



PAYTON GROUP
INTERNATIONAL

**Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
September 30, 2003 (Unaudited)**

Financial Statements as at September 30, 2003

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The Board of Directors' Report¹ 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 period ended on September 30, 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")- Starting 30.6.03 was no longer a consolidated subsidiary, see hereunder - paragraph B.

B. The Group's main fields of activity and changes that occurred in the period from January to September 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 May 28, 2003, due to on going delays with regard to the formal registration of the real estate on the name of Payton Asia, 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.

On July 1, 2003 (effective from June 30, 2003) the Company executed an agreement regarding the return of the loan, as result the Company share holding in Payton Asia was reduced to 10.7%.

On August 26, 2003, Payton Asia's general meeting elected its new board of directors members. It is noted that none of the Company's representatives are included in the new board.

Notwithstanding the above-said, the Company continued to demand repeatedly the formal registration of the real estate on the name of Payton Asia until finally, on October 28, 2003, the company was notified that the registration was completed.

The company engaged a local law firm in Taiwan in order to handle the all-formal issues regarding the above-mentioned activities.

In the attached financial statements the consolidated statement of operations includes the results of operations of Payton Asia until June 30, 2003, whereas the assets and liabilities as at September 30, 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.

Payton America

On June 23, 2003 the employment agreement of Payton America's Vice President & C.E.O Mr. Alex Estrov expired. Mr. Jim Marinos, Payton America's Marketing and Application Director was promoted to be the Executive Vice President Marketing & Engineering of Payton America.

¹ The financial statements as at September 30, 2003 form an integral part thereof.

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 September 30	For the year ended December 31	For the three-month period ended September 30
	2003	2002	2002
Customer A	17.3%	13.4%	13.7%
Customer B	*	12.5%	11.1%
Customer C	14.3%	12.4%	17.3%

* Less than 10% the Company's consolidated sales

D. Marketing

On February 2003 the Company participated in "APEC" exhibition in Florida, U.S.A, on May 2003 in "PCIM" exhibition in Nuremberg, Germany, and on October 2003 in "PCIM" exhibition in California, U.S.A.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2003 were USD 3,519 thousand (December 31, 2002 totaled USD 4,500 thousand). This backlog is composed of both firm orders, frame purchase orders and operating rolling forecast. The decrease in the backlog is the result of a short lead-time orders policy implemented by customers and by termination of projects. Management estimates that most of this current backlog will be supplied until the third quarter of year 2004.

2. Financial position

A. Balance Sheet as at September 30, 2003.

Cash and cash equivalents – these amounted to USD 846 thousand at September 30, 2003 compared to USD 677 thousand as at December 31, 2002 and USD 820 thousand at September 30, 2002

The increase in cash and cash equivalents at September 30, 2003, compared with December 31, 2002 is mainly due to the decrease in the Company's losses.

Short-term Deposit – As of September 30, 2003, USD 350 thousands out of the deposits uses as a guaranty against short-term credit taken from a Bank and the increase of USD 400 thousands were classified from long-term bank deposits and uses as a guaranty against long-term loan (See also note 4 to the financial statements).

Trade accounts receivable, net – Total of USD 1,280 thousand at September 30, 2003 compared with USD 1,579 thousand as at December 31, 2002 and USD 1,563 thousand at September 30, 2002. The decrease in this item is mainly due to decrease in sales volume near the report date.

Inventory – Total of USD 1,775 thousand at September 30, 2003 compared with USD 2,440 thousand as at December 31, 2002 and USD 2,631 thousand at September 30, 2002. The decrease in this item 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 above "Short-term deposits".

Other Investment – As of September 30, 2003 this item represents the investment of 10.7% in the Company's former subsidiary – Payton Asia (See note 3 to the financial statements).

Property, plant and equipment, net – The decrease in this item resulted from the following: On June 30, 2003, due to the return of the loan (see paragraph 1B above), the Company share holding in Payton Asia was reduced to

10.7%, and Payton Asia's fixed assets amounting USD 7,327 thousands (including land and buildings) were not consolidated in the Balance Sheet.

Short-term bank credit and current maturities of long-term bank debt- Total of USD 1,604 thousand at September 30, 2003 compared with USD 544 thousand at December 31, 2002 and with USD 418 thousand as at September 30, 2002. The increase in this 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 4 to the financial statements).

Trade Payables - Total of USD 788 thousand at September 30, 2003 compared with USD 952 thousand at December 31, 2002 and with USD 1,044 thousand as at September 30, 2002. The decrease in this item is mainly due to excluding Payton Asia's trade payables in the consolidated Balance Sheet (see paragraph 1B above).

Long-term debts, net of current maturities- Total of USD 0 thousand at September 30, 2003 compared with USD 4,748 thousand at December 31, 2002 and with USD 4,820 thousand as at September 30, 2002. 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 in Payton Asia shares accounted at their cost price (see paragraph 1B above).

2) Classifying USD 1,100 thousand from Long-term debts, net of current maturities (See also above explained in "*Short-term bank credit and current maturities of long-term bank debt*" and note 4 to the financial statements).

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

C. Operating results

Summary of Consolidated quarterly Statements of Income US Dollars in thousands

Payton Planar Magnetics Ltd. Consolidated Income Statements

	<u>Quarter 7-9/03</u>	<u>Quarter 4-6/03</u>	<u>Quarter 1-3/03</u>	<u>Quarter 10-12/02</u>	<u>Quarter 7-9/02</u>
Sales revenues	1,857	2,333	1,986	1,876	2,253
Cost of sales	1,390	1,509	1,433	1,407	1,683
<i>Gross result</i>	<i>467</i>	<i>824</i>	<i>553</i>	<i>469</i>	<i>570</i>
Development costs	109	140	131	129	137
Selling & marketing expenses	197	270	246	248	253
General & administrative expenses	293	369	327	313	1,704
<i>Operating profit (loss)</i>	<i>(132)</i>	<i>45</i>	<i>(151)</i>	<i>(221)</i>	<i>(1,524)</i>
Net financial result	11	(96)	(9)	(54)	18
<i>Net operating loss after financial result</i>	<i>(121)</i>	<i>(51)</i>	<i>(160)</i>	<i>(275)</i>	<i>(1,506)</i>
Issue of share capital in a consolidated subsidiary & Other income (expense)	(2)	14	18	24	9
<i>Result before Minority interest in losses of subsidiaries</i>	<i>(123)</i>	<i>(37)</i>	<i>(142)</i>	<i>(251)</i>	<i>(1,497)</i>
Minority interest in losses of subsidiaries	-	64	19	33	5
<i>Net profit (loss) for the period</i>	<i>(123)</i>	<i>27</i>	<i>(123)</i>	<i>(218)</i>	<i>(1,492)</i>

General – Starting the beginning of the third quarter of 2003 Payton Asia’s results of operations were not included in consolidated statement of operations.

The Group’s sales revenue for the nine-month period ended September 30, 2003 were USD 6,176 thousand compared with USD 5,916 thousand in the nine-month period ended September 30, 2002 (increase of 4.3%).

The Group’s sales revenue for the three-month period ended September 30, 2003 were USD 1,857 thousand compared with USD 2,253 thousand in the three-month period ended September 30, 2002 (decrease of 17.6%).

Gross result –The Group’s gross result for the nine-month period ended September 30, 2003 were USD 1,844 thousand, 29.9%, compared with USD 1,118 thousand, 18.9% in the nine-month period ended September 30, 2002. This improvement in the gross results attributed mainly due to cost of sales reduction achieved mainly through improved efficiency in material consumption.

The Group’s gross result for the three-month period ended September 30, 2003 were USD 467 thousand, 25.1%, compared with USD 570 thousand, 25.3% in the three-month period ended September 30, 2002.

The decrease in the gross result ratio between the third quarter and the second quarter of this year resulted mainly due to the decrease of sales while part of cost of sales components remained about the same level.

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 in the third quarter of 2003 is mainly due to the end of Payton America’s Vice President & C.E.O Mr. Alex Estrov employment on June this year.

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.

General & Administrative expenses – The Group's General & Administrative expenses for the three-month period ended September 30, 2003 were USD 293 thousand compared with USD 369 thousand in the three-month period ended June 30, 2003, and with USD 1,704 thousand in the three-month period ended September 30, 2002.

During the third quarter of 2003 Payton Asia's results of operations were not included in consolidated statement of operations, this mainly explains the decrease in the Group's General & Administrative expenses between the third and the second quarter of this year.

It is noted that in the third quarter of 2002 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 high 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			
	September 30, 2003**	December 31, 2002	September 30, 2002
Current ratio ²	1.35	2.01	2.05
Quick ratio ³	0.84	1.06	1.06

** On September 30, 2003 the remaining of the long-term loan amounting USD 1,100 thousands, is presented as current maturities of long-term debts, where as in December 31 and in September 30 of last year 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.4 to the financial statements.

B. **Cash flow provided by operating activities**

Cash flow provided by operating activities for the nine-month period ended September 30, 2003 amounted USD 504 thousand, compared with the use of cash flow for operating activities of USD 508 thousand for the nine-months period ended September 30, 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 cash flow adjustments items as detailed in the consolidated statement of cash flow.

C. **Cash flow used for investing activities.**

Cash flow used for investment activities in the nine-month period ended September 30, 2003, amounted USD 147 thousand, compared with cash flow used for investment activities of USD 593 thousand in the nine-month period ended September 30, 2002.

Most of the cash flow used for investing activities in the nine-months period ended September 30, 2002 resulted from investment of long-term deposit that uses as a guaranty against long-term loan (as part of the credit agreement with the bank). See also above explained in paragraph 2A "*Short-term Deposit*".

² Current ratio calculation – Current assets / Current liabilities

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

D. Cash flow used for financing activity

Cash flow used for financing activity for the nine-month period ended September 30, 2003, amounted USD 188 thousand, compared with Cash flow used for financing activity of USD 80 thousand, in the nine-month period ended September 30, 2002. This change in cash flow used for 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.

5. External factors effects

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, November 25, 2003.



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

We have reviewed the accompanying consolidated balance sheets of Payton Planar Magnetics Ltd. As at September 30, 2003 and the related statements of income and cash flows for the nine and three month periods 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 8.1% of the total consolidated assets as at September 30, 2003 and whose revenues constitute 17.5% and 17.3% of the total consolidated revenues for the nine and three month periods then ended, respectively.

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)

November 25, 2003

Consolidated Balance Sheets

	September 30 2003 <u>(Unaudited)</u> <u>US\$ thousand</u>	September 30 2002 <u>(Unaudited)</u> <u>US\$ thousand</u>	December 31 2002 <u>(Audited)</u> <u>US\$ thousand</u>
Current Assets			
Cash and cash equivalents	846	820	677
Short-term deposits (Note 4)	750	350	350
Trade accounts receivable, net	1,280	1,563	1,579
Other accounts receivable	31	120	98
Inventory	1,775	2,631	2,440
Total current assets	4,682	5,484	5,144
Long-term bank deposit (pledged)	-	400	400
Other investment (Note 3)	348	-	-
Property, plant and equipment, net	773	8,348	8,289
Other assets, net	6	16	16
Total assets	5,809	14,248	13,849

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

Michal Lichtenstein
V.P. Finance & CFO

Rishon Le Zion: November 25, 2003

	September 30 2003 <u>(Unaudited)</u> <u>US\$ thousand</u>	September 30 2002 <u>(Unaudited)</u> <u>US\$ thousand</u>	December 31 2002 <u>(Audited)</u> <u>US\$ thousand</u>
Current liabilities			
Short-term bank credit and current maturities of long-term bank debt (Note 4)	1,604	418	544
Trade payables	788	1,044	952
Other payables	1,069	1,219	1,066
Total current liabilities	3,461	2,681	2,562
Unrealized gain from issue of share capital in a subsidiary company	-	7	-
Loan from Payton Industries Ltd. - parent company	858	858	858
Long-term debt, net of current maturities (Note 4)	-	4,820	4,748
Liability for employee severance benefits, net	130	121	171
Total long-term liabilities	988	5,806	5,777
Minority interest in consolidated subsidiaries	-	3,964	3,931
Shareholders' equity			
Share capital	4,819	4,819	4,819
Share premium	8,942	8,942	8,942
Accumulated deficit	(12,401)	(11,964)	(12,182)
Total shareholders' equity	1,360	1,797	1,579
Total liabilities and shareholders' equity	5,809	14,248	13,849

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

Consolidated Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended
	2003	2002	2003	2002	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousand	US\$ thousand	US\$ thousand	US\$ thousand	US\$ thousand
Sales revenues	6,176	5,916	1,857	2,253	7,792
Cost of sales	(4,332)	(4,798)	(1,390)	(1,683)	(6,205)
Gross result	1,844	1,118	467	570	1,587
Development costs	(380)	(380)	(109)	(137)	(509)
Selling and marketing expenses	(713)	(716)	(197)	(253)	(964)
General and administrative expenses	(989)	(2,487)	(293)	(1,704)	(2,800)
Operating result	(238)	(2,465)	(132)	(1,524)	(2,686)
Net financial result	(94)	109	11	18	55
Other income	30	30	(2)	9	54
Loss before minority interest in losses of subsidiaries	(302)	(2,326)	(123)	(1,497)	(2,577)
Minority interest in losses of subsidiaries (Note 3)	83	115	-	5	148
Net result for the period	(219)	(2,211)	(123)	(1,492)	(2,429)
Basic and diluted net profit (loss) per ordinary share (in US\$)	(0.01)	(0.13)	(0.007)	(0.08)	(0.14)

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

Statement of Shareholders' Equity

	Share capital		Share premium	Accumulated deficit	Total
	Number of shares	Amount			
US\$ thousands					
Balance at January 1, 2003 (Audited)	17,600,000	4,819	8,942	(12,182)	1,579
Net loss for the period	-	-	-	(219)	(219)
Balance at September 30, 2003 (Unaudited)	17,600,000	4,819	8,942	(12,401)	1,360
Balance at January 1, 2002 (Audited)	17,600,000	4,819	8,942	(9,753)	4,008
Net loss for the period	-	-	-	(2,211)	(2,211)
Balance at September 30, 2002 (Unaudited)	17,600,000	4,819	8,942	(11,964)	1,797
Balance at July 1, 2003 (Unaudited)	17,600,000	4,819	8,942	(12,278)	1,483
Net loss for the period	-	-	-	(123)	(123)
Balance at September 30, 2003 (Unaudited)	17,600,000	4,819	8,942	(12,401)	1,360
Balance at July 1, 2002 (Unaudited)	17,600,000	4,819	8,942	(10,472)	3,298
Net loss for the period	-	-	-	(1,492)	(1,492)
Balance at September 30, 2002 (Unaudited)	17,600,000	4,819	8,942	(11,964)	1,797
Balance at January 1, 2002 (Audited)	17,600,000	4,819	8,942	(9,753)	4,008
Net loss 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

	Nine months ended September 30		Three months ended September 30		Year ended
	2003	2002	2003	2002	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	US\$ thousand	US\$ thousand	US\$ thousand	US\$ thousand	US\$ thousand
Operating activities					
Net result for the period	(219)	(2,211)	(123)	(1,492)	(2,429)
Adjustments to reconcile net income to net cash used for operating activities:					
Depreciation and amortization	247	496	64	209	579
Write-off of goodwill	-	1,336	-	1,336	1,336
Capital loss on sale of equipment	1	-	1	-	4
Increase (decrease) in employee severance benefits, net	6	(21)	(7)	(8)	30
Translation gain on long - term debt	-	(4)	-	-	(4)
Minority interests in losses of subsidiaries	(83)	(115)	-	(5)	(148)
Gain from issue of shares of A subsidiary	(14)	(21)	-	(7)	(28)
Loss from short term investments	-	2	-	-	2
Decrease (increase) in trade receivables	178	(36)	409	6	(52)
Decrease (increase) in other accounts receivable	(74)	(20)	31	518	2
Decrease in inventory	246	815	91	359	1,006
Increase (decrease) in trade payables	91	(118)	(99)	(142)	(215)
(Decrease) increase in other payables	125	(611)	(77)	(596)	(764)
Cash flows provided by (used for) operating activities	504	(508)	290	178	(681)
investing activities					
Long-term deposit	-	-	-	-	(400)
Investment in property, plant and equipment	(70)	(193)	(26)	(29)	(216)
Short-term deposit	-	-	-	247	-
Long-term bank deposit	-	(400)	-	(400)	-
Disposal of subsidiary, net (Appendix A)	(77)	-	-	-	-
Cash flows used for investing activities	(147)	(593)	(26)	(182)	(616)
Financing activities					
Repayment of long-term debt	(192)	(183)	(63)	(38)	(185)
Increase (decrease) in short-term bank credit	4	103	46	(107)	158
Cash flows used for financing activities	(188)	(80)	(17)	(145)	(27)
Increase (decrease) in cash and cash equivalents	169	(1,181)	247	(149)	(1,324)
Cash and cash equivalents at beginning of period	677	2,001	599	969	2,001
Cash and cash equivalents at end of period	846	820	846	820	677

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

Consolidated Statements of Cash Flows (cont'd)

	<u>Nine months ended September 30</u>		<u>Three months ended September 30</u>		<u>Year ended</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>December 31</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>US\$ thousand</u>	<u>US\$ thousand</u>	<u>US\$ thousand</u>	<u>US\$ thousand</u>	<u>US\$ thousand</u>
Appendix A - Disposal of subsidiary, net (see Note 3)					
Working capital, excluding cash and cash equivalents	334	-	-	-	-
Fixed assets and other assets	7,332	-	-	-	-
Long-term liabilities	(3,547)	-	-	-	-
Minority interest as at the date of the sale	(3,848)	-	-	-	-
Long-term investment	(348)	-	-	-	-
	<u>(77)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appendix B - Non cash activities					
Purchase of property and equipment	<u>13</u>	<u>24</u>	<u>13</u>	<u>24</u>	<u>29</u>
Supplementary disclosure:					
Interest paid	<u>41</u>	<u>52</u>	<u>17</u>	<u>18</u>	<u>67</u>

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

Notes to the 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 subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.
- C. The Company has an accumulated deficit at September 30, 2003 of US\$ 12,401 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 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 2002 consolidated accounts.
- B. The interim financial statements as at September 30, 2003 and for the periods of nine months and three months then 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. Results of operations for the nine and three month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

Note 3 - Changes in Holding in a Subsidiary and Ceasing of Consolidation

On July 1, 2003 (effective from June 30, 2003), the Company executed an agreement regarding the return of a loan in the amount of US\$ 3.5 million (according to the loan agreement dated August 17, 2000).

According to this agreement, the pay-off of the said loan is done by the shares of Payton Asia (a subsidiary) issued to the Company against said amount, at cost price.

Due to the return of the loan, as mentioned above, the Company's share holding in Payton Asia is reduced to 10.7%. Therefore, the consolidated statement of income includes the results of operations of Payton Asia until June 30, 2003, whereas the assets and liabilities as at September 30, 2003 are not included in the consolidated balance sheet. The balance of the investment in Payton Asia was stated in the financial statements under the category of long-term investments according to the cost method.

Henceforth Payton Asia's data as included in its previous consolidated financial statements:

	As for the date of ceasing consolidation <u>US\$ thousand</u>	Nine months ended September 30 2002 <u>US\$ thousand</u>	Year ended December 31 2002 <u>US\$ thousand</u>
Balance sheet			
Cash and cash equivalents	77	19	24
Trade accounts receivables, net	122	122	106
Other accounts receivables	140	277	312
Inventory	419	458	386
Fixed assets, net	7,327	7,420	7,367
Other assets, net	5	5	5
Trade payables	(239)	(233)	(215)
Other payables	(108)	(62)	(75)
Minority interest	(3,848)	(3,990)	(3,931)
Long-term liabilities	(47)	(26)	(47)
Statement of income			
Sales revenue	191	470	321
Net loss	167	179	296
The Company's share in net loss	83	90	148

Note 4 - Bank Credit

On September 30, 2003, the remainder of the long-term loan, amounting to US\$ 1,100 thousand, is presented as current maturities of long-term debts, whereas in December 31, 2002 and in September 30, 2002 it was classified as long-term debt. Concurrently, the bank deposit in the amount of US\$ 400 thousand, which serves as security for the loan, is presented under short-term deposits. However, according to the credit agreement with the bank dated September 2002, it was agreed that the terms of return of the said remaining long-term loan shall be discussed and determined before July 2004. Management believes that new long terms of payment for this credit facility will be approved.

Note 5 - 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 segment based on location of customers.

Nine months ended September 30, 2003 (Unaudited)					
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Segment revenues	3,458	1,899	819	-	6,176
Segment result	(133)	(73)	(32)	-	(238)

Three months ended September 30, 2003 (Unaudited)					
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Segment revenues	1,079	554	224	-	1,857
Segment result	(77)	(39)	(16)	-	(132)

Year ended December 30, 2002 (Audited)					
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Segment revenues*	5,737	1,562	493	-	7,792
Segment result*	(868)	(236)	(75)	(1,507)	(2,686)

* Reclassified

Note 5 - Operating Segments (cont'd)

Nine months ended September 30, 2002 (Unaudited)					
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Segment revenues*	4,393	1,143	380	-	5,916
Segment result*	(711)	(185)	(62)	(1,507)	(2,465)

Three months ended September 30, 2002 (Unaudited)					
	Europe and Israel (mainly Europe)	America	Asia	Adjustments	Total
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands
Segment revenues*	1,655	395	203	-	2,253
Segment result*	(95)	(23)	(12)	(1,394)	(1,524)

* Reclassified