

ELECTRONICS LINE 3000 LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2010

U. S. DOLLARS IN THOUSANDS

UNAUDITED

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Auditors' review report to the shareholders of Electronics Line 3000 Ltd.

Introduction

We have reviewed the accompanying financial information of Electronics Line 3000 Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of September 30, 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose assets constitute approximately 45% of total consolidated assets as of September 30, 2010, and whose revenues constitute approximately 28% of total consolidated revenues for the nine months then ended. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

The Company did not present comparative figures in the condensed consolidated balance sheet and in the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows as of September 30, 2009 and for the period then ended, as required by IFRS.

Qualified conclusion

Based on our review and the review reports of other auditors, except for the matters described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

We draw attention to Note 3 to the financial statements. The financial statements as of December 31, 2009 and for year then ended were restated in order to retroactively reflect the effect of correcting an error in assessing the impairment of financial assets, write down of inventories and capitalization of standardization costs.

Tel-Aviv, Israel
December 9, 2010

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>September, 30 2010</u>	<u>December 31, 2009</u>
	<u>Unaudited</u>	<u>Audited</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	1,349	2,245
Trade receivables	3,015	*) 2,965
Income tax receivable	264	246
Prepaid expenses	357	*) 255
Advances to suppliers	64	126
Other accounts receivable	414	388
Inventories	4,441	*) 4,551
<u>Total current assets</u>	<u>9,904</u>	<u>10,776</u>
NON CURRENT ASSETS:		
Property, plant and equipment:		
Cost	15,952	16,006
Less - accumulated depreciation	13,317	10,838
	2,635	5,168
Intangible assets	504	392
Deferred taxes	215	215
Security deposits	49	74
<u>Total non current assets</u>	<u>3,403</u>	<u>5,849</u>
<u>Total assets</u>	<u>13,307</u>	<u>16,625</u>

*) Restated, see note 3.

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	September 30, 2010	December 31, 2009
	Unaudited	Audited
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term credit from banks	4,032	5,564
Short-term credit from others	2,817	140
Trade payables	3,461	4,091
Accrued expenses	519	453
Income tax payable	251	62
Other current liabilities	680	1,971
Total current liabilities	11,760	12,281
NON-CURRENT LIABILITIES:		
Loans from banks	1,114	1,214
Accrued severance pay, net	386	395
Total non-current liabilities	1,500	1,609
EQUITY:		
Share capital	10,933	10,933
Additional paid-in capital	6,488	6,621
Foreign currency translation reserve	1,506	1,588
Hedge reserve	24	10
Accumulated deficit	(18,904)	*) (16,417)
Total equity	47	*) 2,735
Total liabilities and equity	13,307	16,625

*) Restated, see note 3.

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

December 9, 2010			
Date of approval of the financial statements	Moshe Alkelai Chairman of the Board	Douglas Luscombe President and CEO	Lior Meidan Director & Responsible for the financial activities

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands, except share data

	Nine months ended September 30, 2010 Unaudited	Three months ended December 31, 2009 Audited	Year ended December 31, 2009 Audited
Revenues	21,832	7,640	26,391
Cost of revenues	16,364	5,759	*) 17,703
Gross profit	5,468	1,881	8,688
Operating costs and expenses:			
Research and development	1,369	407	1,856
Selling and marketing	2,797	645	*) 5,041
General and administrative	3,091	1,260	*) 3,355
Other income (expenses), net	9	-	(8)
<u>Total operating costs and expenses</u>	<u>7,248</u>	<u>2,312</u>	<u>10,260</u>
Operating loss	(1,780)	(431)	(1,572)
Financial income	19	-	2,371
Financial expenses	(622)	(353)	(3,067)
Loss before taxes on income	(2,383)	(784)	(2,268)
Taxes on income	104	49	68
Loss	<u>(2,487)</u>	<u>(833)</u>	<u>*) (2,336)</u>
Loss per share (basic and diluted)	<u>(0.25)</u>	<u>(0.08)</u>	<u>*) (0.23)</u>

*) Restated, see note 3.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	<u>Nine months ended</u> <u>September 30,</u> <u>2010</u> <u>Unaudited</u>	<u>Three months ended</u> <u>Year ended</u> <u>December 31,</u> <u>2009</u> <u>Audited</u>
Loss	<u>(2,487)</u>	<u>(833)</u> <u>*) (2,336)</u>
Exchange differences of translation of foreign operations	<u>(82)</u>	<u>100</u> <u>288</u>
Net gain (loss) on cash flow hedges	<u>14</u>	<u>39</u> <u>(5)</u>
	<u>68</u>	<u>(139)</u> <u>283</u>
Total comprehensive loss	<u>(2,555)</u>	<u>(694)</u> <u>*) (2,053)</u>

*) Restated, see note 3.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Nine months ended September 30, 2010 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of January 1, 2010 (audited)	10,933	6,621	1,588	10	(16,417)	2,735
Cost of share-based payments	-	(133)	-	-	-	(133)
Total comprehensive loss	-	-	(82)	14	(2,487)	(2,555)
Balance as of September 30, 2010	<u>10,933</u>	<u>6,488</u>	<u>1,506</u>	<u>24</u>	<u>(18,904)</u>	<u>47</u>

	Three months ended September 30, 2010 (unaudited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of July 1, 2010	10,933	6,486	1,406	(15)	(18,071)	739
Cost of share-based payments	-	2	-	-	-	2
Total comprehensive loss	-	-	100	39	(833)	(694)
Balance as of September 30, 2010	<u>10,933</u>	<u>6,488</u>	<u>1,506</u>	<u>24</u>	<u>(18,904)</u>	<u>47</u>

	Year ended December 31, 2009 (audited)					
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedge reserves	Accumulated (* deficit)	Total equity
Balance as of January 1, 2009 (audited)	10,933	6,610	1,300	15	(14,081)	4,777
Cost of share-based payments	-	11	-	-	-	11
Total comprehensive loss	-	-	288	(5)	(2,336)	(2,503)
Balance as of December 31, 2009	<u>10,933</u>	<u>6,621</u>	<u>1,588</u>	<u>10</u>	<u>(16,417)</u>	<u>2,735</u>

*) Restated, see note 3.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30, 2010 Unaudited	Three months ended December 31, 2009 Audited	Year ended December 31, 2009 Audited
<u>Cash flows from operating activities:</u>			
Loss before taxes on income	(2,383)	(784)	*) (2,268)
Adjustments for:			
Depreciation and amortization	2,527	1,112	816
Loss (gain) on sale of property, plant and equipment	(9)	-	8
Decrease in accrued severance pay	(20)	(46)	(381)
Cost of share-based payments	(133)	2	11
Financial expenses, net	603	353	694
Operating cash flows before working capital changes	2,968	1,421	(1,148)
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(257)	(110)	*) 3,528
Decrease (increase) in prepaid expenses and other accounts receivable	(65)	(252)	*) 316
Decrease in inventories	66	221	*) 1,413
Increase in security deposits	25	-	12
Increase (decrease) in trade payables	(677)	(1,137)	(175)
Increase (decrease) in accrued expenses	66	45	(65)
Increase (decrease) in other current liabilities	(1,258)	(1,332)	86
	(2,100)	(2,565)	5,115
Cash paid during the period for:			
Interest paid	(163)	(29)	(430)
Taxes paid	(114)	(53)	(122)
	(277)	(82)	(552)
Net cash provided by (used in) operating activities	(1,792)	(2,010)	3,443
<u>Cash flows from investing activities:</u>			
Acquisition of property, plant and equipment	(97)	-	(1,599)
Proceeds from sale of equipment	72	-	7
Investments in intangible assets	(112)	-	(392)
Net cash used in investing activities	(137)	-	(1,984)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<u>Nine months ended</u>	<u>Three months ended</u>	<u>Year ended</u>
	<u>September 30, 2010</u>	<u>September 30, 2009</u>	<u>December 31, 2009</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>
<u>Cash flows from financing activities:</u>			
Increase (decrease) in short-term bank credit, net	100	160	(795)
Receipt of long-term loans from banks	-	-	1,568
Increase in short-term credit from others	2,677	2,677	-
Repayment of long-term loans from banks	(1,704)	(616)	(2,332)
Net cash provided by (used in) financing activities	<u>1,073</u>	<u>2,221</u>	<u>(1,559)</u>
<u>Effect of exchange differences on cash and cash equivalents of foreign operation</u>			
	<u>(40)</u>	<u>145</u>	<u>48</u>
Increase (decrease) in cash and cash equivalents	(896)	356	(52)
Cash and cash equivalents at beginning of period	<u>2,245</u>	<u>993</u>	<u>2,297</u>
Cash and cash equivalents at end of period	<u><u>1,349</u></u>	<u><u>1,349</u></u>	<u><u>2,245</u></u>

*) Restated, see note 3.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These interim consolidated financial statements have been prepared in a condensed format as of September 30, 2010 and for the Nine months then ended ("Consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual consolidated financial statements and the accompanying notes as of December 31, 2009 ("the annual financial statements") and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting".

The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements.

- b. Standards issued but not yet applied:

IFRS 7 - Financial Instruments: Disclosure:

The amendment to IFRS 7 clarifies the disclosure requirements prescribed by the Standard. The Standard highlights the connection between the quantitative and qualitative disclosures and the nature and scope of the risks arising from financial instruments. The disclosure requirements regarding securities held by the company have been minimized and the disclosure requirements regarding credit risk have been revised. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The Company estimates that the amendment will not have a material effect on financial instruments presented in the financial statements.

IAS 34 - Interim Financial Reporting:

Pursuant to the amendment to IAS 34, new disclosure requirements were introduced to interim financial reporting regarding the circumstances that are likely to affect the fair value of financial instruments and their classification, the transfers of financial instruments between different fair value levels, changes in the classification of financial assets and changes in contingent liabilities and contingent assets. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The required disclosures will be included in the Company's financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***IAS 1 - Presentation of Financial Statements:*

According to the amendment to IAS 1, the changes between the opening and the closing balances of each other comprehensive income component may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The amendment is not expected to have a material effect on the Company's financial statements.

NOTE 3:- RESTATEMENTS

The Company has restated its financial statements as of December 31, 2009 and for the year then ended, in order to retroactively reflect the effect of correcting an error in assessing the impairment of financial assets, write down of inventories and capitalization of standardization costs.

The effect of the changes on the financial statements:

Balance sheets:

	As previously reported	The change	As presented in these financial statements
	US dollars in thousands		
As of December 31, 2009:			
Trade Receivables	3,898	(933)	2,965
Prepaid expenses	572	(317)	255
Inventories	5,890	(1,339)	4,551
Equity	5,324	(2,589)	2,735
Accumulated deficit	(13,828)	(2,589)	(16,417)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- RESTATEMENTS (Cont.)

Statements of income:

	<u>As previously reported</u>	<u>The change</u>	<u>As presented in these financial statements</u>
	<u>US dollars in thousands</u>		
Year ended December 31, 2009:			
Cost of Revenues	<u>17,130</u>	<u>573</u>	<u>17,703</u>
Gross profit	<u>9,261</u>	<u>(573)</u>	<u>8,688</u>
General and administrative	<u>2,670</u>	<u>685</u>	<u>3,355</u>
Selling and marketing	<u>4,849</u>	<u>192</u>	<u>5,041</u>
loss	<u>(886)</u>	<u>(1,450)</u>	<u>(2,336)</u>
loss per share (basic and diluted)	<u>(0.09)</u>	<u>(0.14)</u>	<u>(0.23)</u>

NOTE 4:- BANK COVENANTS

As of the balance sheet date, the company is not in compliance with loan covenants, and therefore, the banks can demand repayment of these loans at any time. All companies' loans classify to short term credit from bank.

NOTE 5: - OPERATING SEGMENTS

a. General:

The Group operates in two operating segments: Europe and United States.

Management monitors the operating results of its geographical units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on segment profit.

The following expenses are managed on a group basis and are not allocated to operating segments: company's research and development, company's general and administrative and group financing.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - OPERATING SEGMENTS (Cont.)

- b. Information about geographical segments:

	<u>Europe</u>	<u>U.S.</u>	<u>Other countries</u>	<u>Adjustments</u>	<u>Total - consolidated</u>
	<u>U.S. dollars in thousands</u>				
Nine months ended September 30, 2010 (unaudited)					
Segment revenues	<u>20,839</u>	<u>86</u>	<u>2,166</u>	<u>(1,259)</u>	<u>21,832</u>
Segment results	<u>1,665</u>	<u>(414)</u>	<u>687</u>	<u>(4,321)</u>	<u>(2,383)</u>
Three months ended September 30, 2010 (unaudited)					
Segment revenues	<u>7,353</u>	<u>-</u>	<u>625</u>	<u>(338)</u>	<u>7,640</u>
Segment results	<u>559</u>	<u>-</u>	<u>236</u>	<u>(1,579)</u>	<u>(784)</u>
Year ended December 31, 2009 (audited)					
Segment revenues	<u>21,516</u>	<u>1,550</u>	<u>3,325</u>	<u>(1,871)</u>	<u>26,391</u>
Segment results	<u>*) 3,121</u>	<u>*) (1,290)</u>	<u>*) 299</u>	<u>(4,398)</u>	<u>(2,268)</u>

*) Restated, see note 3

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

- a. On March 18, 2010 the company received a joint announcement from Argyle Global Opportunities, L.P. Texas ("Argyle"), and Risco Group, Israel ("Risco"), that its largest shareholder, Argyle, has sold its entire 40.77% interest in the company to Risco.
- b. During the reported period, the Company accelerated the depreciation expenses in respect to leasehold improvements and fixed assets over the expected useful period, which is due to the Company's decision to vacate the buildings of the Company's plant and administration. Subsequent to the accelerated depreciation expenses that were recorded, during the reported period the Company recorded depreciation expenses in the amount of about \$ 2 million.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

- c. On August 12, 2010 at special general meeting, the shareholders approved all the below resolutions:

The company entered into agreements with its largest shareholder Risco

1. Management services agreement - Risco is willing to exert its efforts and utilize its professional connections in order to assist the Company in the following fields: (i) sales administration services; (ii) IT and computerized systems; (iii) Finance management and accounting; (iv) human resource; (v) directors and consulting services; (vi) legal and company secretarial services.

The Company shall pay Risco for all Services rendered by it under this Agreement, payable not less often than monthly and in accordance with the Company's normal and reasonable payment payroll practices regarding service providers, an annual gross amount of US\$ 300,000. The annual amount shall be adjusted on a yearly basis in accordance with the change in the Company's revenues from sales compared to the revenue from sales of the preceding year, but in any event shall not be less than the Base Amount.

2. Manufacturing services agreement – the company wishes to retain Risco services for the purpose of manufacturing certain products of the company, on a non-exclusive basis, prices shall be provided by the service provider, and agreed on by the parties.
3. Distribution agreement - Risco has the facilities to import, promote, sell, market and distribute the Products in the Territory (as define in the agreement) and is willing to act as Supplier's non-exclusive distributor of the Products in the Territory. Distributor and Supplier intend that the Transfer Prices for the Products, shall be, in the aggregate for all Products for each calendar year, arm's length prices.

In addition, the company received a line of credit, in the amount of up to US\$ 6.5 Million from Risco. Any amount taken by the company from the line of credit shall bear an annual interest of Libor+2.5%, charged on quarterly basis. As of September 30, 2010 the company used \$2.8 Million.

All the above agreements approved by the audit committee and the company's general meeting.
