Dollars		
	March 31 2001	March 31 2000	December 31 2000
	(Unaudited)	(Unaudited)	(Audited)
Cash and cash equivalents	2,169	2,678	2,470
Short-term deposit	290	500	350
Marketable securities and treasury bonds	287	544	490
Trade accounts receivable, net	2,031	1,193	2,157
Other accounts receivable	236	313	281
Inventory	2,661	1,988	2,588
Current assets	7,674	7,216	8,336
Property and equipment, net	8,496	1,097	8,329
Deferred income taxes	36	-	*36
Other assets, net	1,713	1,935	1,772
Total assets	17,919	10,248	18,473
Current maturities of long term bank debt	301	297	306
Trade payables	1,483	622	1,643
Other payables	1,550	591	*1,357
Current liabilities	3,334	1,510	3,306
Unrealized gain from issue of share capital in a subsidiary company	48	-	55
Loan from Payton Industries Ltd. - parent company	858	858	858
Long-term debt, net of current portion	3,619	415	3,699
Liability for employee severance benefits, net	145	103	119
Long-term liabilities	4,670	1,376	4,731
Minority interest in consolidated subsidiaries	4,298	95	4,311
Shareholders' equity			
Share capital	4,819	4,819	4,819
Share premium	8,942	8,942	8,942
Accumulated deficit	(8,144)	(6,494)	(7,636)
Shareholders' equity	5,617	7,267	6,125
Total liabilities and shareholders' equity	17,919	10,248	18,473

* Reclassified

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

Michal Lichtenstein — Controller

Rishon Le Zion, May 29, 2001

The notes to these financial statements are an integral part thereof.

Consolidated Statements of Income

	In thousands of US Dollars (except per share data)		
	Three months ended March 31		Year ended December 31
	2001	2000	2000
	(Unaudited)	(Unaudited)	(Audited)
Sales revenues	2,514	*1,337	7,310
Cost of sales	(2,054)	*1,145	(5,742)
Gross result	460	192	1,568
Development costs	(172)	(145)	(614)
Selling & marketing expenses	(357)	(289)	(1,076)
General & administrative expenses	(468)	(444)	(1,806)
Operating result	(537)	(686)	(1,928)
Net financial result	(4)	13	(25)
Net operating result after financial result	(541)	(673)	(1,953)
Result from the issue of share capital in a consolidated subsidiary	7	-	5
Other income	13	7	35
Result before taxes on income	(521)	(666)	(1,913)
Taxes on income	-	-	(27)
Result after taxes on income	(521)	(666)	(1,886)
Minority interest in losses of subsidiaries	13	28	106
Net result for the period	(508)	(638)	(1,780)
Net loss per ordinary share (in USD)	(0.03)	(0.04)	(0.10)

* Reclassified

The notes to these financial statements are an integral part thereof.

Statement of Shareholders' Equity

	Share capital: Number of shares	Share capital: Amount	Share premium	Accumulated deficit	Total
		In thousands of US Dollars			
Balance at January 1, 2001 (Audited)	17,600,000	4,819	8,942	(7,636)	6,125
Net result for the period	-	-	-	(508)	(508)
Balance at March 31, 2001 (Unaudited)	17,600,000	4,819	8,942	(8,144)	5,617
Balance at January 1, 2000 (Audited)	17,600,000	4,819	8,942	(5,856)	7,905
Net result for the period	-	-	-	(638)	(638)
Balance at March 31, 2000 (Unaudited)	17,600,000	4,819	8,942	(6,494)	7,267
Balance at January 1, 2000 (Audited)	17,600,000	4,819	8,942	(5,856)	7,905
Net result for the year	-	-	-	(1,780)	(1,780)
Balance at December 31, 2000 (Audited)	17,600,000	4,819	8,942	(7,636)	6,125

The notes to these financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

	In thousands of US Dollars		
	Three months ended March 31		Year ended December 31
	2001	2000	2000
	(Unaudited)	(Unaudited)	(Audited)
Net result for the period	(508)	(638)	(1,780)
Adjustments to reconcile net income to net cash provided by operating activities (A)	270	303	952
Cash flows used for operating activities	(238)	(335)	(828)
Investment in property, equipment and land	(253)	(54)	(560)
Investment in other assets	-	-	(15)
Short-term deposit	60	36	186
Sale of equipment	-	13	24
Proceeds from sale of marketable securities	205	15	31
Cash flows provided by (used for) investing activities	12	10	(334)
Repayment of long-term debt	(75)	(74)	(303)
Issue of shares to a minority interest in a consolidated subsidiary	-	-	876
Receipt of a loan in respect of financial leasing	-	-	21
Receipts (payments) from shareholders of subsidiaries	-	39	-
Cash flows provided by (used for) financing activities	(75)	(35)	594
Cash and cash equivalents at beginning of period	2,470	3,038	3,038
Decrease in cash and cash equivalents	(301)	(360)	(568)
Cash and cash equivalents at end of period	2,169	2,678	2,470

The notes to these financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

Appendix A - Adjustments to reconcile net income to cash flows provided by operating activities

	In thousands of US Dollars		
	Three months ended March 31		Year ended December 31
	2001	2000	2000
	(Unaudited)	(Unaudited)	(Audited)
Income and expense items not constituting a current flow of funds:			
Depreciation and amortization	145	153	564
Capital gain	-	(2)	(2)
Employee severance pay, net	26	26	42
Translation loss on long - term debt	(10)	9	10
Minority interests in losses of subsidiaries	(13)	(28)	(106)
Gain from issue of shares of a subsidiary	(7)	-	(5)
Decrease (increase) in short term investments	(2)	(26)	12
Increase in deferred taxes	-	-	*(36)
Changes in assets and liabilities			
Decrease (increase) in trade receivables	126	185	(779)
Decrease (increase) in other receivables	45	(124)	(92)
Decrease (increase) in inventory	(73)	4	(596)
Increase (decrease) in trade payables	(160)	6	1,058
Increase in other payables	193	100	*882
	270	303	952

Appendix B - Non cash activities:

Purchase of property and equipment on credit	38	-	83
Purchase of land from shareholders in subsidiary	-	54	7,000

* Reclassified

The notes to these financial statements form an integral part thereof.

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 circuts

Note 2 - Financial Reporting and Accounting Policies

1. 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, 2000.

2. The interim financial statements as at March 31, 2001 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.

3. 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, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

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Note 3 - External Factors Effects

A global trend of slowdown in the High-Tech industries prevailed during the first quarter of 2001. This global trend started in the United states and continued to effect the European marketplace and takes its toll there. It merely seems as an adjustment of very high and too optimistic expectations to a more realistic atmosphere.

Some of Payton's major customers that operate in Europe had to follow this "cooling-down" trend and had trimmed their manpower. This adjustment in the business might effect Payton's volume of operation. The company management cannot foresee , at this stage, the financial effect of this global scaling-down.

Note 4 - Operating Segments

	In thousands of US Dollars				
	Three months ended March 31, 2001 (Unaudited)				
	Israel and Europe	America	Asia	Adjustments	Total
Net sales and revenues from external Customers	2,102	370	42	-	2,514
Inter segment net sales and revenues	48	14	318	(380)	-
Total net sales and Revenues	2,150	384	360	(380)	2,514
Operating result	(355)	(78)	(46)	(58)	(537)

	In thousands of US Dollars				
	Three months ended March 31, 2000 (Unaudited)				
	Israel and Europe	America	Asia	Adjustments	Total
Net sales and revenues from external Customers	1,214	155	30	-	1,399
Inter segment net sales and revenues	27	-	51	(78)	-
Total net sales and Revenues	1,241	155	81	(78)	1,399
Operating result	(351)	(217)	(60)	(58)	(686)

Note 4 - Operating Segments (cont'd)

	In thousands of US Dollars				
	Year ended December 31, 2000 (Audited)				
	Israel and Europe	America	Asia	Adjustments	Total
Net sales and revenues from external Customers	5,827	1,047	436	-	7,310
Inter segment net sales and revenues	148	212	337	(697)	-
Total net sales and Revenues	5,975	1,259	773	(697)	7,310
Operating result	(975)	(471)	(250)	(232)	(1,928)