



The Management's Report and Discussion and Analysis for the period from January 1 to June 30, 2011 (the "Report")

1. Business Overview and Important Trends in the Industry
 - 1) General economic conditions
 - 2) Business Overview
2. Operating and Financial Review
 - 1) Earnings
 - 2) Financial Position
 - 3) Cash Flow
4. Additional information
5. Risk Report
6. Events after the end of the reporting period
7. Outlook
8. Responsibility Statement

Market Overview and Operational Activities

General economic conditions

The Physical Security industry has performed well for the first six months of this year and we are bullish about the prospects of continued growth for the full year. However a financial cloud is gathering which is affecting confidence for world economic trading conditions. Debt problems in Europe appear to be more serious than expected six months ago, and now the impending cap on the US Federal budget deficit will probably constrain world growth prospects in 2012. According to the German Institute for Economic Research (DIW), the global economic trend is set to slow slightly in the second half of the year as economic stimulus packages are coming to an end and rising inflation is resulting in more restrictive monetary policies, especially in emerging markets. Moreover, the ongoing debt crisis in the euro zone and the spectre of a US budget crisis represent further risks to the positive global economic trend.

These factors might affect buyer's budgets in Europe and North America but it is anticipated that they will have less impact in Brazil, Russia, India and China where growth in demand for security products currently is much higher.

There is only one solution to reducing the impact of these events or even nullify them; and that is continue with the innovation programmed of delivering more effective security systems at lower prices.

This is the reason for the security industry coming out of the recession in 2009 in a much better shape than most other industries. It has consistently delivered more for less and more importantly provided increasing rates of return on security investments. Now has to be the time to dig even deeper and increase all efforts in developing wireless technology that meets customers' needs.

Business Overview

Electronics Line 3000 Ltd. (“The Company”) engages in the design, development, production, marketing and sale of electronic security with remote management solutions and complementary products for the mass residential and small commercial markets. These solutions can be monitored and enable remote management of the premises for security, automation, and video applications.

In March 2010 RISCO Group, a leading provider of integrated security solutions, acquired control interest in the Company. RISCO Group’s intention is to maintain the Company’s independent standing in the market and its product offerings by growing the Company to become the residential arm of RISCO Group by expanding the product portfolio into video and management solutions together with its major partners worldwide.

In order to increase the Company’s global coverage and have better penetration into new and existing markets, the Company entered, on August 2010, into management and distribution agreements with Risco Ltd. (“Risco”), as Risco has the facilities to import, promote, sell, market and distribute the products in the territory (as defined in the agreement) and is willing to act as the supplier’s non-exclusive distributor of the “Products in the Territory”.

During 2011, the Company has outsourced its production activities both to sub-contractors and to Risco Ltd., in order to achieve better efficiency and margins.

Due to the reduction of costs and streamlining of production, this reorganization entails an increase in profitability. The Company believes that this will have a positive effect on its financial results of 2011.

The Company is reorganizing its sales force in order to achieve a better coverage in its target markets. Mr. Douglas Luscombe, the Company’s CEO, was located in the UK, several new Regional Sales Managers (RSM) were assigned to cover the rest of Europe.

The Company has a presence, and believes it is well positioned in important markets around the world, in particular Northern and Western Europe and consistently strengthens its position in additional regions in Latin America, APAC and more. The Company’s brand is associated with high quality products and solutions.

The Company continues to develop and expand its marketing and sales capabilities with a focus on strategic customers and markets, while at the same time, providing more marketing and technical support to existing customers due to the tough economic situation in certain countries.

Products and Product Families

The EL Application Server (**ELAS**) is a 24/7 dedicated application server, which provides an answer to the growing demand for customer autonomy. The ELAS offers private remote access to EL security systems, allowing homeowners to easily check, activate, modify and communicate with their security system from anywhere in the world, through web-based or smartphone applications.

The sophisticated **iConnect Two- Way Wireless** system, with its sleek design, serves as the command center for a residential and small commercial Security and Home Automation network.

Powered by the full range of ELAS remote management functions, iConnect effortlessly integrates remote signaling from end-users, monitoring stations, service providers and technicians. The ELAS enables remote programming and maintenance of the iConnect system by Internet or smartphones, built-in interface with PSTN/GSM/GPRS communication modules, configuration of email and SMS event notification to users, and much more.

The two-way wireless RF technology built into iConnect also enables the use of PIR Cameras for event triggered video images and clips, as well as video verification. The compatible EL two-way peripherals communicate with the iConnect control panel and respond to RF signals with top-level data security. Designed for superior efficiency, the peripherals only respond to signals when the control panel is armed, and then they act with enhanced speed to minimize energy consumption and signal traffic congestion.

An additional product line, **CommPact** is about to be introduced to the market during the second half of 2011.

CommPact, named for its streamlined, space-saving design (21x15.2x4cm), offers cost-effective security and connectivity, with all the essential functions of one-way wireless technology available in one small high-powered package.

The simple wireless installation and advanced remote management capabilities of CommPact provide an ideal value-for-money solution, which allows users to enjoy a complete sense of control and peace of mind.

CommPact's remote management is driven by the ELAS, which enables a virtual presence via video look-in on the premises. The advanced features include remote programming and maintenance of the CommPact system by Internet or smartphone, built-in interface with PSTN/GSM/GPRS communication modules, configuration of email and SMS event notification to users, and stand-alone two-way audio capability.

An additional prominent product family is **Prime** product lines (previously known as *infinite Prime*), which enables using traditional phone lines and cellular communication between the premises, monitoring station and end-user. The *Prime* product line includes a couple of options for the international market including a hybrid solution, *Prime* was introduced to the market in August 2005, and includes an updated version of the *infinite* product with advanced end user and service provider features to enable voice communication, enhanced two-way connectivity and remote management, as well as a design that simplifies installation.

The Company's wireless family of products includes equipment located at the premises (such as a home or small business) – a control panel and peripherals such as motion detectors, door/window magnets, glass break detectors, water leak detectors and smoke and fire detectors. In addition, the Company sells equipment that is centrally located - such as a monitoring station – and this includes a receiver, server, and other software used to monitoring signals from the home and to connect into the premises remotely.

OPERATING AND FINANCIAL REVIEW

During the period from January 1 to June 30 of fiscal 2011 ("Reporting Period") a new business plan for the Company has been put in place.

As part of that plan the Company had to complete development of its new product line (ELAS, iConnect and CommPact), restructure its sales division, outsource its production activity and increase its operating expenses efficiency.

The Company believes that this will have a positive effect on its financial results of 2011.

Earnings

The Company's revenues in the Reporting Period amounted to US\$ 11.4 million, compared to revenues of US\$ 14.1 million during the comparable period last year and to US\$ 26.7 million for the year ended December 31, 2010.

During the Reporting Period the Company's turnover decreased vs. H1 2010 due to a production shift to new sub-contractors that were carried out during Q2 2011. As a result, the company had a total customer order backlog of US\$2.2M at the end of H1 2011 that expected to be fully delivered to its customers during Q3 2011. If all orders could have been delivered during Q2, sales for the first six months would have totaled to US\$ 13.6. In addition, during H1 2010 the Company had extraordinary orders from a major customer.

As part of the new products policy the company had decided to streamline its product portfolio. Dropping some low-margin products also impacts the Company's turnover.

Based on the current orders on hand, the Company expects to end 2011 with a turnover similar to last year's.

During the Reporting Period, gross margin was ca. 30% and around the same as for the comparable period of last year. The gross margin for H1 was affected by an increase in provision of slow moving inventory in the total amount of US\$ 330,000.

The gross profit in the Reporting Period amounted to US\$ 3.4 million compared to US\$ 4.4 million in the comparable period of the previous year and to US\$ 8.3 million for the fiscal year of 2010.

Research and development costs, amounted to US\$ 857,000 compared to US\$ 962,000 in the comparable period of last year and US\$ 1.9 million for the whole year of 2010.

Sales and marketing expenses amounted to US\$ 1.3 million during the Reporting Period, compared to US\$ 2.2 million for the comparable period of last year and to US\$ 3.8 million for 2010.



General and administrative expenses amounted to US\$ 928,000 during the Reporting Period, compared to US\$ 1.6 million for the comparable period of last year and to US\$ 3.2 million for 2010.

The decrease in general and administrative expenses is due to a new business plan that was put in place during 2010 in order to increase efficiency and save expenses in connection with the implementation of a management service agreement between the Company and Risco as mentioned above.

The Company's operating profit amounted to US\$ 226,000 during the Reporting Period, compared to an operating loss of US\$ 1.3 million in the comparable period of last year and to US\$ 4.9 million loss for 2010.

Financing expenses net amounted to US\$ 216,000 during the Reporting Period, compared to US\$ 250,000 for the comparable period of last year and to US\$ 366,000 during 2010.

Profit before taxes on income amounted to US\$ 10,000 during the Reporting Period, compared to a loss of US\$ 1.6 million for the comparable period of last year and to a US\$ 5.3 million loss for 2010.

Tax expenses related to the UK subsidiary amounted to US\$ 38,000 during the first six months of 2011, compared to US\$ 55,000 for the comparable period of last year and to US\$ 523,000 for 2010.

The Company ended the Reporting Period with a net loss of US\$ 28,000 compared to a loss of US\$ 1.7 million for the comparable period of last year and to a US\$ 5.8 million loss for fiscal 2010.

Financial Position

Following the managing intention to sell its UK-subsiary, all assets and liability of the subsidiary were classified as held for sale in the financial report. In order to compare between the periods, assets and liabilities of the subsidiary are consolidated with the assets and liabilities of the ongoing operations:

The Company's cash and cash equivalents as of June 30, 2011 (hereinafter: "the Reporting Date") were US\$ 1.9 million, compared to US\$ 1 million on December 31, 2010.

The increase in company's cash is due to the fact that, as part of the production agreement between the company and Risco, Risco has purchased the company's raw material inventory.

The Company's trade receivables on the Reporting Date were US\$ 2.9 million, the same as December 31, 2010.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reporting Date were US\$ 1.8 million, same as December 31, 2010.

The Company's inventories on the Reporting Date were US\$ 2.5 million compared to US\$ 5.5 million on December 31, 2010.

Decrease of inventory is due to production outsourcing. As of the Reporting Date the company is holding only a finished goods inventory.

Net investment in non-current assets, less amortization, on the Reporting Date amounted to US\$ 1.9 million, and a US\$ 2 million investment on December 31, 2010

The short term credit balance from banks and others on the Reporting Date amounted to US\$ 1.5 million, compared to US\$ 3.5 million on December 31, 2010.

Decrease of short term credit from the banks is due to repayment of short terms loans and classified loans as long term loans following comply with the bank covenants.

The Company's trade payables as of the Reporting Date were US\$ 3.4 million compared to US\$ 5 million on December 31, 2010.

Other current liabilities, accrued expenses and income tax payable were US\$ 1.9 million, compared to US\$ 2.2 million on December 31, 2010.

Long term loans were US\$ 2.2 million on the Reporting Date compared to US\$ 1.1 million on December 31, 2010.

Financial Ratios	June 30, 2011	December 31, 2010
Current Ratio	1.3	0.76
Quick Ratio	1	0.4

As of the Reporting Date, the Company complies with banks covenants.

Cash Flow

During the reporting Period, net cash provided by operating activities was US\$ 724,000 compared to US\$ 218,000 provided by operating activities during the comparable period of last year and US\$ 2.6 million used during the entire year of 2010.

During the reporting Period, the Company directed US\$ 43,000 towards investment activities, compared to US\$ 137,000 during the comparable period last year and to US\$ 159,000 during the entire year of 2010.

During the reporting Period, cash provided from financing activities amounted to US\$ 315,000, compared to usage of US\$ 1.1 million during the comparable period last year and to US\$ 1.5 million during the fiscal year of 2010.

In H1 of fiscal 2011, the Company repaid bank loans principals in the amount of US\$ 880,000 and receipted short-term loans from related party in total amount of US\$1.2 million.

Additional information

Shareholders' equity as of June 30, 2010 amounted to US\$ 1.5 million , a ratio of 12.6% to the total balance sheet, compared to US\$ deficit of 3.5 million , as of December 31, 2010.

During the reporting period The company's special general meeting of shareholders approved issuance of 3,550,000 new shares to Risco Ltd. for a total consideration of NIS 17,750,000 (approximately US\$ 5 million) which strengthened the Company's financial position and led to a positive shareholder's equity in the reporting period. The shares were issued to Risco Ltd. on March 14, 2011. The issued share capital of the company now is NIS 68,564,240 and consists of 13,712,848 ordinary shares at NIS 5.00 par value each. As at June 30, 2011 the Company's authorized share capital is NIS 250,000,000.

The number of employees decreased from 149 as of December 31, 2010 to 34 as of June 30, 2011. The average headcount in the first half of 2011 was 91. The reduction was caused by the Company's decision to outsource administrative, distribution and production resources.

The consolidated interim financial statements of the Company and its subsidiaries as of June 30, 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS). An audit review has been conducted on the consolidated interim financial statements.

Risks and Opportunities

The management report in the annual report for 2010 provides full details of risk factors that could affect the business performance of Electronics line in section 5 "Risk Report" while business potential is discussed in section 6 "Outlook". There was no material change in the risk/opportunity profile of Electronics Line in the reporting period.

Events after the end of the reporting period

Following the Board's resolution, dated July 13, 2011, to uplist from the General Standard to the Prime Standard segment of Frankfurt Stock Exchange, the Deutsche Bourse announced the Company's transfer to trading in the Prime Standard segment to take effect on August 15, 2011.

Outlook

Future Projections

Looking ahead, the Company expects an increase in revenues from its strategic customers and markets, in particular, Northern and Western Europe. In these locations, the Company intends to address non-traditional marketing channels, in addition to the traditional security channels.

Recently, the Company has entered into a distribution agreement with a leading central monitoring station service provider ("CMS") in Poland. The agreement covers the



UPGRADING
EVERYDAY
SECURITY

distribution of the Company's innovative wireless security, safety, connectivity and control systems such as the iConnect and CommPact solutions and appending peripheral products.

In addition, the Company has signed a distribution agreement with Risco Ltd. and its subsidiaries, which will broaden the Company's marketing and sales as well as logistic global coverage.

The Company plans to focus on its 2-way-wireless iConnect product line and its PIR Camera Detector with a built-in camera for video verification, which will support a wide range of solutions and services that the Company offers to its customers. The Company believes that the new solution will be well received in the market place.

The Company is outsourcing its production activities, both to sub-contractors and to Risco Ltd., in order to achieve better efficiency and margins. The Company expects that this, among with other value added resulting from synergies with Risco Ltd., will have a positive effect on its financial performance and that it will significantly improve earnings and, as a consequence of this, result in an earnings turnaround in 2011.

Responsibility Statement

To the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the interim management report of the Company includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company for the remaining months of the financial year.

Douglas Luscombe
CEO

Moshe Alkelai
Chairman of the Board

Rishon Le Zion, August 25, 2011