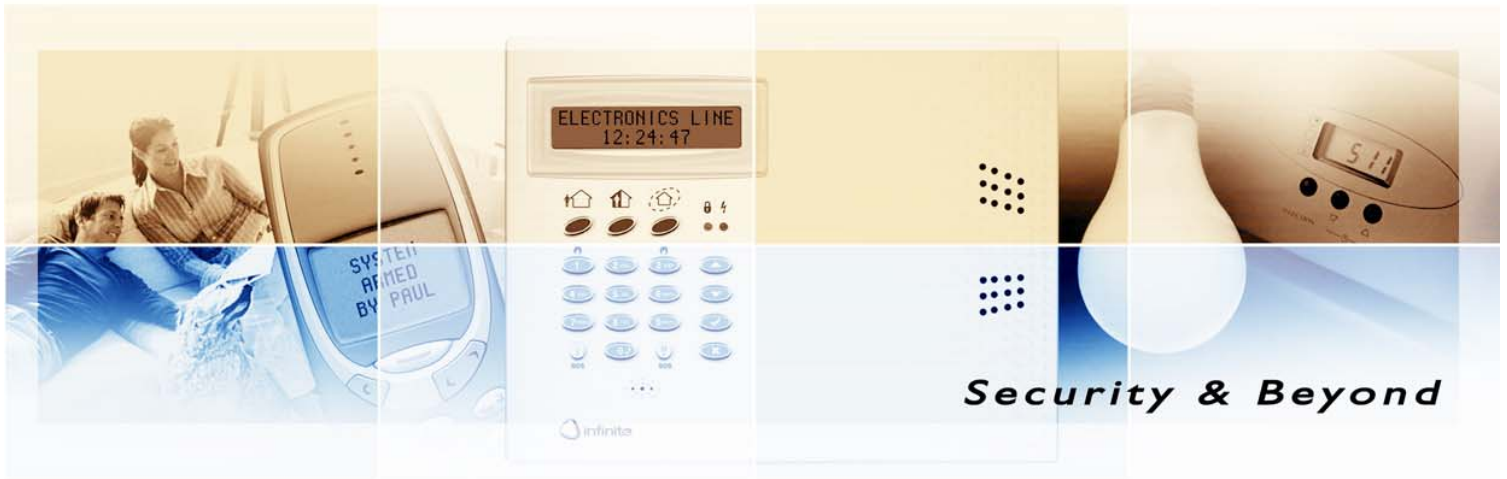




Electronics Line 3000 Ltd.



Security & Beyond

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Company status review

status review to the board of directors -
December 31, 2003

We are hereby presenting, in accordance with the Rules and Regulations of the Deutsche Börse, a report referring to the consolidated financial statements of the Company as of December 31, 2003, and prepared in accordance with International Financial Reporting Standards (IFRS).

This report is presented in Euros. A management discussion and analysis report is published for the Israeli public, which refers to the financial data as presented in the statements prepared according to Israeli GAAP.

Corporate Description and Business Environment

The Company was established in December 2002, and has started to operate on January 1st, 2003, when assets and activities with their related liabilities, including the R&D activity, the production and the sales and marketing (hereinafter "the Technological Operation") of Electronics Line (E.L.) Ltd., were transferred to Electronics Line 3000 Ltd., which became then a fully owned subsidiary of Electronics Line (E.L.) Ltd., registered in Israel.

The Company was established in order to acquire 'the Technological Operation'. The acquisition of 'the Technological Operation' was among other things against an issuance of shares of the Company to Electronics Line (E.L.) Ltd., all in accordance to the Israeli Income Tax Laws (clause 104a).

The Company develops and manufactures products in the following fields:

- Wireless Home Networks with Security Applications
- Embedded Control Servers for Security Applications

- Intelligent Sensors for Security Systems

The Wireless Home Networks with Security Applications, that are for the Wireless Home Networks and Systems market, allow users to fully control and monitor their home from anywhere in the world by using the cellular phone, and also offer security application.

The Embedded Control Servers for Security Applications and the Intelligent Sensors for Security Systems are for the commercial and residential security market for use in a wide range of applications.

About 99% of the total sales of the Company in 2003 were made outside of Israel, mainly in Europe and in the U.S.

The Company has four wholly owned subsidiaries based in the UK, France and the USA. These subsidiaries provide the Company with marketing channels to their countries and the surrounding areas.



In addition, the Company sells to many countries in the worldwide market either via local distributors or directly via the regional sales managers of the Company. Among the Company's customers are world-leading telecommunications companies, security service providers, security product resellers and various security system installers.

Some of the Company's clientele resell the new Wireless Home Network products to their customers in a package deal where the consumer receives the products with no down payment and only pays a monthly fee for the monitoring services provided by the security monitoring Company.

The Company occupies about 5,400 sq. meters in two buildings, out of which the manufacturing plant occupies 3,700 sq. meters.

The Company is today in the latter stages of the transition process to become a full system provider, evidenced by a growing number of customers preferring to purchase entire

systems from the Company, and not just system components as in the past.

The Company sees Europe and the U.S.A. as strategic markets given the forecasted growth rates for its new product lines in these markets. Accordingly, the Company will continue to focus its efforts on the European and U.S. markets, where numerous successes have already been achieved.

Most of the Company's customers purchase orders are on a monthly basis. The Company does not operate on the basis of an order backlog, and its reporting is done accordingly.

In parallel to the exiting activity of the Company in the US, a new business model targeting communication companies in the U.S. was sought, and for this initiative, Sectec Global Inc – a fully owned U.S. subsidiary whose CEO is Mr. Marbut - was established.

Currently Sectec Global Inc. is conducting few beta-site installations for potential customers. The Company did not have any income from that activity yet, and the expenses related to Sectec Global Inc. in 2003 reached €2.1 million.



General Results Review

In fiscal year 2003 the Company's financial results highlights were as follows:

- The sales amounted to €32.7 million.
- The Gross Profit margin was 35.3%.
- The Gross Profit amounted to €11.5 million.

R&D expenses amounted to €1.2 million. Electronics Line 3000 aims to adjust its R&D infrastructure in order to properly support its R&D tasks for the coming years.

Sales, marketing, management and general expenses, in relation to the sales of the Company, were 36%. These expenses includes €2.1 million expenses for the set-up and operation of SECTEC GLOBAL INC . No income has been generated as yet from that activity.

Operating Loss was €1.4 million.

Financing Expenses amounted to €0.2 million.

Tax expenses amounted to €0.1 million.
Net Loss was €1.6 million.

The Financial Position of the Company

The working capital of the Company at December 31, 2003 reflects the following financial ratios: The current ratio at December 31, 2003 is 0.92 and the quick ratio is 0.64 .

The inventory as of December 31, 2003 was €5.3 million.

Trade accounts receivables as of December 31, 2003 were €7 million.

Trade accounts payable as of December 31, 2003 were €3.5 million.

The balance of deferred expenses include among other things, investments in R&D projects that were proven feasible was at the amount of €0.8 million in accordance to the criteria of the American accounting standard SFAS #86.

Liquidity

a) Liquidity Balance

As of December 31, 2003, the balance of liquid assets (cash, cash equivalents and marketable securities) amounted to €3.7 million.

b) Cash Flow

In the reported period, net cash provided by operating activities amounted to €5.8 million.

In the reported period the short term bank credit increased by €14 million.



Sources of Finance

Shareholders' equity is €5.6 million and its ratio to the total balance sheet as of December 31, 2003 is 20%. As of

December 31, 2003, the short-term bank credit amounted to €14.3 million.

Corporate Donation Policy

In the reported period the Company donated €8.3 thousand for charity.



Reporting with Respect to the Exposure to Market Risks and their Management

As a result of its operations, the Company is exposed to market risks, the principles of which include changes in exchange rates and changes in raw materials prices.

Changes in Exchange Rates

The reporting currency of the Company is the Euro. The gross profit of the Company is affected by the Euro - Dollar exchange rate. At certain times there were differences between the monetary assets of the Company, which are stated in or linked to various currencies other than the Euro, and the monetary liabilities in the same currencies. These differences expose the Company to changes in the rates of these currencies against the Euro.

Changes in Prices of Raw Material

The raw materials of the Company (mainly electronic components) are purchased from suppliers in Israel and overseas, and their prices are determined on the international market. Therefore, the Company has no certainty that they shall not change.

The CFO, Eli Pevzner, coordinates the handling of this issue within the framework of an internal committee, while receiving ongoing consultation from an external advisor that specializes in the foreign currency market

External Factors that Affect the Company

Electronics Line 3000 Ltd is affected by various external factors that usually affect every company active in Israel and in similar market categories. The Company operates in a competitive worldwide market. The company's success and competitive advantages in various markets in the world might be affected by various changes in the global market environment such as but not limited to:

technological developments of competitors, raw material prices, government policies, economic parameters such as interest rates, currency exchange rates and more.

Since the Company operates in many countries, in most cases there is offsetting compensation between fluctuations in various factors in various countries



Naftaly Sharir
Director and CEO
May 27, 2004

Auditors

report to the shareholders



We have audited the accompanying consolidated balance sheet of Electronics Line 3000 Ltd. ("the Company") and its subsidiaries as of December 31, 2003, and the related consolidated statement of operations, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We did not audit the consolidated financial statements of certain subsidiaries, whose assets constitute 17% of the consolidated total assets as of December 31, 2003, and whose revenues constitute 48% of consolidated total revenues for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance) - 1973.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2003, and the consolidated results of operations, changes in shareholders' equity and cash flows of the Company and its subsidiaries for the year then ended, in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board.

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel-Aviv, May 27, 2004

Consolidated financial statements:

Consolidated Balance Sheet

	Note	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	(3)	3,704
Trade accounts receivable	(4)	6,955
Income taxes receivable		829
Prepaid expenses and other receivables	(5)	1,052
Inventories	(6)	5,329
Total Current Assets		17,869
Non-Current Assets		
Property, plant and equipment cost	(7)	13,177
Less-accumulated depreciation		4,751
		8,426
Intangible assets, net	(8)	829
Deferred taxes	(14)	834
Total Non-Current Assets		1,663
Total Assets		27,958

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Consolidated Balance Sheet

	Note	December 31, 2003
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debts from banks	(9)	14,336
Trade accounts payable	(10)	3,536
Accrued expenses		390
Income tax payable		78
Other current liabilities	(11)	1,129
Total Current Liabilities		19,469
Non-Current Liabilities		
Accrued termination benefits	(12)	340
Shareholders' loan	(13)	2,586
Total Non-Current Liabilities		2,926
Shareholders' Equity		
Share capital	(16)	5,883
Additional paid-in capital		1,255
Retained earnings (deficit)		(1,575)
Total Shareholders' Equity		5,563
Total Liabilities and Shareholders' Equity		27,958

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Naftaly Sharir
Director and CEO

Ronen Ben-Daniel
Director

Eliezer Pevzner
Director and CFO

Date of approval of the consolidated financial statements:
May 27, 2004

Consolidated Statement of Operations

	Note	Year ended December 31, 2003
Revenues		
Revenues	(18)	32,684
Cost of Revenues	(19)	21,162
Gross Profit		11,522
Research & Development Costs		1,204
Selling & Marketing Expenses	(20)	6,682
General & Administrative Expenses	(21)	5,078
		12,964
Operating Profit (Loss)		(1,442)
Financing Expenses, Net	(22)	227
Other Expense, Net		14
Income (loss) before income taxes		(1,683)
Income Taxes	(14)	(108)
Net Income (Loss)		(1,575)
Earnings (Loss) per Share (basic and diluted)	(24)	(0.05)

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Additional paid-in capital	Retained earnings (deficit)	Total
Balance as of January 1, 2003	-	-	-	-
Issuance of share capital against a transfer of assets from the Parent Company in accordance with section 104A	5,883	1,255	-	7,138
Net Loss	-	-	(1,575)	(1,575)
Balance as of December 31, 2003	5,883	1,255	(1,575)	5,563

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Consolidated Statement of Cash Flows

	Year ended December 31, 2003
Cash Flows from Operating Activities	
Income (loss) before income taxes	(1,683)
Adjustments for:	
Depreciation and amortization	1,206
Loss on sale of plant and equipment	14
Decrease in accrued termination benefits	(22)
Foreign exchange loss and interest expense, net	227
Operating profit before working capital changes	(258)
	4,847
Increase in prepaid expenses and other receivables	(210)
Decrease in inventories	1,808
Decrease in accrued expenses	(53)
Increase in trade accounts payable	282
Increase in other current liabilities	902
Cash provided by (used in) operations	7,318
	7
Interest paid, net	(514)
Income taxes paid	(984)
Net cash provided by (used in) operating activities	5,827
Cash Flows from Investing Activities	
Acquisition of plant and equipment	(1,204)
Proceeds from sale of plant and equipment	6
Acquisition of activity from the parent company	(15,311)
Net cash used in investing activities	(16,509)
Cash Flows from Financing Activities	
Increase in short-term bank credit, net	14,386
Net cash provided by (used in) financing activities	14,386
Increase in Cash and Cash Equivalents	3,704
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	3,704

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Selected Notes

to the consolidated financial statements:

1. General

- A. Electronics Line 3000 Ltd. ("the Company") was incorporated in Israel in December 2002 for the purpose of absorbing the assets and activities of Electronics Line (E.L.) Ltd. ("the Parent Company"). On January 1, 2003, assets and operations were transferred (including their related liabilities), which included the development, production, selling and marketing activities of the Parent Company ("the technological activities"). The acquisition of the technological activities by the Company was performed, among others, against the issuance of Company shares to the Parent Company in accordance with Section 104A of the Israeli Income Tax Ordinance (New Version)- 1961.

As of December 31, 2003 all of the Company's shares are held by the Parent Company.

The Company and its subsidiaries ("the Group") are engaged in the development, production, marketing and export of electronic security and alarm systems and wireless net systems, which include security solutions that enable distance monitoring and control. The principal markets of the Group are in countries of the European Union and the USA. The average number of employees in the Group was 256 in 2003. The registered office of the Group is located at 2 Granit Street, Petach Tikva, Israel.

The Group operates through marketing companies in France, the United Kingdom and the United States. In 2003 a new marketing company was established in the United States (SECTED GLOBAL INC.)

- B. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. The significant accounting policies followed in the preparation of these consolidated financial statements, on a consistent basis, are:

A. Measurement Currency

The Group sells its products mainly in Europe and the receipts from these sales are retained in Euros. Management believes that the Euro reflects the economic environment in which the Group operates and is a relevant reporting currency for its shareholders. In view of the above, the measurement currency and the reporting currency of the Group is the Euro.

Foreign Currency Transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transactions. At the end of the accounting period, the unsettled balances on foreign currency receivables and liabilities are valued at the rates of exchange prevailing at the year-end. Foreign exchange gains and losses associated with financing are included as a net amount under financial income and expenses.

The representative rate of exchange of the Euro in relation to the New Israeli Shekel ("NIS") at December 31, 2003 was €1 = NIS 5.53). In 2003, the NIS was devalued in relation to the Euro by 11.34%.

The representative rate of exchange of the U.S. Dollar in relation to the NIS at December 31, 2003 was U.S.\$1 = NIS 4.38 In 2003, the NIS was revalued in relation to the U.S. Dollar by 7.5%.

The representative rate of exchange of the Euro in relation to the U.S.\$ at December 31, 2003 was €1 = U.S.\$ 1.26. In 2003, the Euro was revalued in relation to the U.S. Dollar by 20.0%.

B. Consolidation of Financial Statements

The consolidated financial statements of the Company have been consolidated with those of its fully owned and controlled subsidiaries. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Inter-company transactions and balances are eliminated in the consolidation.

A schedule of investee companies has been included in the Appendix.

C. Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

D. Allowance for Doubtful Accounts

The allowance for doubtful accounts is computed for specific accounts, the collectibility of which is doubtful.

E. Inventories

Inventories are valued at the lower of cost and net realizable value, after provision for obsolete items. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution costs, necessary to bring the sale to closure. Cost is determined primarily on the basis of weighted average cost. For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity.

F. Property, Plant and Equipment

Property, plant and equipment are presented at cost less accumulated depreciation. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of operations. The initial cost of property, plant and equipment comprises its purchase price, non-refundable purchase taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. Depreciation is calculated by the straight-line method over the estimated useful life of the asset.

The annual depreciation rates are as follows:

	%
Installations and leasehold improvements	Throughout leasehold period
Machinery and equipment	10 – 15 (primarily 10)
Motor vehicles	15
Office furniture and equipment	6 - 33

G. Intangible Assets

Intangible assets include capitalized development costs. The intangible assets are amortized using the straight-line method over their useful lives (6 years). Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down to its recoverable amount.

H. Accounting for Leases

Operating lease - Leases of assets under which substantially all risks and rewards of ownership are effectively retained by the lessor are classified as operating leases.

The Group as lessee - Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

I. Research and Development Costs

Expenditures for research are recognized as an expense when incurred. Expenditures on development are charged against income in the period incurred except for product development costs, which comply with all of the following criteria:

- the product is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product will be sold or used;
- the product will generate future economic benefits because a potential market exists for the product;
- adequate technical, financial and other resources required for completion of the product are available.

Capitalization of costs commences when the above criteria are first met. Expenditures recognized as an expense in previous accounting periods are not re-instated.

Capitalized development costs are amortized on a straight-line basis over their expected useful lives (6 years).

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

J. Provisions

Provisions are recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the present value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the present value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

K. Revenue Recognition

Revenue is recognized upon delivery when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

L. Income Taxes

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current items in the balance sheet.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized.

Current taxes and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

No deferred tax liability is recognized on taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

M. Impairment of Assets

Financial instruments are reviewed for impairment at each balance sheet date.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for that asset in prior years.

N. Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

O. Subsequent Events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

P. Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Q. Earnings per Share

The Group calculates both basic and diluted earnings per share in accordance with IAS 33, Earnings per share. Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period.

R. Derivative Financial Instruments

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and are carried at fair value, with changes in fair value recognized in the statement of operations.

S. Dividends

Dividends are recorded in the Group's consolidated financial statements in the period in which they are approved by the Group's board of directors.

T. Impact of Recently Issued Accounting Standards

In December 2003, the International Accounting Standards Board ("IASB") released revised IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement. These standards replace IAS 32 (revised 2000), and supersede IAS 39 (revised 2000), and should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

In December 2003, as a part of the IASB's project to improve International Accounting Standards, the IASB released revisions to the following standards that supersede the previously released versions of those standards: IAS 1, Presentation of Financial Statements; IAS 2, Inventories; IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; IAS 10, Events after Balance Sheet Date; IAS 16, Property, Plant and Equipment; IAS 17, Leases; IAS 21, The Effects of Changes in Foreign Exchange Rates; IAS 24, Related Party Disclosures; IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; IAS 31, Interests in Joint Ventures; IAS 33, Earnings per Share and IAS 40, Investment Property. The revised standards should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

On February 19, 2004, the IASB issued International Financial Reporting Standard 2, Share-Based Payment (IFRS 2), on the accounting for share-based payment transactions, including grants of share options to employees. IFRS 2 requires an entity that follows IFRS to recognize the effect of share-based payment transactions in the consolidated financial statements based on the awards' fair value. IFRS 2 will be effective for annual periods beginning on or after January 1, 2005 and will apply to grants of shares, share options or other equity instruments that were granted after November 7, 2002 and had not yet vested at the effective date. The Group currently evaluates the effect of this standard on the Group's financial position and results of operations.

On March 31, 2004 the IASB issued International Financial Reporting Standard 3 *Business Combinations* (IFRS 3).

All business combinations within the scope of IFRS 3 must be accounted for using the purchase method. The pooling of interests method is prohibited. Additional features of the IFRS are : a) costs expected to be incurred to restructure an acquired entity's (or the acquirer's) activities must be treated as post-combination expenses, unless the acquired entity has a pre-existing liability for restructuring its activities, b) intangible items acquired in a business combination must be recognized as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measure reliably, c) identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed, must be initially measured at fair value, and d) goodwill and intangible assets with indefinite useful lives will not be amortized but will be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment. The IFRS shall apply to the accounting for business combinations for which the agreement date is on or after March 31, 2004.

The Group expects that the adoption of this standard will not have a material effect on its financial position or results of operations.

The IASB issued on March 31, 2004 International Financial Reporting Standard 4 *Insurance Contracts* (IFRS 4). The publication of this IFRS provides guidance on accounting for insurance contracts. It is aimed at introducing improved disclosures for insurance contracts and modest improvements to recognition and measurement practices. Entities should apply IFRS 4 for annual periods beginning on or after January 1, 2005, but earlier application is encouraged.

The Group expects that the adoption of this standard will not have a material effect on its financial position or results of operations.

The IASB issued on March 31, 2004 International Financial Reporting Standard 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5). IFRS 5 sets out requirements relating to asset disposals and discontinued operations. IFRS 5 requires assets that are expected to be sold and meet specific criteria to be measured at the lower of carrying amount and fair value less costs to sell. Such assets should not be depreciated and should be presented separately in the balance sheet. IFRS 5 also requires operations that form a major line of business or area of geographical operations to be classified as discontinued when the assets in the operations are classified as held for sale. The standard must be applied prospectively for annual periods beginning on or after 1 January 2005, with earlier application permitted if sufficient information is available.

The Group expects that the adoption of this standard will not have a material effect on its financial position or results of operations

3. Cash and Cash Equivalents

	<u>December 31</u> <u>2003</u>
Deposits with banks:	
In Euro	194
In U.S. dollars	2,838
In NIS	84
In other currencies	588
	<u>3,704</u>

4. Trade Accounts Receivable

	December 31
	2003
Open accounts	7,666
Checks receivable	85
	<u>7,751</u>
Less – allowance for doubtful accounts	796
	<u><u>6,955</u></u>

5. Prepaid Expenses and other Receivables

	December 31
	2003
Value added tax refundable	209
Investment in derivatives	230
Advances to suppliers	273
Prepaid expenses	144
Other receivables	196
	<u>1,052</u>

6. Inventories

	December 31
	2003
Finished products	3,375
Work in process	400
Raw and auxiliary materials	1,554
	<u>5,329</u>

7. Property, Plant and Equipment

Composition and Movement

	Installations and leasehold improvements	Machinery and equipment	Motor vehicles	Office furniture and equipment	Total
COST -					
Transfer of assets from the Parent Company	1,985	5,793	190	2,512	10,480
Acquisitions	2,194	860	43	191	3,471
Disposals	115	188	48	423	774
As of December 31, 2003	<u>4,247</u>	<u>6,465</u>	<u>185</u>	<u>2,280</u>	<u>13,177</u>
ACCUMULATED DEPRECIATION -					
Transfer of assets from the Parent Company	961	2,087	91	1,330	4,469
Provision	186	373	33	444	1,036
Disposals	136	154	43	421	754
As of December 31, 2003	<u>1,011</u>	<u>2,306</u>	<u>81</u>	<u>1,353</u>	<u>4,751</u>
NET BOOK VALUE -					
As of December 31, 2003	<u>3,236</u>	<u>4,159</u>	<u>104</u>	<u>927</u>	<u>8,426</u>

As of December 31, 2003 the cost of fixed assets fully depreciated but still in use amounts to €615.

8. Intangible Assets – Capitalized Development Costs

Composition and Movement

COST -	
As of January 1, 2003 and December 31, 2003	<u>1,339</u>
ACCUMULATED AMORTIZATION -	
As of January 1, 2003	340
Provision	<u>170</u>
As of December 31, 2003	<u>510</u>
NET BOOK VALUE -	
As of December 31, 2003	<u>829</u>

9. Short-Term Debts from Banks

A. Composition

	Annual interest rate % (*)	December 31 2003
Overdrafts:		
In NIS	7.50	19
Short-term loans:		
In Euros	3.79	9,452
In U.S. dollars	3.58	2,538
In Japanese yen	1.51	<u>2,327</u>
		<u>14,336</u>

(*) The weighted average annual interest rate as of December 31, 2003.

B. Liens

As collateral for the balance of bank loans, the Company has undertaken not to register any lien or pledge on any of its assets, and not to sell or transfer any of its assets to third parties (unless within the Company's ordinary course of business) without the bank's approval (negative pledge). In addition, the Parent Company has undertaken to register liens on part of its land and building as collateral for the Company's bank loans. As of the date of approval of the financial statements, the Parent Company has not yet registered the liens.

C. Contractual Restrictions and Financial Covenants

In connection with credit the Company obtained from banks, the balance of which as of December 31, 2003 is €14,336, the Company committed to comply with certain financial covenants and other restrictions as detailed below:

(1)- the Company's tangible shareholders' equity (as it is defined in the financial covenants letters that the Company signed in favor of the banks and that includes the amounts of the shareholder's loans in respect to which letters of subordination to the banks were signed), will not be lower than a rate of 25%-30% of the Company's total consolidated balance sheet at any time (It was agreed in respect to one of the banks that an amount equal to the total amount of cash on hand at the Company will be deducted, up to the amount of the shareholders' loan). (2)- Restrictions and liabilities in connection with the refraining from recording pledges on the Company's assets. (3)- Restrictions concerning the selling and transferring of assets not during the ordinary course of the Company's business. (4)- Restrictions concerning the recording of pledges by the Company's subsidiaries on their assets. (5)- Commitments to a change in control of the Company subject to the banks' approval, and (6)- The furnishing of financial statements and additional reports to the banks. The breach of part of the aforesaid commitments constitutes grounds for immediate repayment of the amounts the Company is liable to the banks. In May 2004, the bank gave its consent to the change that will occur in the control over the Company following the distribution in-kind, provided that it will be carried out by no later than 30 September 2004. As of balance sheet date, the Company is complying with the financial covenants that were determined.

10. Trade Accounts Payable

	<u>December 31</u> <u>2003</u>
Open accounts	2,771
Checks payable	765
	<u>3,536</u>

11. Other Current Liabilities

	<u>December 31</u> <u>2003</u>
Government agencies	200
Advances from customers	8
Salaries and related expenses	399
Related parties	522
	<u>1,129</u>

12. Accrued Termination Benefits

The Company's obligation for severance pay for its employees in Israel is covered by regular payments to insurance companies, pension funds and severance pay funds and by the accrual on the balance sheet. The Company's liability is calculated, on the basis of the latest salary, according to law and labor agreements. Accumulated amounts with the insurance companies and pension funds are not under the control or administration of the Company, and accordingly, neither those amounts nor the corresponding liability are reflected in the consolidated financial statements.

	<u>December</u> <u>31</u> <u>2003</u>
Accrued termination benefits not covered	
by insurance or pension funds	322
Less - deposits with severance pay fund	18
	<u>340</u>

The amounts deposited with the severance pay fund include profits accumulated to the balance sheet date and may be withdrawn only after fulfillment of the obligations under the Severance Pay Law and labor agreements.

13. Shareholders' Loan

On December 31, 2003, the Company entered into a loan agreement with the Parent Company ("the loan agreement"). Pursuant to the loan agreement, the Parent Company granted a shareholders' loan to the Company in the amount of €2,586 ("the shareholders' loan"). The shareholders' loan is linked to the Israeli CPI and will not mature (including the linkage differences in respect thereto) prior to January 1, 2005. The aforesaid loan will be inferior to the bank credit extended to the Company.

In May 2004, the Company and the Parent Company entered into a revised agreement to the loan agreement, according to which, following the publication of the Expose and shortly before effecting the distribution in kind and listing the Company's shares for trade on the Regulated Unofficial Market of the Frankfurt Stock Exchange ("RUM"), the shareholders' loan will be converted into share capital. Accordingly, the Company will allocate 14,308,495 Ordinary shares NIS 1 par value each of the Company to the Parent Company.

14. Taxes on Income

A. Income Taxes Applicable in Israel

- (1) Measurement of results for tax purposes under the Israeli Income Tax (Inflationary Adjustments) Law, 1985:

Under the Income Tax (Inflationary Adjustments) Law, 1985, the Company's results are measured in accordance with the changes in the Israeli Consumer Price Index (CPI). The following are the changes in the CPI and the Euro in relation to the NIS for the past three years:

	Year ended December 31		
	2003	2002	2001
CPI	(1.9%)	6.5%	1.4%
€ : NIS	11.3%	27.1%	3.9%

- (2) Tax benefits under the Israeli Law For The Encouragement of Industry (Taxes), 1969:

The Company is an "industrial company" as defined by the Israeli Law for the Encouragement of Industry (Taxes), 1969 and, as such, is entitled to certain tax benefits, primarily accelerated depreciation and the right to claim public offering expenses as a deduction for tax purposes.

- (3) Tax benefits under the Israeli Law for The Encouragement of Capital Investments, 1959:

The Parent Company has been accorded the status of an Approved Enterprise under the Israeli Law for Encouragement of Capital Investments, 1959. Once it performed the split-down (January 1st, 2003), the benefits deriving from this status were transferred to the Company, according to a temporary approval in principle issued by the Capital Investments Center. As of the date of approval of the financial statements the Capital Investments Center had not yet given its final approval. These benefits include an exemption from income taxes on income from the Approved Enterprise for a period of four years beginning with the first year in which it reports taxable income (started in 2000) and a reduced tax rate of 25% for the following three years (starting 2004).

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. The benefit period will terminate at the latest, in the year 2009.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder, and the instruments of approval for the specific investments in "Approved Enterprises", as well as receiving the Capital Investments Center's final approval for the transfer of the "Approved Enterprise" status. In the event of failure to comply with these conditions, the benefits may be canceled, and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2003, management believes that the Company is meeting all of the aforementioned conditions.

In the event of distribution of a dividend from tax exempt income, as described above, the Company will be required to pay income tax at a rate of 25% and the dividend will be subject to 15% tax withholding. The Company's policy is to reinvest its tax-exempt earnings and not to distribute such earnings as dividends. Accordingly, no deferred income taxes have been provided on income attributable to the Company's "Approved Enterprise". Income from sources other than the "Approved Enterprise" during the benefit period will be subject to tax at the regular corporate tax rate of 36%.

B. Income Taxes

	Year ended December 31 2003
Current taxes	154
Deferred taxes	<u>(262)</u>
	<u>(108)</u>
	Year ended December 31 2003
Current year	<u>154</u>
Total current tax expense	<u>154</u>
Origination and reversal of temporary differences	<u>(262)</u>
Total deferred tax expense (income)	<u>(262)</u>

C. Tax Computation

The difference between income taxes on income before taxes computed at regular tax rates and income tax expense in the consolidated statement of operations is explained as follows:

	For the year ended December 31 2003
Tax computed at statutory tax rate of 36%	(606)
Different tax rates of foreign subsidiaries	69
Non-deductible expenses	16
Differences in the basis of measurement (EURO - CPI) (*)	413
	<u>(108)</u>

(*) The amount represents the difference resulting from the basis of measurement for income tax purposes in Israel (calculated based on the New Israeli Shekel linked to the Israeli Consumer Price Index) and the measurement currency of the Company (the EURO). For changes in the CPI and the Euro see 14A.

D. Deferred Taxes

Deferred taxes are computed at an average tax rate of 30%, and are computed in respect of the following:

	December 31 2003
Property, plant and equipment	(217)
Inventories	101
Intangible assets	(243)
Tax loss carry forwards	825
Other temporary differences in recognition of income and expenses	368
	<u>834</u>
	December 31 2003
Net deferred tax liability	-
Net deferred tax asset	<u>834</u>

E. Changes in Deferred Taxes

	<u>December 31</u> <u>2003</u>
Transferred from the Parent Company at the beginning of the year	572
Recognized in income	<u>262</u>
Balance at end of year	<u><u>834</u></u>

F. Income Tax Amendment

In July 2002, the Knesset in Israel passed an amendment (No. 132) to the Income Tax Ordinance. The amendment contains measures whose purpose, among others, is to broaden the tax base by taxing residents of Israel on passive income, which arises outside of Israel.

The Income Tax Amendment's influence on the Group's consolidated financial statements was immaterial.

G. Carry-forward Losses for Tax Purposes

The Group's carry-forward losses for tax purposes for the year ended December 31, 2003 amount to €1,850 in Israel, €655 in the U.S.A., and €248 in France. In respect of tax loss carry-forwards in an amount of approximately €348, no deferred tax asset was recognized as of December 31, 2003.

15. Commitments

A. Royalties

- (1) Pursuant to an agreement signed by the Parent Company with the Office of the Chief Scientist in the Ministry of Industry and Trade in Israel, the Parent Company is obligated to pay royalties of 2%-3% of the revenues from products in the development of which the Chief Scientist participated. The royalties are limited to the amount of the grant received, linked to the U.S. dollar. On January 1, 2003 the contingent royalties were transferred to the Company (See 1A). Total grants received as of December 31, 2003 amounted to approximately €1,600, the balance of contingent royalties amounts to approximately €998. As of the date of approval of the financial statements, the Company had not yet received the Chief Scientist's approval for the procedure of transferring the technological activities. If the Chief Scientist's approval is not received, the Parent Company will be liable to return the remaining grants, in whole or in part.
- (2) Under the conditions of an agreement for participation by the Bi-National Fund for Research and Development (BIRD) in joint R&D programs between the Group and a U.S. company, BIRD has undertaken to grant the two companies, jointly, the lower of €776 or 50% of the investment in the project. In consideration for this grant, BIRD is entitled to royalties of between 2.5% and 5% of the gross sales of products resulting from this research, up to the amount of the grant, linked to the U.S. dollar. Thereafter, BIRD will be entitled to royalties of 2.5% of sales up to an additional amount equaling half of the grant received. On January 1, 2003 the benefits and the obligations deriving from this agreement were transferred to the Company. The grant received by the Group as of December 31, 2003 amounted to €382.

It was also agreed with BIRD that should one of the companies register a patent on a product developed, the Group will also pay royalties to BIRD at the rate of 1.5% of the gross sales of the product resulting from the research, for the duration of the patent.

B. Operating Leases

Lessee

The Company entered into agreements with the Parent Company to lease the plant and office buildings until 2021 and 2024. Annual rent - €492 and €168 respectively (see note 27c).

Two foreign subsidiaries entered into agreements with third parties to lease buildings until March 31, 2009 and August 31, 2006. Annual rent – U.S.\$212 thousand (€168), and U.S.\$140 thousand (€111), respectively.

Future minimum lease payments in years subsequent to December 31, 2003 under non-cancelable operating lease are as follows:

First year	939
Second through fifth years	3,508
Thereafter	<u>5,297</u>
Total	<u><u>9,744</u></u>

C. Contingent Liabilities

- On November 24, 2003 a former employee of the Parent Company filed an action against the Parent Company in the Kfar Saba, Israel Magistrates Court for personal injury that he claims he suffered as a result of his employment with the Parent Company. The amount of this lawsuit is limited to the amount of the jurisdiction of the Magistrates Court (a sum of NIS 2.5 million (€452) as of the date of filing the claim). The Company is liable for all of the consequences of any legal proceeding that will be filed against the Parent Company after the acquisition of the technological activities. In the Company's opinion the claim is covered by the Company's insurance policies with the Migdal Insurance Company and therefore no provision has been made for this claim in the financial statements of the Company.
- On May 25, 2004 the Company was notified by one of its material customers ("Material Customer") that products provided to the Material Customer by the Company and installed with the Customers of the Material Customer have a general fault. The Material Customer demanded that the Company replace such products with more advanced versions thereof, cover the costs of replacing the products provided to its customers and cover the costs of the alarm reaction services provided to such customers. According to the notice, the Material Customer calculated that its costs in performing such replacements will amount to approximately NIS 11,762,000 (€2,132) (according to the official exchange rate of May 25, 2004). Pursuant to the terms of the April 3, 2003 framework agreement with the Material Customer and the clause therein referred to by the Material Customer in the notice, the Company is not responsible for consequential or incidental damages related to the products, no matter what the causes thereof. In addition, the said clause provides that production faults in the products may not serve as a basis for legal proceedings and the parties will undergo negotiations related to the Company's participation in expenses pursuant to the good will of the parties. The Company rejects the claims of The Material Customer and therefore no provisions for such notice are reflected in the financial statements of the Company.

16. Share Capital

- A. Share capital as of December 31, 2003 and 2002 is comprised of ordinary shares of NIS 1 par value, as follows

	<u>Number of shares</u>
Authorized	60,000,000
Issued and paid-up	29,237,830

- B. On May 12, 2004, the Company's Board of Directors reached a decision, pursuant to which following the publication of the Exposé and just prior to the distribution in-kind and listing for trade of the Company's shares on the RUM, the Company will issue to the Parent Company 14,308,495 additional shares NIS 1 par value each in exchange for the conversion of the shareholders' loan that the Parent Company granted to the Company into share capital of the Company.

On May 12, 2004, the general meeting of the Company reached a decision, pursuant to which following the publication of the Exposé, following the additional aforesaid issuance and just prior to the distribution in-kind and listing for trade of the Company's shares on the RUM, a capital consolidation of the Company's authorized and issued share capital will be carried out, according to which every five Ordinary shares NIS 1 par value each will be consolidated into one Ordinary share NIS 5 par value ("the capital consolidation transaction"). Therefore, following the capital consolidation transaction and the issuance of shares to the Parent Company, the Company's authorized share capital will amount to NIS 60 million, which is comprised of 12,000,000 Ordinary shares NIS 5 par value each, and the Company's issued and outstanding share capital will amount to NIS 43,546,325, which is comprised of 8,709,265 Ordinary shares NIS 5 par value each.

17. Financial Instruments

- A. Credit Risks

Cash and cash equivalents as of December 31, 2003 are deposited with large banks in Israel and abroad. Accordingly, management does not anticipate losses on liquid assets arising from credit risks.

The Group's customers are dispersed over a number of countries, mainly developed countries. The Group customarily receives bank guarantees in respect of customers with high credit risk. In respect of certain other customers, the Group insures the receivables through foreign trade risk insurance. Management regularly monitors trade receivables and includes provisions in the consolidated financial statements, which, in its opinion, are adequate to cover doubtful accounts. In light of the above, the exposure to credit risks in connection with trade receivables is limited.

In view of the above, the maximum exposure to credit risk is reflected by the amount of trade receivables (refer to Note 4), and prepaid expenses and other receivables (refer to Note 5), net of provisions for impairment recognized at the balance sheet date.

B. Foreign Currency Exposure

The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. The Group enters into various types of foreign exchange contracts in managing its foreign exchange risk resulting from cash flows from business activities and financing arrangements denominated in foreign currencies. Transaction risk is calculated in each foreign currency and includes monetary assets and liabilities and certain off-balance sheet items such as firm commitments and highly probable purchase and sales.

As of December 31, 2003, the Group's monetary liabilities in NIS exceeded monetary assets by €215, including an excess of current assets amounting to €125.

As of December 31, 2003, monetary assets in currencies other than the Euro and New Israeli Shekel exceeded monetary liabilities in the amount of € 429 (all current).

The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency and to hedge the remaining exposure using forward foreign currency contracts. As these transactions are not designated as hedging instruments for accounting purposes, the results of these transactions are reflected in financing income or expenses (See Note 23).

C. Fair Value of Financial Instruments

The fair value of cash and cash equivalents and derivative financial instruments is estimated by reference to their quoted market price at the balance sheet date.

The carrying amount of cash and cash equivalents and of bank overdrafts approximates their fair value due to the short-term maturity of these financial instruments.

Similarly, the carrying amounts of receivables and payables, which are all subject to normal trade credit terms, approximate their fair value.

18. Revenues

	Year ended December 31 2003
Foreign -	
European Union countries	21,154
United States	8,180
Other countries	2,883
	<u>32,217</u>
Domestic - Israel	467
	<u>32,684</u>
Includes:	
Sales to major customers	
A	4,871
B	<u>3,143</u>

19. Cost of Revenues

	Year ended December 31 2003
Purchases and changes in raw and auxiliary material	16,002
Labor	2,384
Manufacturing and other expenses	1,136
Depreciation and amortization	706
	<u>20,228</u>
Changes in finished products and work-in-process inventories	934
	<u><u>21,162</u></u>

20. Selling and Marketing Expenses

	Year ended December 31 2003
Salaries and related expenses	3,209
Commissions	227
Advertising	164
Foreign travel	271
Transportation	1,098
Rent	361
Other	1,352
	<u>6,682</u>

21. General and Administrative Expenses

	Year ended December 31 2003
Salaries and related expenses	509
Management and consulting expenses	1,620
Provision for bad and doubtful accounts	792
Depreciation	500
Other	1,657
	<u>5,078</u>

22. Financing Income (Expenses), Net

	Year ended December 31 2003
Income on bank borrowings, net	30
Income on short-term deposits	6
Foreign exchange gain (loss), net	(495)
Gain on derivatives	230
Other, net	2
	<u>(227)</u>

23. Depreciation and Amortization Expense

	Year ended December 31 2003
Property, plant and equipment	
Cost of revenues	536
General and administrative expenses	500
	<u>1,036</u>
Intangible assets	
Cost of revenues	170
	<u>1,206</u>

24. Earnings (Loss) per Share

	Year ended December 31 2003
Number of shares and net income used in computing earnings per share:	
Weighted average number of shares outstanding	<u>29,237,830</u>
Net income (loss) used in computation	<u>(1,575)</u>

25. Related Parties

A. Balances with Related Parties

	<u>Year ended</u> <u>December 31</u> <u>2003</u>
Current liabilities -	
Accrued Expenses	<u>522</u>
Non-Current liabilities	
Shareholders' loan	<u>2,586</u>

B. Transactions with Related Parties

In 2003 the Company was charged by the Parent Company in the amount of €2,323 for management and consulting services and rent, as follows:

	<u>Year ended</u> <u>December 31</u> <u>2003</u>
Cost of Revenues - rent	<u>493</u>
Research and Development Costs - rent	<u>120</u>
Selling and Marketing Expenses - rent	<u>54</u>
General and Administrative Expenses - rent	<u>50</u>
General and Administrative Expenses - Management and Consulting Services	<u>1,605</u>

In addition, in 2003 the Company has purchased from the Parent Company property in the amount of €2,267.

C. Commitments

1. Lease Agreements - The Plant's Building

The Company's production plant is located in a four-story building at Ha'amal St., Kiryat Aryeh, Petah Tiqva ("the asset"). The total area for the four stories is about 3,700 sq. m.

The Parent Company has leasehold rights from the Israel Land Administration for the second story and most of the first story of the asset, which it leases to the Company. A small section of the first story, in which the Parent Company does not have any rights whatsoever, is in use by another party.

In addition, the Parent Company is committed to a lease agreement with an interested party in it and in the Company, in respect to the asset's third and fourth stories, which it subleases to the Company, at terms that are identical to the original lease terms. The following are details of the agreements:

Beginning on January 1, 2003, the Parent Company leases to the Company areas on the first and second stories of the assets with a total area of about 1,760 sq. m. On February 1, 2004, a new agreement was signed and came into force between the Company and the Parent Company, and was amended in May 2004. Pursuant to the conditions of the agreement, the areas on the aforesaid stories are leased in consideration of monthly rental fees paid in advance every six months, in the amount of NIS 109 thousand (€ 20) plus VAT, linked to the higher of Israel's CPI or the U.S. dollar. The lease period according to the agreement will be for 10 years from the date on which the agreement was signed. The rental fees in respect to the asset's first and second stories amounted to € 237 in 2003.

Further to the aforesaid, beginning on January 1, 2003, the Parent Company is subleasing to the Company areas on the third and fourth stories of the asset aggregating to about 1,900 sq. m. On February 1, 2004, an agreement was signed and came into force between the Company and the Parent Company, at conditions that are identical to the lease conditions in the lease agreement between the Parent Company and the interested party. The third story, the area of which is 947 sq. m., is leased in consideration of monthly rental fees paid in advance every six months, in the amount of U.S.\$ 8 thousand (€ 7) plus VAT, linked to the higher of Israel's CPI or the U.S. dollar, and an additional 10% after every three years of the lease. The fourth story, with an area of 947 sq. m., is leased in consideration of monthly rental fees paid in advance every six months, in the amount of U.S.\$ 11 thousand (€ 9) plus VAT, linked to the higher of Israel's CPI or the U.S. dollar, and an additional 10% after every three years of the lease. The rental fees in respect to the asset's third and fourth stories amounted to € 256 in 2003.

2. Lease Agreements – The Office Building

Effective January 1, 2003, the Parent Company leases to the Company two stories in the aggregate area of approximately 1,308 sq. m in an office building located at 2 Granit Street, Kiryat Arie, Petah Tiqva ("the asset"). On February 1, 2004, a new agreement was entered into between the Company and the Parent Company, and was amended in May 2004. Pursuant to the lease agreement the asset is leased for monthly rental fees, payable in advance, every six months, in the amount of U.S.\$ 18 thousand (€14) plus VAT, linked to the CPI or the exchange rate of the U.S. dollar - whichever is higher. The Company also pays the Parent Company for parking spaces and maintenance services related to this property. The rental fees, including maintenance services, in respect of the asset in 2003 were €224. The remaining terms of this lease agreement are identical to the lease agreement of the plant's building.

3. Management and Consulting Agreements

Pursuant to an agreement signed on May 2, 2004, which will come into force on June 1, 2004, between the Company and the Parent Company, the Parent Company provides the Company with consulting services in the field of alarm systems for U.S.\$ 900 thousand (€ 712) plus VAT per year. In addition, the Company shall bear all the Parent Company's expenses involved with or in connection with providing the consulting services. The agreement is valid for 4 years with an automatic renewal option for an additional year, every year, upon the end of the agreement. Effective January 1, 2003, and until the agreement is coming into force, the Parent Company provided the Company with consulting services pursuant to the agreement signed on January 1, 2003, according to which, the Company committed to pay the Parent Company for the consulting services U.S.\$ 2 million (€ 1,600) plus VAT and expenses up to the amount of \$ 250 thousand per year. Should the Company request to receive consulting services from the Parent Company, involving expenses for the Parent Company that exceed the aforesaid amount, the Company will be required to approve those expenses in advance as a condition for receiving the consulting services. In view of the aforesaid, the Company paid the Parent Company € 1,605 for the consulting services provided to the Company from January 1, 2003 through December 31, 2003.

#

Appendix

Schedule of Investee Companies

Entity	Place of incorporation	Principal activities	Ownership interest	Voting rights
Sectec S.A.R.L. (*)	France	Marketing and distributing of electronic security components	100%	100%
Electronics Line (UK) Ltd. (*)	United Kingdom	Marketing and distributing of electronic security components	100%	100%
Electronics Line International Ltd.	Ireland	Marketing and distributing of electronic security components	100%	100%
Electronics Line Imports Ltd.	United Kingdom	Inactive	100%	100%
Electronics Line USA Inc. (*)	United States	Marketing and distributing of electronic security components	100%	100%
H.D.P. Holdings Ltd. (*)	Israel	Inactive	100%	100%
Sectec Global Inc.(*)	USA	Marketing and distributing of electronic security components	100%	100%

(*) Held directly by the Company.

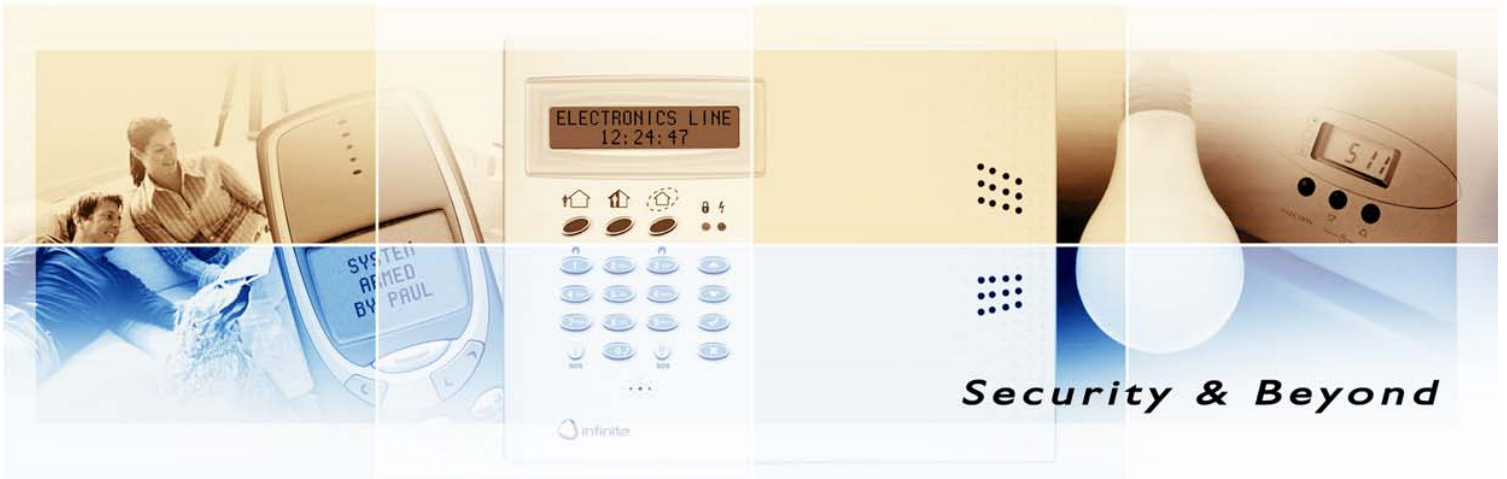


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Electronics Line 3000 Ltd.



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Company status review

status review to the board of directors-
March 31, 2004

We are hereby presenting, in accordance with the Rules and Regulations of the Deutsche Börse, a report referring to the consolidated financial statements of the Company as of March 31, 2004, and prepared in accordance with International Financial Reporting Standards (IFRS).

This report is presented in Euros. A management discussion and analysis report is published for the Israeli public, which refers to the financial data as presented in the statements prepared according to Israeli GAAP.



Corporate Description and Business Environment

The Company was established in December 2002, and has started to operate on January 1st, 2003, when assets and activities with their related liabilities, including the R&D activity, the production and the sales and marketing (hereinafter "the Technological Operation") of Electronics Line (E.L.) Ltd., were transferred to Electronics Line 3000 Ltd., which became then a fully owned subsidiary of Electronics Line (E.L.) Ltd., registered in Israel.

The Company was established in order to acquire 'the Technological Operation'. The acquisition of 'the Technological Operation' was among other things against an issuance of shares of the Company to Electronics Line (E.L.) Ltd., all in accordance to the Israeli Income Tax Laws (clause 104a).

The Company develops and manufactures products in the following fields:

- Wireless Home Networks with Security Applications
- Embedded Control Servers for Security Applications

- Intelligent Sensors for Security Systems

The Wireless Home Networks with Security Applications, that are for the Wireless Home Networks and Systems market, allow users to fully control and monitor their home from anywhere in the world by using the cellular phone, and also offer security application.

The Embedded Control Servers for Security Applications and the Intelligent Sensors for Security Systems are for the commercial and residential security market for use in a wide range of applications.

About 98% of the total sales of the Company in the reported period were made outside of Israel, mainly in Europe and in the U.S.

The Company has four wholly owned subsidiaries based in the UK, France and the USA. These subsidiaries provide the Company with marketing channels to their countries and the surrounding areas.

In addition, the Company sells to many countries in the worldwide market either via local distributors or directly via the regional sales managers of the Company. Among the Company's customers are world-leading telecommunications companies, security service providers, security product resellers and various security system installers.

The Company occupies about 5,400 sq. meters in two buildings, out of which the manufacturing plant occupies 3,700 sq. meters.

The Company sees Europe and the U.S. as strategic markets given the forecasted growth rates for its new

product lines in these markets. Accordingly, the Company will continue to focus its efforts on the European and U.S. markets.

Most of the Company's customers purchase orders are on a monthly basis. The Company does not operate on the basis of an order backlog, and its reporting is done accordingly.

In parallel to the exiting activity of the Company in the US, a new business model targeting communication companies in the U.S. was sought, and for this initiative, Sectec Global Inc – a fully owned U.S. subsidiary whose CEO is Mr. Marbut - was established. Currently Sectec Global Inc. is conducting few beta-site installations for potential customers. The Company did not have any income from that activity yet



General Results Review

In the first quarter of 2004 the Company's financial results highlights were as follows:

The sales amounted to €7.4 million compared to €9 million in Q1-2003.

The Gross Profit margin was 34.4% compared to 40.7% in Q1-2003 and compared to 35.3% in 2003.

The Gross Profit amounted to €2.5 million compared to €3.7 million in Q1-2003.

R&D expenses amounted to €0.29 million compared to €0.31 million in Q1-2003. Electronics Line 3000 aims to adjust its R&D infrastructure in order to properly support its R&D.

Sales, marketing, management and general expenses, in relation to the

sales of the Company, were 37% compared to 30% in Q1-2003. These expenses include the expenses involved in the operation of Sectec Global Inc. in the U.S.

Operating Loss was €0.51 million compared to €0.67 million Operating Profit in Q1-2003.

Financing Expenses amounted to €0.15 million compared to €0.38 Financing Income in Q1-2003.

Tax expenses amounted to minus €0.13 million (an income due to differences between the representation of items for accounting purposes and for tax calculation purposes) compared to €0.39 million in Q1-2003.

Net Loss was €0.53 million compared to €0.67 million Net Profit in Q1-2003 and compared to a Net Loss of €1.6 million in fiscal year 2003.

The Financial Position of the Company

The working capital of the Company as of March 31, 2004 reflects the following financial ratios: The current ratio is 0.92 and the quick ratio is 0.66 compared to 0.96 and 0.69 as of December 31, 2003, respectively.

The inventory as of March 31, 2004 was €5.3 million compared to €7.2 million as of March 31, 2003.

Trade accounts receivables as of March 31, 2004 were €7.3 million compared to €11.9 million as of March 31, 2003.

Trade accounts payable as of March 31, 2004 were €3.9 million compared to €5.0 million as of March 31, 2003.

The balance of deferred expenses include among other things, investments in R&D projects that were proven feasible was at the amount of €1.0 million in accordance

to the criteria of the American accounting standard SFAS #86.

Liquidity

a) Liquidity Balance

As of March 31, 2004, the balance of liquid assets (cash, cash equivalents and marketable securities) amounted to €3.4million compared to €2.8 million as of March 31, 2003.

b) Cash Flow

In the reported period, net cash used in operating activities amounted to €0.44 million compared to €0.37 million in Q1-2003.

In the reported period the short term bank credit increased by €0.46 million compared to €11.9million in Q1-2003.

Sources of Finance

Shareholders' equity as of March 31, 2004 is €5.0 million and its ratio to the total balance sheet as of March 31, 2004 is 17.9% compared to € 5.6 million and 19.9% as of December 31, 2003. As of

March 31, 2004, the short-term bank credit amounted to €14.6 million compared to €14.3 million as of December 31, 2003.

Corporate Donation Policy

In the reported period the Company donated €1.3 thousand for charity.



Reporting with Respect to the Exposure to Market Risks and their Management

As a result of its operations, the Company is exposed to market risks, the principles of which include changes in exchange rates and changes in raw materials prices.

Changes in Exchange Rates

The reporting currency of the Company is the Euro. The gross profit of the Company is affected by the Euro - Dollar exchange rate. At certain times there were differences between the monetary assets of the Company, which are stated in or linked to various currencies other than the Euro, and the monetary liabilities in the same currencies. These differences expose the

Company to changes in the rates of these currencies against the Euro.

Changes in Prices of Raw Material

The raw materials of the Company (mainly electronic components) are purchased from suppliers in Israel and overseas, and their prices are determined on the international market. Therefore, the Company has no certainty that they shall not change.

The CFO, Eli Pevzner, coordinates the handling of this issue within the framework of an internal committee, while receiving ongoing consultation from an external advisor that specializes in the foreign currency market



External Factors that Affect the Company

Electronics Line 3000 Ltd is affected by various external factors that usually affect every company active in Israel and in similar market categories. The Company operates in a competitive worldwide market. The company's success and competitive advantages in various markets in the world might be affected by various changes in the global market environment such as but not limited to:

technological developments of competitors, raw material prices, government policies, economic parameters such as interest rates, currency exchange rates and more.

Since the Company operates in many countries, in most cases there is offsetting compensation between fluctuations in various factors in various countries



Naftaly Sharir
Director and CEO
May 27, 2004

Consolidated financial statements:

Consolidated Balance Sheet

	March 31, 2004 (Unaudited)	March 31, 2003 (Unaudited)	December 31, 2003 (Audited)
Assets			
Current Assets			
Cash and cash equivalents	3,409	2,827	3,704
Trade accounts receivable	7,293	11,940	6,955
Income taxes receivable	1,013	-	829
Prepaid expenses and other receivables	831	857	1,052
Inventories	5,293	7,176	5,329
Total Current Assets	17,839	22,800	17,869
Non-Current Assets			
Property, plant and equipment cost	13,486	10,705	13,177
Less-accumulated depreciation	5,001	4,664	4,751
	8,485	6,041	8,426
Intangible assets, net	773	959	829
Deferred taxes	996	610	834
Total Non-Current Assets	1,769	1,569	1,663
Total Assets	28,093	30,410	27,958

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Consolidated Balance Sheet

	March 31,		December 31,
	2004	2003	2003
	(Unaudited)	(Unaudited)	(Audited)
Liabilities and Shareholders' Equity			
Current Liabilities			
Short-term debts from banks	14,611	11,304	14,336
Trade accounts payable	3,907	5,028	3,536
Accrued expenses	409	433	390
Income tax payable	117	353	78
Other current liabilities	1,072	5,122	1,129
Total Current Liabilities	20,116	22,240	19,469
Non-Current Liabilities			
Accrued termination benefits	359	365	340
Shareholders' loan	2,586	-	2,586
Total Non-Current Liabilities	2,945	365	2,926
Shareholders' Equity			
Share capital	5,883	5,883	5,883
Additional paid-in capital	1,255	1,255	1,255
Retained earnings (deficit)	(2,106)	667	(1,575)
Total Shareholders' Equity	5,032	7,805	5,563
Total Liabilities and Shareholders' Equity	28,093	30,410	27,958

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Naftaly Sharir
Director and CEO

Ronen Ben-Daniel
Director

Eliezer Pevzner
Director and CFO

Date of approval of the consolidated financial statements:
May 27, 2004

Consolidated Statement of Income

	For the three months ended March 31,		For the year ended December 31,
	2004 (Unaudited)	2003 (Unaudited)	2003 (Audited)
Revenues			
Revenues	7,363	9,045	32,684
Cost of Revenues	4,828	5,361	21,162
Gross Profit	2,535	3,684	11,522
Research & Development Costs	291	307	1,204
Selling & Marketing Expenses	1,760	1,681	6,682
General & Administrative Expenses	994	1,027	5,078
	3,045	3,015	12,964
Operating Profit (Loss)	(510)	669	(1,442)
Financing Income (Expense), Net	(146)	384	(227)
Other Income (Expense), Net	-	1	(14)
Income (loss) before income taxes	(656)	1,054	(1,683)
Income Taxes	(125)	387	(108)
Net Income (Loss)	(531)	667	(1,575)
Earnings (Loss) per Share (basic and diluted)	(0.02)	0.02	(0.05)

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Additional paid-in capital	Retained earnings (deficit)	Total
Balance as of January 1, 2004	5,883	1,255	(1,575)	5,563
Net Loss	-	-	(531)	(531)
Balance as of March 31, 2004	5,883	1,255	(2,106)	5,032

	Share capital	Additional paid-in capital	Retained earnings (deficit)	Total
Balance as of January 1, 2003	-	-	-	-
Issuance of share capital against a transfer of assets from the Parent Company in accordance with section 104A	5,883	1,255	-	7,138
Net Loss	-	-	667	667
Balance as of March 31, 2003	5,883	1,255	667	7,805

	Share capital	Additional paid-in capital	Retained earnings (deficit)	Total
Balance as of January 1, 2003	-	-	-	-
Issuance of share capital against a transfer of assets from the Parent Company in accordance with section 104A	5,883	1,255	-	7,138
Net Loss	-	-	(1,575)	(1,575)
Balance as of December 31, 2003	5,883	1,255	(1,575)	5,563

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Consolidated Statement of Cash Flows

	For the three months ended March 31,		Year ended
	2004 (Unaudited)	2003 (Unaudited)	December 31, 2003 (Audited)
Cash Flows from Operating Activities			
Income (loss) before income taxes	(656)	1,054	(1,683)
Adjustments for:			
Depreciation and amortization	309	275	1,206
Loss on sale of plant and equipment	-	-	14
Decrease in accrued termination benefits	19	3	(22)
Foreign exchange loss (gain) and interest expense, net	146	(384)	227
Operating profit before working capital changes	(182)	948	(258)
Increase (decrease) in receivables	(338)	(138)	4,847
Increase in prepaid expenses and other receivables	(9)	(245)	(210)
Decrease (increase) in inventories	36	(39)	1,808
Increase (decrease) in accrued expenses	19	(10)	(53)
Increase in trade accounts payable	371	1,774	282
Increase (decrease) in other current liabilities	(57)	4,576	902
Cash provided by (used in) operations	(160)	6,866	7,318
Interest received	2	-	7
Interest paid, net	(104)	(219)	(514)
Income taxes paid	(183)	(151)	(984)
Net cash provided by (used in) operating activities	(445)	6,496	5,827
Cash Flows from Investing Activities			
Acquisition of plant and equipment	(337)	(265)	(1,204)
Proceeds from sale of plant and equipment	25	-	6
Acquisition of activity from the parent company	-	(15,311)	(15,311)
Net cash used in investing activities	(312)	(15,576)	(16,509)
Cash Flows from Financing Activities			
Increase in short-term bank credit, net	462	11,907	14,386
Net cash provided by (used in) financing activities	462	11,907	14,386
Increase (decrease) in Cash and Cash Equivalents	(295)	2,827	3,704
Cash and Cash Equivalents at Beginning of Period	3,704	-	-
Cash and Cash Equivalents at End of Period	3,409	2,827	3,704

The accompanying notes to the consolidated financial statements and appendix form an integral part thereof.

Selected Notes

to the consolidated financial statements:

1. Accounting Policies

The accompanying financial statements comply with the International Financial Reporting Standards relating to interim financial statements.

The significant accounting policies followed in the preparation of the financial statements are identical to those applied in the preparation of the latest annual financial statements

2. Sales Breakdown by Geographic Region

	March 31,	
	2004	2003
	(Unaudited)	(Unaudited)
Export		
European Union Countries	4,833	5,991
United States of America	1,776	2,052
Other Countries	609	920
Total Export	7,218	8,963
Domestic		
Total Domestic - Sales	145	82
Total Sales	7,363	9,045

3. Number of Employees

	March 31,	
	2004	2003
	(Unaudited)	(Unaudited)
Total Number of Employees	261	253

4. Number of Shares Held by the Members of the Board of Directors

	Number of Shares held as by
	March 31,
	2004
Board Members	-

5. Number of Shares Held by Company Officers

	Number of Shares held as by March 31, 2004
Company Officers	
Total Company Officers	-

6. Taxes On Income

The difference between the tax calculated on income before taxes at the statutory rate (36%) and the tax expense included in the statements of income for the three months ended March 31, 2004, is primarily the result of the difference in the basis measurement used for income tax purposes (Israeli Consumer Price Index), and the basis for measurement used in the financial statements (Euros), and due to income deriving from an Approved Enterprise, which is subject to a reduced rate.

7. Financial Reporting in Israel

The Company's financial statements, which are published in Israel, are prepared in accordance with accounting standards generally accepted in Israel ("IG"). Consequently, shareholders' equity and results of operations of the financial statements published in Germany and Israel differ slightly.

In accordance with the provision of Israel Accounting Standards No.12 and No.13, the measurement currency of the Company in the financial statements published in Israel from January 1, 2004 is the NIS instead of the Euro.

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