

**ELECTRONICS LINE 3000 LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2005**

**UNAUDITED**

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The Board of Directors  
Electronics Line 3000 Ltd.

Re: Review report of unaudited interim consolidated financial statements  
as of and for the three months period ended March 31, 2005

At your request, we have reviewed the interim consolidated balance sheet of Electronics Line 3000 Ltd. as of March 31, 2005 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the three months period then ended. Our review was made in accordance with the procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of certain officers responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 28% of total consolidated assets as of March 31, 2005 and whose revenues constitute approximately 45% of total consolidated revenues for the three months period then ended.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards and, accordingly, we do not express an opinion on the interim consolidated statements.

Based on our review and the reports of other accountants, we are not aware of any material modifications that should be made to the above mentioned statements in order for them to be in conformity with generally accepted accounting principles in Israel and with the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel  
April 26, 2005

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

**CONSOLIDATED BALANCE SHEETS**

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in thousands</u>		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	28,341	18,870	28,684
Trade receivables	35,715	40,366	28,724
Other accounts receivable	7,495	*) 13,409	12,345
Inventories	29,776	29,284	28,264
	<u>101,327</u>	<u>101,929</u>	<u>98,017</u>
<b>LONG-TERM RECEIVABLES</b>	<u>465</u>	*) <u>369</u>	<u>459</u>
<b>FIXED ASSETS:</b>			
Cost	59,229	*) 58,019	59,242
Less - accumulated depreciation	32,158	*) 26,858	31,090
	<u>27,071</u>	<u>31,161</u>	<u>28,152</u>
<b>OTHER ASSETS, NET</b>	<u>27,922</u>	*) <u>22,100</u>	<u>27,866</u>
	<u><u>156,785</u></u>	<u><u>155,559</u></u>	<u><u>154,494</u></u>

\*) Reclassified.

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

**CONSOLIDATED BALANCE SHEETS**

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Audited</u>
<u>Reported NIS in thousands</u>			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks	91,155	80,877	91,487
Shareholders' loan	2,200	-	2,160
Trade payables	23,900	21,629	20,936
Other accounts payable	10,154	8,859	11,302
	<u>127,409</u>	<u>111,365</u>	<u>125,885</u>
<b>LONG-TERM LIABILITIES:</b>			
Shareholders' loan	2,200	14,308	2,160
Accrued severance pay, net	2,101	1,995	1,921
	<u>4,301</u>	<u>16,303</u>	<u>4,081</u>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	46,861	32,553	46,861
Share premium	4,887	4,887	4,887
Capital surplus	2,440	2,058	2,058
Accumulated deficit	(29,113)	(11,607)	(29,278)
	<u>25,075</u>	<u>27,891</u>	<u>24,528</u>
	<u>156,785</u>	<u>155,559</u>	<u>154,494</u>

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

<u>April 26, 2005</u>	<u>Bob Marbut</u>	<u>Yossi Ben-Haim</u>	<u>Amir Blumenfeld</u>
Date of approval of the financial statements	Chairman of the Board of Directors	Managing Director	CFO

**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2004</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>Reported NIS in thousands</b>		
	<b>(except per share amounts)</b>		
Sales	41,728	40,906	155,377
Cost of sales	25,960	26,692	104,260
Gross profit	15,768	14,214	51,117
Research and development costs	1,467	1,617	7,028
Selling and marketing expenses	9,633	9,779	39,605
General and administrative expenses	4,360	5,537	21,577
	15,460	16,933	68,210
Operating income (loss)	308	(2,719)	(17,093)
Financial expenses, net	43	828	5,744
Other income (expenses), net	9	1	(416)
Income (loss) before taxes on income	274	(3,546)	(23,253)
Taxes on income	109	(655)	(2,691)
Net income (loss)	165	(2,891)	(20,562)
Net earnings (loss) per NIS 1 par value of Ordinary shares (in reported NIS)	0.01	(0.10)	(0.57)

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

<b>Three months ended March 31, 2005 (unaudited)</b>					
<b>Share capital</b>	<b>Share premium</b>	<b>Capital surplus</b>	<b>Accumulated deficit</b>	<b>Total</b>	
<b>Reported NIS in thousands</b>					
Balance at the beginning of the period (audited)	46,861	4,887	2,058	(29,278)	24,528
Capital surplus from waive of salary by controlling shareholder (see Note 4b)	-	-	382	-	382
Net income	-	-	-	165	165
Balance at the end of the period	<u>46,861</u>	<u>4,887</u>	<u>2,440</u>	<u>(29,113)</u>	<u>25,075</u>
<b>Three months ended March 31, 2004 (unaudited)</b>					
<b>Share capital</b>	<b>Share premium</b>	<b>Capital surplus</b>	<b>Accumulated deficit</b>	<b>Total</b>	
<b>Reported NIS in thousands</b>					
Balance at the beginning of the period (audited)	32,553	4,887	2,058	(8,716)	30,782
Loss	-	-	-	(2,891)	(2,891)
Balance at the end of the period	<u>32,553</u>	<u>4,887</u>	<u>2,058</u>	<u>(11,607)</u>	<u>27,891</u>
<b>Year ended December 31, 2004 (audited)</b>					
<b>Share capital</b>	<b>Share premium</b>	<b>Capital surplus</b>	<b>Accumulated deficit</b>	<b>Total</b>	
<b>Reported NIS in thousands</b>					
Balance at the beginning of the year	32,553	4,887	2,058	(8,716)	30,782
Issuance of share capital against conversion of shareholders' loan	14,308	-	-	-	14,308
Loss	-	-	-	(20,562)	(20,562)
Balance at the end of the year	<u>46,861</u>	<u>4,887</u>	<u>2,058</u>	<u>(29,278)</u>	<u>24,528</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2004</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>Reported NIS in thousands</b>		
<u>Cash flows from operating activities:</u>			
Net income (loss)	165	(2,891)	(20,562)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	826	1,441	19,152
Net cash flows provided by (used in) operating activities	991	(1,450)	(1,410)
<u>Cash flows from investing activities:</u>			
Purchase of other assets	(789)	*) (742)	(4,553)
Purchase of fixed assets	(415)	*) (1,136)	(2,599)
Proceeds from sale of fixed assets	202	148	198
Net cash flows used in investing activities	(1,002)	(1,730)	(6,954)
<u>Cash flows from financing activities:</u>			
Receipt of shareholders' loan from controlling shareholder	-	-	4,388
Short-term credit from banks, net	(332)	1,554	12,164
Net cash flows provided by (used in) financing activities	(332)	1,554	16,552
Increase (decrease) in cash and cash equivalents	(343)	(1,626)	8,188
Cash and cash equivalents at the beginning of the period	28,684	20,496	20,496
Cash and cash equivalents at the end of the period	28,341	18,870	28,684

\*) Reclassified.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2004</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>Reported NIS in thousands</b>		
(a) <u>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Depreciation and amortization	1,938	1,706	7,901
Loss (gain) from sale of fixed assets	89	(1)	6
Accrued severance pay, net	180	115	41
Deferred taxes, net	67	(987)	(3,047)
Increase in value (erosion) of shareholders' loan	80	-	(68)
Waive of salary by controlling shareholder	382	-	-
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(6,991)	(1,882)	9,760
Decrease (increase) in other accounts receivable (including long-term receivables)	4,777	201	(500)
Decrease (increase) in inventories	(1,512)	201	1,221
Increase (decrease) in trade payables	2,964	2,065	1,372
Increase (decrease) in other accounts payable	(1,148)	23	2,466
	<u>826</u>	<u>1,441</u>	<u>19,152</u>
(b) <u>Significant non-cash operations:</u>			
Issuance of share capital against conversion of shareholders' loan	<u>-</u>	<u>-</u>	<u>14,308</u>

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1:- GENERAL**

- a. These financial statements have been prepared in a condensed format as of March 31, 2005, and for the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended.
- b. Following are data regarding the exchange rate of the U.S. dollar and the EURO:

<u>As of</u>	<u>Exchange rate of one EURO NIS</u>	<u>Exchange rate of one U.S. dollar NIS</u>
March 31, 2005	5.6488	4.361
March 31, 2004	5.5353	4.528
December 31, 2004	5.8768	4.308
<b><u>Change during the period</u></b>	<b><u>%</u></b>	<b><u>%</u></b>
March 2005 (three months)	(3.9)	1.2
March 2004 (three months)	*) -	3.4
December 2004 (12 months)	6.2	(1.6)

\*) Less than 0.1%.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with the Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements.

- b. Initial adoption of Accounting Standard No. 19 with respect to taxes on income:

On January 1, 2005, the Company adopted Accounting Standard No. 19, "Taxes on Income" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for recognition, measurement, presentation and disclosures of taxes on income and deferred taxes in the financial statements.

The major change pursuant to the Standard compared to the principles which have been applied up to date is the recognition of deferred taxes for temporary differences relating to land.

The initial adoption of the provisions of the Standard did not have a material impact on the interim financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 3:- FINANCIAL COVENANTS**

In connection with short-term credit the Company obtained from two banks, the balance of which as of March 31, 2005 is NIS 60,706 thousand, the Company does not comply, as of the balance sheet date, with the capital ratio as required by these banks.

One of the banks, the balance to which as of March 31, 2005 is NIS 32,042 thousand, expressed his willingness to waive on the condition relating to the capital ratio, as above, if the Company records a floating charge on its assets in favor of that bank. On March 20, 2005, the Company's Board approved the recording of a floating charge in favor of this bank. As of the date of the approval of the financial statements, a floating charge in favor of that bank has not yet been recorded.

**NOTE 4:- TRANSACTIONS WITH A CONTROLLING SHAREHOLDER**

## a. Pro forma statements:

As a result of entering into new lease, management and consulting agreements with the former parent company, as described in Note 29c to the annual financial statements, following is the effect on the data for the reported periods (until November 1, 2004, as discussed in Note 29b(2) to the annual financial statements), assuming that the changes in terms were in effect for all reported periods.

	<b>Three months ended March 31, 2004</b>		<b>Year ended December 31, 2004</b>	
	<b>Actual data</b>	<b>Pro forma data</b>	<b>Actual data</b>	<b>Pro forma data</b>
	<b>Unaudited</b>		<b>Audited</b>	
	<b>Reported NIS in thousands (except per share amounts)</b>			
Cost of sales	<u>26,692</u>	<u>26,611</u>	<u>104,260</u>	<u>104,093</u>
Research and development costs	<u>1,617</u>	<u>1,574</u>	<u>7,028</u>	<u>6,919</u>
Selling and marketing expenses	<u>9,779</u>	<u>9,760</u>	<u>39,605</u>	<u>39,560</u>
General and administrative expenses	<u>5,537</u>	<u>4,267</u>	<u>21,577</u>	<u>19,456</u>
Taxes on income	<u>(655)</u>	<u>(185)</u>	<u>(2,691)</u>	<u>(1,878)</u>
Loss	<u>(2,891)</u>	<u>(1,949)</u>	<u>(20,562)</u>	<u>(18,933)</u>
Loss per NIS 1 par value of Ordinary shares (in reported NIS)	<u>(0.10)</u>	<u>(0.07)</u>	<u>(0.57)</u>	<u>(0.52)</u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4:- TRANSACTIONS WITH A CONTROLLING SHAREHOLDER (Cont.)**

- b. Since March 1, 2003, Mr. Bob Marbut, who is the Chairman of the Board and an indirect controlling shareholder in the Company, 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 notifies of its cancellation 90 days in advance. In consideration for Mr. Marbut's services, STG pays a total of \$ 350 thousand annually.

Despite the aforementioned, during 2005, Mr. Marbut has agreed not to receive payment for his services.

In accordance with Israel's Securities Regulations (Presentation of Transactions Between a Corporation and a Controlling Shareholder in the Financial Statements), 1996, the waiver of salary in the amount of NIS 382 thousand was recorded as an expense against capital surplus in the financial statements.

**NOTE 5:- GEOGRAPHIC SEGMENTS**

- a. General information:

The Company and the Group companies operate in two major geographic segments: the U.S. and the Europe.

- b. Information about geographic segments:

	<b>Three months ended March 31, 2005 (unaudited)</b>				<b>Total - consolidated</b>
	<b>U.S.</b>	<b>Europe</b>	<b>Other countries</b>	<b>Adjustments</b>	
	<b>Reported NIS in thousands</b>				
Segment revenues	<u>10,632</u>	<u>30,933</u>	<u>4,019</u>	<u>(3,856)</u>	<u>41,728</u>
Segment results	<u>-</u>	<u>7,099</u>	<u>293</u>	<u>*) (7,084)</u>	<u>308</u>
	<b>Three months ended March 31, 2004 (unaudited)</b>				
	<b>U.S.</b>	<b>Europe</b>	<b>Other countries</b>	<b>Adjustments</b>	<b>Total - consolidated</b>
	<b>Reported NIS in thousands</b>				
Segment revenues	<u>10,655</u>	<u>29,621</u>	<u>4,167</u>	<u>(3,537)</u>	<u>40,906</u>
Segment results	<u>(426)</u>	<u>5,098</u>	<u>355</u>	<u>*) (7,746)</u>	<u>(2,719)</u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5:- GEOGRAPHIC SEGMENTS (Cont.)**

	<b>Year ended December 31, 2004 (audited)</b>				<b>Total - consolidated</b>
	<b>U.S.</b>	<b>Europe</b>	<b>Other countries</b>	<b>Adjustments</b>	
	<b>Reported NIS in thousands</b>				
Segment revenues	<u>48,818</u>	<u>107,954</u>	<u>19,554</u>	<u>(20,949)</u>	<u>155,377</u>
Segment results	<u>(1,710)</u>	<u>7,089</u>	<u>(1,563)</u>	<u>*) (20,909)</u>	<u>(17,093)</u>

\*) Including expenses not allocated to segments.

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