

ELECTRONICS LINE 3000 LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2004

EUROS IN THOUSANDS

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AUDITORS' REPORT

To the Shareholders of

ELECTRONICS LINE 3000 LTD.

We have audited the accompanying consolidated balance sheets of Electronics Line 3000 Ltd. ("the Company") and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years 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 audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 41% and 37% of total consolidated assets as of December 31, 2004 and 2003, respectively, and whose revenues constitute approximately 52% and 48% of total consolidated revenues for the years 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 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 the 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, 2004 and 2003, and their consolidated results of operations and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 20, 2005

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS**Euros In thousands**

	Note	December 31,	
		2003	2004
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	3,704	4,881
Trade receivables	4	6,955	4,888
Income tax receivable		829	1,147
Prepaid expenses and other receivables	5	*) 966	631
Inventories	6	5,329	4,977
<u>Total</u> current assets		17,783	16,524
NON CURRENT ASSETS:			
Property, plant and equipment:	7		
Cost		*) 10,363	10,698
Less - accumulated depreciation		*) 4,652	5,617
		5,711	5,081
Intangible assets, net	8	*) 3,544	3,982
Deferred taxes	14	834	1,234
Security deposits		*) 86	78
<u>Total</u> non current assets		10,175	10,375
<u>Total</u> assets		27,958	26,899
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	9	14,336	15,935
Trade payables	10	3,536	3,562
Accrued expenses		390	432
Income tax payable		78	58
Other current liabilities	11	1,129	1,432
<u>Total</u> current liabilities		19,469	21,419
LONG-TERM LIABILITIES:			
Accrued severance pay, net	12	340	327
Loan from shareholders	13	2,586	368
<u>Total</u> long-term liabilities		2,926	695
SHAREHOLDERS' EQUITY:			
Share capital	16	5,883	8,518
Additional paid-in capital		1,255	1,255
Accumulated deficit		(1,575)	(4,988)
<u>Total</u> shareholders' equity		5,563	4,785
<u>Total</u> liabilities and shareholders' equity		27,958	26,899

*) Reclassified – see Note 2q

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

March 20, 2005

Date of approval of the
Consolidated financial
statementsBob Marbut
Chairman of the
Board of DirectorsYossi Ben-Haim
Managing DirectorAmir Blumenfeld
CFO

CONSOLIDATED STATEMENTS OF OPERATIONS**Euros in thousands, except per share data**

	Note	Year ended December 31,	
		2003	2004
Revenues	18	32,684	27,974
Cost of revenues	19	<u>21,162</u>	<u>18,857</u>
Gross profit		<u>11,522</u>	<u>9,117</u>
Operating costs and expenses:			
Research and development		1,204	1,255
Selling and marketing	20	6,682	7,137
General and administrative	21	<u>5,078</u>	<u>3,764</u>
<u>Total operating costs and expenses</u>		<u>12,964</u>	<u>12,156</u>
Operating loss		(1,442)	(3,039)
Financial expenses, net	22	227	640
Other expenses, net		<u>14</u>	<u>73</u>
Loss before income tax benefit		(1,683)	(3,752)
Income tax benefit	14	<u>(108)</u>	<u>(339)</u>
Net loss		<u><u>(1,575)</u></u>	<u><u>(3,413)</u></u>
Net loss per share (basic and diluted)	24	<u><u>(0.27)</u></u>	<u><u>(0.47)</u></u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**Euros in thousands**

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance as of January 1, 2003	-	-	-	-
Issuance of shares in consideration for the transfer of assets from E.L.	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
Issuance of shares in consideration for the conversion of loan from shareholders	2,635	-	-	2,635
Net loss	-	-	(3,413)	(3,413)
Balance as of December 31, 2004	<u>8,518</u>	<u>1,255</u>	<u>(4,988)</u>	<u>4,785</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Euros in thousands**

	Year ended December 31,	
	2003	2004
<u>Cash flows from operating activities:</u>		
Loss before income tax benefit	(1,683)	(3,752)
Adjustments for:		
Depreciation and amortization	1,206	1,419
Loss on sale of property, plant and equipment	14	-
Decrease in accrued severance pay	(22)	(13)
Financial expenses, net	227	640
Operating cash flows before working capital changes	(258)	(1,706)
Decrease in trade receivables	4,847	2,067
Decrease (increase) in prepaid expenses and other receivables	(210)	105
Decrease in inventories	1,808	352
Decrease in long-term receivables	-	8
Increase in trade payables	282	26
Increase (decrease) in accrued expenses	(53)	42
Increase in other current liabilities	902	303
	7,576	2,903
Cash provided by operations:	7,318	1,197
Interest received	7	35
Interest paid	(514)	(575)
Income taxes paid	(984)	(401)
Net cash provided by operating activities	5,827	256
<u>Cash flows from investing activities:</u>		
Acquisition of intangible assets	*) (671)	(812)
Acquisition of property, plant and equipment	*) (533)	(450)
Proceeds from sale of equipment	6	35
Acquisition of activity from E.L.	(15,311)	-
Net cash used in investing activities	(16,509)	(1,227)
<u>Cash flows from financing activities:</u>		
Receipt of loans from shareholders	-	768
Increase in short-term bank credit, net	14,386	1,380
Net cash provided by financing activities	14,386	2,148
Increase in cash and cash equivalents	3,704	1,177
Cash and cash equivalents at beginning of year	-	3,704
Cash and cash equivalents at end of year	3,704	4,881
<u>Significant non-cash transactions:</u>		
Issuance of shares in consideration for loan from shareholders	-	2,635
Issuance of shares in consideration for the transfer of assets from E.L.	7,138	-
Receipt of loan from shareholders against the current account	2,586	-
Acquisition of equipment from E.L.	2,267	-

*) Reclassified – see Note 2q

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 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. ("E.L."). On January 1, 2003, the assets and operations of E.L. (including related liabilities), were transferred to the Company. These included the development, production, selling and marketing activities of E.L. ("the technological activities"). The technological activities were acquired at their carrying values in E.L. by the Company in consideration for, among others, the issuance of the Company's shares to E.L. in accordance with Section 104A of the Israeli Income Tax Ordinance.

As of December 31, 2003, all of the Company's shares were held by E.L..

On June 24, 2004, E.L. effected an in-kind distribution of approximately 84% of the share capital of the Company to the shareholders of E.L.. On June 28, 2004, the Company's shares were listed on the stock exchange in Germany (Regulated Unofficial Market of the Frankfurt Stock Exchange). Subsequent to effecting the in-kind distribution, E.L. held approximately 16% of the share capital of the Company. On October 6, 2004, E.L. effected a supplementary in-kind distribution of the remaining 16% of the share capital of the Company to the shareholders of E.L. and ceased to hold the Company's shares.

On November 1, 2004, a shareholder in the Company ("Argyle") transferred all of its holdings in E.L.'s shares in exchange for the entire holdings (28.23%) of the Krubiner Group in the Company's shares. Subsequent to the exchange, Argyle's holdings in the Company increased to 43.23%.

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 270 in 2004 and 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 ("Sectec Global Inc.")

- b. The Company has incurred losses from operations in 2003 and 2004, and as of December 31, 2004, the Company has a working capital deficiency of € 4,895. The management of the Company executed several cost saving measures that include, among others, a reduction in the number of employees (approximately 25). In light of the steps that were taken, the management of the Company believes that the Company will generate sufficient revenues in the future to fund its operations and meet its obligations.
- c. 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euros in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), on the historical cost basis, except for derivative financial instruments that are measured at fair value. The significant accounting policies followed in the preparation of these consolidated financial statements, on a consistent basis, are:

a. Financial statements in Euros:

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 operated during the reported years 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 translated at the rates of exchange prevailing at the dates of the individual transactions. At the end of the accounting period, the unsettled balances of foreign currency receivables and liabilities are translated at the rates of exchange prevailing at the period-end. Foreign exchange gains and losses resulting from the translation are included as a net amount under financial income and expenses, net.

The representative rate of exchange of the Euro in relation to the New Israeli Shekel ("NIS") at December 31, 2004 was €1 = NIS 5.88 (2003 €1 = NIS 5.53). In 2004, the NIS was devalued in relation to the Euro by 6.2% (2003 - by 11.34%).

The representative exchange rate of the Euro in relation to the U.S. dollar at December 31, 2004 was €1 = U.S.\$ 1.36 (2003 - €1 = U.S.\$ 1.26). In 2004, the Euro was revalued in relation to the U.S. dollar by 8% (2003 - by 20.0%).

b. Consolidation of the financial statements:

The financial statements of the Company have been consolidated with those of its wholly-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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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 lives of the assets.

The annual depreciation rates are as follows:

	%
Installations and leasehold improvements	Shorter of the lease term or useful life
Machinery and equipment	10 - 15 (primarily 10)
Motor vehicles	15
Office furniture and equipment	6 - 33

g. Intangible assets:

Intangible assets include software and production files development costs. Intangible assets are amortized using the straight-line method over their estimated useful lives (6-10 years).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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.

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. 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.

k. Deferred income taxes:

1. The Group provides for deferred income taxes using the liability method of accounting. Under the liability method, deferred taxes are recognized for temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are measured based on enacted tax rates that will be in effect in the year in which the differences are expected to reverse. Deferred tax assets in respect of carryforward losses and other temporary deductible differences are recognized to the extent that it is probable that they will be utilized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

2. Taxes that would apply in the event of the distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, when the distribution of dividend does not involve an additional tax liability or when the Company is able to control the distribution of dividends that will cause additional tax liability.

- l. 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.

- m. Royalty-bearing grants:

Royalty-bearing grants for funding of approved research projects are recognized at their fair value where there is a reasonable assurance that the grant will be received and all stipulated conditions will be complied with. Such grants are recorded as a liability when repayment is probable. If repayment is not probable, the grants are deducted from the related expenses.

- n. 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.

- o. Earnings (loss) per share:

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 convertible securities outstanding during the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

p. 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.

q. Reclassification:

intangible assets in the amount of € 2,715 have been reclassified from property, plant and equipment and security deposits in the amount of € 86 have been reclassified from other receivables in the consolidated balance sheet as of December 31 2003. These reclassifications were made to conform with the current year's presentation.

r. 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.

s. 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 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. IFRS 2 is not expected to have a material impact on the Group's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euros in thousands

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2003	2004
Deposits with banks:		
In Euros	194	2,401
In U.S. dollars	2,838	1,375
In NIS	84	3
In other currencies	588	1,102
	<u>3,704</u>	<u>4,881</u>

NOTE 4:- TRADE RECEIVABLES

Open accounts	7,666	5,531
Checks receivable	85	143
	<u>7,751</u>	<u>5,674</u>
Less - allowance for doubtful accounts	796	786
	<u>6,955</u>	<u>4,888</u>

NOTE 5:- PREPAID EXPENSES AND OTHER RECEIVABLES

	December 31,	
	2003	2004
Government authorities	209	266
Investment in derivatives	230	-
Advances to suppliers	273	173
Prepaid expenses	144	104
Other receivables	*) 110	88
	<u>966</u>	<u>631</u>

*) Reclassified – see Note 2q

NOTE 6:- INVENTORIES

Finished products	3,375	3,083
Work in process	400	504
Raw and auxiliary materials	1,554	1,390
	<u>5,329</u>	<u>4,977</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 7:- PROPERTY, PLANT AND EQUIPMENT**

	<u>Installations and leasehold improvements</u>	<u>Machinery and equipment</u>	<u>Motor vehicles</u>	<u>Office furniture and equipment</u>	<u>Total</u>
Cost:					
Balance as of January 1, 2004	4,247	*) 3,651	185	2,280	10,363
Acquisitions during the year	91	86	119	154	450
Disposals during the year	-	(36)	(72)	(7)	(115)
As of December 31, 2004	<u>4,338</u>	<u>3,701</u>	<u>232</u>	<u>2,427</u>	<u>10,698</u>
Accumulated depreciation:					
Balance as of January 1, 2004	1,011	*) 2,207	81	1,353	4,652
Provision during the year	252	259	70	464	1,045
Disposals during the year	-	(36)	(37)	(7)	(80)
Balance as of December 31, 2004	<u>1,263</u>	<u>2,430</u>	<u>114</u>	<u>1,810</u>	<u>5,617</u>
Depreciated cost as of December 31, 2004	<u>3,075</u>	<u>1,271</u>	<u>118</u>	<u>617</u>	<u>5,081</u>
Depreciated cost as of December 31, 2003	<u>3,236</u>	<u>*) 1,444</u>	<u>104</u>	<u>927</u>	<u>5,711</u>

As of December 31, 2004, the cost of fully depreciated fixed assets that are still in use amounts to € 1,619.

*) Reclassified – see Note 2q

NOTE 8:- INTANGIBLE ASSETS

	<u>Software and production files development costs</u>
Cost:	
As of January 1, 2004	*) 4,153
Additions	812
As of December 31, 2004	<u>4,965</u>
Accumulated amortization:	
As of January 1, 2004	*) 609
Provision	374
As of December 31, 2004	<u>983</u>
Amortized costas of December 31, 2004	<u>3,982</u>
Amortized cost as of December 31, 2003	<u>3,544</u>

*) Reclassified – see Note 2q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 9:- SHORT-TERM CREDIT FROM BANKS AND OTHERS**

a. Composition:

	Annual interest rate % (*)	December 31,	
		2003	2004
Overdrafts:			
In NIS	5.33	19	4,909
Short-term loans:			
In Euros	4.23	9,452	8,421
In U.S. dollars (**)	3.77	2,538	2,605
In Japanese yen	-	2,327	-
		<u>14,336</u>	<u>15,935</u>

(*) Weighted average annual interest rate as of December 31, 2004.

(**) Includes shareholders' loan of € 368 at December 31, 2004 (see Note 13b).

b. Liens:

As collateral for bank loans in the amount of € 5,290 at December 31, 2004, 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 in the ordinary course of business) without one of the bank's approval (negative pledge).

c. Contractual restrictions and financial covenants:

In connection with credit the Company obtained from two banks, the balance of which as of December 31, 2004 is € 10,825, the Company committed to comply with certain financial covenants and other restrictions as detailed below:

- (1) the Company's tangible shareholders' equity (as defined in the financial covenants and which includes the shareholders' loans that have been subordinated to the debt due to the banks), will not be less than 25% of the Company's total consolidated assets at any time
- (2) restrictions and obligations in connection with recording pledges by the Company and subsidiaries on their assets
- (3) restrictions concerning the sale and transfer of assets not in the ordinary course of business and
- (4) receipt of the banks' approval for a change in control of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 9:- SHORT-TERM CREDIT FROM BANKS AND OTHERS (Cont.)**

The breach of any of these covenants constitutes grounds for demand for immediate repayment of the Company's debt to the banks. With respect to one of the banks, as of balance sheet date, the Company is complying with the financial covenants set by this bank. With respect to the second bank, in which the balance of short term credit as of December 31, 2004 is € 5,535, as of the balance sheet date the Company is not complying with the capital ratio required by this bank. That bank expressed its readiness to waive stipulating the aforesaid ratio if the Company will record a floating charge on its assets in its favor. On March 20, 2005, the Company's Board of Directors approved the recording of a floating charge in favor of this bank.

NOTE 10:- TRADE PAYABLES

	December 31,	
	2003	2004
Open accounts	2,771	2,982
Checks payable	765	580
	<u>3,536</u>	<u>3,562</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands (except share data)****NOTE 11:- OTHER CURRENT LIABILITIES**

	December 31,	
	2003	2004
Government agencies	200	281
Salaries and related expenses	399	366
Due to E.L.	522	778
Others	8	7
	<u>1,129</u>	<u>1,432</u>

NOTE 12:- ACCRUED SEVERANCE PAY, NET

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.

	December 31,	
	2003	2004
Accrued severance pay	358	341
Less - deposits with severance pay fund	18	14
	<u>340</u>	<u>327</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.

NOTE 13:- LOAN FROM SHAREHOLDERS

- a. On December 31, 2003, the Company entered into a loan agreement with E.L.. Pursuant to the loan agreement, E.L. provided a loan to the Company in the amount of NIS 14.3 million (€ 2,586).

In May 2004, the Company and E.L. 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 of the Company's shares for trade on the Regulated Unofficial Market of the Frankfurt Stock Exchange ("RUM"), the loan will be converted into share capital. On June 21, 2004, the Company issued to E.L. 2,861,699 Ordinary shares in consideration for the conversion of the loan in the amount of € 2,635.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 13:- LOAN FROM SHAREHOLDER (Cont.)**

- b. On November 18, 2004, Argyle provided the Company with two intermediate-term loans each in the amount of US\$ 0.5 million (€ 384). The first loan is due for repayment in October 2005 and the second loan is to be repaid in October 2006. The loans bear interest at an annual rate of 2.5%, which is payable on the maturity dates.

NOTE 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 CPI. The following are the changes in the CPI and the Euro in relation to the NIS:

	Year ended December 31,		
	2002	2003	2004
CPI	6.5%	(1.9%)	1.2%
€ : NIS	27.1%	11.3%	6.2%

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:

E.L. has been accorded the status of an Approved Enterprise under the Israeli Law for Encouragement of Capital Investments, 1959. On January 1, 2003 (see Note 1a), the benefits deriving from this status were transferred to the Company, according to a temporary approval in principle issued by the Capital Investments Center. On October 13, 2004, the Capital Investments Center gave 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 benefit period will terminate at the latest, in the year 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 14:- TAXES ON INCOME (Cont.)**

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, 2004, 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.

- b. Income taxes included in the statements of operations:

	Year ended December 31,	
	2003	2004
Current taxes	154	1
Deferred taxes	(262)	(400)
Taxes in respect of previous years	-	60
	<u>(108)</u>	<u>(339)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 14:- TAXES ON INCOME (Cont.)**

c. Tax computation:

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

	Year ended	
	December 31,	
	2003	2004
Tax benefit computed at statutory tax rate of 35% (2003 - 36%)	(606)	(1,313)
Different tax rates of foreign subsidiaries	69	-
Non-deductible expenses	16	27
Losses and other items for which deferred taxes were not provided	-	733
Taxes with respect to previous years	-	60
Differences in the basis of measurement (EURO - CPI) (*)	413	154
	<u>(108)</u>	<u>(339)</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 a. above.

d. Deferred taxes:

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

	December 31,	
	2003	2004
Property, plant and equipment	(217)	(228)
Inventories	101	80
Intangible assets	(243)	(202)
Tax loss carryforwards	825	1,194
Other temporary differences in recognition of income and expenses	368	390
Net deferred tax asset	<u>834</u>	<u>1,234</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 14:- TAXES ON INCOME (Cont.)**

- e. Changes in deferred taxes:

	December 31,	
	2003	2004
Balance at the beginning of the year	-	834
Transferred from E.L.	572	-
Recognized in income	262	400
Balance at the end of the year	<u>834</u>	<u>1,234</u>

- f. Tax rates:

In June 2004, the Israeli Government passed the Amendment to the Income Tax Ordinance (No. 140 and temporary provision), 2004, which progressively reduces the tax rates applicable to companies from 36% to 35% in 2004, to a rate of 30% in 2007.

- g. Carryforward losses for tax purposes:

The Group's carryforward losses for tax purposes as of December 31, 2004 amount to approximately € 3,000 in Israel, € 1,600 in the U.S.A., and € 500 in France. With respect to tax loss carryforwards in an amount of approximately € 1,500, no deferred tax asset was recognized as of December 31, 2004.

NOTE 15:- COMMITMENTS

- a. Royalties:

- Pursuant to an agreement signed by E.L. with the Office of the Chief Scientist in the Ministry of Industry and Trade in Israel, E.L. 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 royalty obligation was transferred to the Company (see Note 1a). The Chief Scientist's approval for the procedure of transferring the technological activities was received on October 13, 2004. Total grants received as of December 31, 2004 amounted to approximately € 1,226 and the balance of contingent royalties amounts to approximately € 919.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 15:- COMMITMENTS (Cont.)**

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 granted the Group. 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.

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 E.L. to lease the plant and office buildings until 2021 and 2024. Annual rent - € 492 and € 168 respectively (see Note 25c).

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, 2004 under non-cancelable operating lease are as follows:

First year	1,208
Second through fourth years	<u>3,066</u>
Total	<u><u>4,274</u></u>

- c. Contingent liabilities:

On November 24, 2003, a former employee of E.L. filed an action against E.L. in the Kfar Saba, Israel Magistrates Court for personal injury that he claims he suffered as a result of his employment with E.L.. 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 E.L. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands (except share and per share data)****NOTE 16:- SHARE CAPITAL**

- a. The share capital is composed as follows:

	<u>December 31,</u>	
	<u>2003</u>	<u>2004</u>
	<u>Number of shares</u>	
Authorized:		
Ordinary shares of NIS 5 par value each *)	<u>12,000,000</u>	<u>12,000,000</u>
Issued and fully paid:		
Ordinary shares of NIS 5 par value each *)	<u>5,847,566</u>	<u>8,709,265</u>

- *) On June 21, 2004, the Company effected a share consolidation such that every 5 Ordinary shares of NIS 1 par value each became 1 Ordinary share of NIS 5 par value. Share and per share data in these financial statements have been retrospectively adjusted for all periods presented to reflect this share consolidation.

- b. On June 21, 2004, the Company issued to E.L. 2,861,699 Ordinary shares in consideration for the conversion of the loan which E.L. granted to the Company (see Note 13a).

NOTE 17:- FINANCIAL INSTRUMENTS

- a. Credit risks:

Cash and cash equivalents as of December 31, 2004 are deposited with large banks in Israel. 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.

- b. Foreign currency exposure:

The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. Group management regularly monitors its foreign exchange risk and attempts to limit such risks by making adequate decisions regarding cash and credit positions.

As of December 31, 2004, the Group's monetary liabilities in NIS exceeded monetary assets by € 6,339.

As of December 31, 2004, monetary assets in currencies other than the Euro and the NIS exceeded monetary liabilities in the amount of € 1,391 (all current).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)**

c. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, trade receivables, prepaid expenses and other receivables, credit from banks and others, trade payables and other current liabilities approximate their fair value due to the short-term maturity of such instruments.

NOTE 18:- REVENUES

	Year ended December 31,	
	2003	2004
Foreign:		
European Union countries	21,154	16,714
United States	8,180	7,749
Other countries	2,883	2,939
	<u>32,217</u>	<u>27,402</u>
Domestic - Israel	467	572
	<u>32,684</u>	<u>27,974</u>
Includes sales to major customers:		
A	<u>4,871</u>	<u>2,315</u>
B	<u>3,143</u>	<u>1,629</u>

NOTE 19:- COST OF REVENUES

	Year ended December 31,	
	2003	2004
Purchases and changes in raw and auxiliary materials	16,002	14,352
Labor	2,384	2,307
Manufacturing and other expenses	1,136	1,110
Depreciation and amortization	706	900
	<u>20,228</u>	<u>18,669</u>
Changes in finished products and work-in-process inventories	934	188
	<u>21,162</u>	<u>18,857</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 20:- SELLING AND MARKETING EXPENSES**

	Year ended	
	December 31,	
	2003	2004
Salaries and related expenses	3,209	3,761
Commissions	227	126
Advertising	164	30
Foreign travel	271	262
Transportation	1,098	899
Rent	361	430
Other	1,352	1,629
	<u>6,682</u>	<u>7,137</u>

NOTE 21:- GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and related expenses	509	498
Management and consulting fees	1,620	1,158
Provision for bad debts and doubtful accounts	792	370
Depreciation	500	519
Other	1,657	1,219
	<u>5,078</u>	<u>3,764</u>

NOTE 22:- FINANCIAL EXPENSES, NET

Expenses (income) with respect to:		
Bank borrowings, net	(30)	422
Short-term deposits	(6)	(46)
Foreign exchange differences, net	495	267
Derivatives	230	-
Other, net	(2)	(3)
	<u>227</u>	<u>640</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 23:- DEPRECIATION AND AMORTIZATION EXPENSE**

	Year ended	
	December 31,	
	2003	2004
Property, plant and equipment:		
Cost of revenues	536	527
General and administrative expenses	500	518
	<u>1,036</u>	<u>1,045</u>
Intangible assets:		
Cost of revenues	170	374
	<u>1,206</u>	<u>1,419</u>

NOTE 24:- LOSS PER SHARE

Number of shares and net loss used in computing loss per share:		
Weighted average number of shares outstanding	5,847,566	7,278,416
Loss used in computation	<u>(1,575)</u>	<u>(3,413)</u>

NOTE 25:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

	December 31,	
	2003	2004
Current liabilities:		
Short-term credit from banks and others	-	368
Other current liabilities	522	-
	<u>522</u>	<u>368</u>
Non-current liabilities:		
Loan from shareholders	2,586	368

b. Transactions with related parties:

- Starting March 1, 2003, Mr. Bob Marbut, who is the Chairman of the Board of Directors and one of the limited partners of Argyle, has been acting as CEO and president of a subsidiary in the United States ("STG"). The employment contract is for a period of one year from the signing of the contract but is automatically extended by an additional year at the end of each period, unless one of the parties provides notification of its cancellation 90 days in advance. In consideration for Mr. Marbut's services, STG pays a total of \$ 350 thousand annually.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euros in thousands

NOTE 25:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

2. On November 1, 2004, subsequent to the distributions in kind and the change in shareholders, as described in Note 1a, E.L. ceased to be a related party of the Company. Accordingly, the data below for 2004 relates to the ten months ended October 31, 2004.

	Year ended December 31,	
	2003	2004
Cost of revenues - rent	493	385
Research and development costs - rent	120	98
Selling and marketing expenses - rent	54	40
General and administrative expenses - rent	50	37
General and administrative expenses - management and consulting services	1,605	1,149

In 2003 the Company purchased from the E.L. property in the amount of € 2,267.

c. Commitments:

1. Lease agreements - the plant building:

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

E.L. 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 E.L. does not have any rights whatsoever, is in use by another party.

In addition, E.L. has a lease agreement with a related party, 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, E.L. 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 E.L., and was amended in May 2004. Pursuant to the conditions of the agreement, the areas on the aforesaid stories are leased for a monthly rent of NIS 109 thousand (€ 20), linked to the higher of the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar. The lease is for a period of 10 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 25:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**

The rental fees in respect to the asset's first and second stories amounted to € 211 in 2004.

In addition, beginning on January 1, 2003, E.L. 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 E.L., at conditions that are identical to the lease conditions in the lease agreement between E.L. and a related party. The third story, the area of which is 947 sq. m., is leased for a monthly rent of U.S.\$ 8 thousand (€ 7), linked to the higher of the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar. The lease includes an automatic escalation clause (10% every three years). The fourth story, with an area of 947 sq. m., is leased for a monthly rent of U.S.\$ 11 thousand (€ 9), linked to the higher of the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar. The lease includes an automatic escalation clause (10% after every three years). The rental fees in respect to the asset's third and fourth stories amounted to € 254 in 2004.

2. Lease agreements - the office building:

Effective January 1, 2003, E.L. 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 Arieh, Petach Tikva ("the asset"). On February 1, 2004, a new agreement was entered into between the Company and E.L., and was amended in May 2004. Pursuant to the lease agreement the asset is leased for a monthly rent of U.S.\$ 18 thousand (€ 14, NIS 80 thousand), linked to the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar - whichever is higher. The Company also pays E.L. for parking spaces and maintenance services related to this property. The remaining terms of this lease agreement are identical to the lease agreement of the plant building. The rental fees with respect to the asset in 2004 were € 211.

3. Management and consulting agreements:

Pursuant to an agreement between the Company and E.L. which became effective on June 1, 2004, E.L. provides the Company with consulting services in the field of alarm systems for a fee of for U.S.\$ 900 thousand (€ 712) per year. In addition, the Company bears E.L.'s expenses in connection with providing the consulting services up to \$ 250 thousand per year. The agreement is in effect for a period of 4 years with an automatic annual renewal option.

Effective January 1, 2003, and until the above agreement became effective, E.L. provided the Company with consulting services pursuant to an agreement signed on January 1, 2003, according to which, the Company committed to pay E.L. U.S.\$ 2 million (€ 1,600) per year and expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 26:- FINANCIAL REPORTING IN ISRAEL**

The Company is also publishing consolidated financial statements in Israel, the consolidated financial statements which are published in Israel, are prepared in accordance with accounting principles generally accepted in Israel ("IG"). Consequently, shareholders' equity and results of operations as reported in the consolidated financial statements published in Germany in accordance with IFRS differ from those reported in Israel.

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

The results of operations and shareholders' equity as reported in the consolidated financial statements published in Germany and those in Israel are as follows:

	As reported in accordance with IFRS	As reported in accordance with IG *)
Loss before income taxes for the year ended December 31, 2004	<u>3,752</u>	<u>3,957</u>
Loss for the year ended December 31, 2004	<u>3,413</u>	<u>3,499</u>
Shareholders' equity as of December 31, 2004	<u>4,785</u>	<u>4,174</u>

*) Translated from NIS at the exchange rate prevailing on December 31, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 27:- GEOGRAPHICAL SEGMENTS**

a. General:

The Group operates in one business segment of electronic security and alarm systems.

The Group companies operate in two principal geographic segments: the United States and Europe.

b. The following data are presented in accordance with IAS 14:

1. Revenues:

	Year ended December 31,	
	2003	2004
Sales to external customers:		
United States	8,180	7,749
Europe	21,154	16,714
Other countries	3,350	3,511
	<u>32,684</u>	<u>27,974</u>
Intersegment sales:		
United States	795	1,023
Europe	2,789	2,744
Other countries	-	-
	<u>3,584</u>	<u>3,767</u>
Total revenues	36,268	31,741
Adjustments	<u>(3,584)</u>	<u>(3,767)</u>
Total revenues in financial statements	<u><u>32,684</u></u>	<u><u>27,974</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euros in thousands

NOTE 27:- GEOGRAPHICAL SEGMENTS (Cont.)

2. Segments results:

	Year ended December 31,	
	2003	2004
United States	(554)	(315)
Europe	4,042	1,222
Other countries	342	(295)
	3,830	612
Adjustments	(194)	299
	3,636	911
Unallocated expenses	(5,078)	(3,950)
Operating loss	(1,442)	(3,039)
Financial expenses, net	227	640
Other expenses, net	14	73
Income taxes	(108)	(339)
Net loss	(1,575)	(3,413)

3. Assets of the segments:

	December 31,	
	2003	2004
United States	3,611	3,507
Europe	7,337	5,227
Other countries	936	1,108
	11,884	9,842
Adjustments	209	(216)
Unallocated assets	15,865	17,273
Total assets	27,958	26,899

4. Liabilities of the segments:

United States	2,957	4,011
Europe	5,604	6,805
	8,561	10,816
Adjustments	(5,937)	(9,024)
Unallocated liabilities	19,771	20,322
Total liabilities	22,395	22,114

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Euros in thousands****NOTE 27:- GEOGRAPHICAL SEGMENTS (Cont.)**

5. Capital expenditure:

5.1 Tangible fixed assets

	December 31,	
	2003	2004
United States	74	26
Europe	50	122
	<u>124</u>	<u>148</u>

5.2 Depreciation

United States	24	38
Europe	51	52
	<u>75</u>	<u>90</u>

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE OF ACTIVE INVESTEE COMPANIES

Entity	Place of incorporation
Sectec S.A.R.L. (*)	France
Electronics Line (UK) Ltd. (*)	United Kingdom
Electronics Line International Ltd.	Ireland
Electronics Line USA Inc. (*)	United States
Sectec Global Inc. (*)	USA

All of the investees are wholly-owned marketing subsidiaries of the Company.

(*) Held directly by the Company.

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