

ELECTRONICS LINE 3000 LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2011

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IN U.S. DOLLARS

UNAUDITED

INDEX

	<u>Page</u>
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Consolidated Statements of Comprehensive Income	6
Statements of Changes in Equity	7 - 9
Consolidated Statements of Cash Flows	10 - 11
Notes to Interim Consolidated Financial Statements	12 - 17

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 June 30, 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six and three 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.

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.

Conclusion

Based on our review, 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.

Tel-Aviv, Israel
August 25 , 2011

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>June 30,</u>		<u>December 31,</u>
	<u>2011</u>	<u>2010</u>	<u>2010</u>
	<u>Unaudited</u>		<u>Audited</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	657	993	983
Trade receivables	1,057	2,558	2,970
Income taxes receivable	293	604	276
Other accounts receivable	1,327	285	1,484
Inventories	685	4,706	5,494
	<u>6,386</u>	<u>-</u>	<u>-</u>
Assets classified as held for sale (see Note 7)			
<u>Total current assets</u>	<u>10,405</u>	<u>9,146</u>	<u>11,207</u>
NON-CURRENT ASSETS:			
Property, plant and equipment:			
Cost	13,648	15,872	15,907
Less - accumulated depreciation	13,217	12,195	13,920
	<u>431</u>	<u>3,677</u>	<u>1,987</u>
Property, plant and equipment, net			
Intangible assets	454	504	504
Deferred taxes	215	215	215
Security deposits	84	49	97
	<u>1,184</u>	<u>4,445</u>	<u>2,803</u>
<u>Total non-current assets</u>	<u>1,184</u>	<u>4,445</u>	<u>2,803</u>
<u>Total assets</u>	<u>11,589</u>	<u>13,591</u>	<u>14,010</u>

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

CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands

	June 30,		December 31,
	2011	2010	2010
	Unaudited		Audited
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks	1,435	4,664	3,517
Short-term credit from related parties	-	-	3,817
Related party	1,048	-	-
Trade payables	802	4,042	5,024
Income taxes payable	-	116	149
Other current liabilities	1,178	2,529	2,162
Liabilities associated with assets classified as held for sale (see Note 7)	3,444	-	-
<u>Total current liabilities</u>	<u>7,907</u>	<u>11,351</u>	<u>14,669</u>
NON-CURRENT LIABILITIES:			
Loans from banks	1,155	1,080	1,065
Employee benefit liabilities, net	102	421	165
Other long-term liabilities	954	-	1,201
Deferred taxes	-	-	379
<u>Total non-current liabilities</u>	<u>2,211</u>	<u>1,501</u>	<u>2,810</u>
EQUITY:			
Share capital	15,933	10,933	10,933
Additional paid-in capital	6,457	6,486	6,453
Foreign currency translation reserve	1,377	1,406	1,413
Hedge reserve	-	(15)	-
Accumulated deficit	(22,296)	(18,071)	(22,268)
<u>Total equity</u>	<u>1,471</u>	<u>739</u>	<u>(3,469)</u>
<u>Total liabilities and equity</u>	<u>11,589</u>	<u>13,591</u>	<u>14,010</u>

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

<u>August 25, 2011</u>			
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 per share data)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2011	2010	2011	2010	2010
	Unaudited		Unaudited		Audited
Revenues	11,425	14,192	5,097	6,609	26,717
Cost of revenues	7,965	*)9,794	3,623	4,790	18,338
Gross profit	3,460	4,398	1,474	1,819	8,379
Operating costs and expenses:					
Research and development	857	962	437	505	1,884
Selling and marketing	1,355	2,152	695	1,033	3,840
General and administrative	928	*)1,562	400	971	3,167
Other expenses, net	94	*)1,071	19	1,080	4,450
<u>Total operating costs and expenses</u>	<u>3,234</u>	<u>5,747</u>	<u>1,551</u>	<u>3,589</u>	<u>13,341</u>
Operating income (loss)	226	(1,349)	(77)	(1,770)	(4,962)
Financial income	82	31	29	31	62
Financial expenses	298	281	106	118	428
Income (loss) before taxes on income	10	(1,599)	(154)	(1,857)	(5,328)
Taxes on income	38	55	36	(36)	523
Loss	<u>(28)</u>	<u>(1,654)</u>	<u>(190)</u>	<u>(1,893)</u>	<u>(5,851)</u>
Loss per share (basic and diluted) (in dollars)	<u>(0.002)</u>	<u>(0.17)</u>	<u>(0.014)</u>	<u>(0.17)</u>	<u>(0.58)</u>

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

*) Reclassified, see note 2c.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December
	2011	2010	2011	2010	31,
	Unaudited		Unaudited		Audited
Loss	(28)	(1,654)	(190)	(1,893)	(5,851)
Other comprehensive loss:					
Adjustments arising from translating financial statements of foreign operations	(36)	(182)	(52)	13	(175)
Loss on cash flow hedges	-	(25)	-	(40)	(10)
Total other comprehensive loss	(36)	(207)	(52)	(27)	(185)
Total comprehensive loss	(64)	(1,861)	(242)	(1,920)	(6,036)

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

STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	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
Loss	-	-	-	-	(5,851)	(5,851)
Other comprehensive loss: Financial statements of foreign operations	-	-	(175)	-	-	(175)
Loss on cash flow hedges	-	-	-	(10)	-	(10)
Total other comprehensive loss	-	-	(175)	(10)	-	(185)
Total comprehensive loss	-	-	(175)	(10)	(5,851)	(6,036)
Cost of share-based payments	-	(168)	-	-	-	(168)
Balance as of December 31, 2010 (audited)	10,933	6,453	1,413	-	(22,268)	(3,469)
Loss	-	-	-	-	(28)	(28)
Other comprehensive loss: Financial statements of foreign operations	-	-	(36)	-	-	(36)
Total other comprehensive loss	-	-	(36)	-	-	(36)
Total comprehensive loss	-	-	(36)	-	(28)	(64)
Issuance of share capital	5,000	-	-	-	-	5,000
Cost of share-based payments	-	4	-	-	-	4
Balance as of June 30, 2011 (unaudited)	15,933	6,457	1,377	-	(22,296)	1,471

STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of April 30, 2011 (unaudited)	15,933	6,453	1,429	-	(22,106)	1,709
Loss	-	-	-	-	(190)	(190)
Other comprehensive loss: Financial statements of foreign operations	-	-	(52)	-	-	(52)
Total other comprehensive loss	-	-	(52)	-	-	(52)
Total comprehensive loss	-	-	(52)	-	(190)	(242)
Cost of share-based payments	-	4	-	-	-	4
Balance as of June 30, 2011	<u>15,933</u>	<u>6,457</u>	<u>1,377</u>	<u>-</u>	<u>(22,296)</u>	<u>1,471</u>

	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
Loss	-	-	-	-	(1,654)	(1,654)
Other comprehensive loss: Financial statements of foreign operations	-	-	(182)	-	-	(182)
Loss on cash flow hedges	-	-	-	(25)	-	(25)
Total other comprehensive loss	-	-	(182)	(25)	-	(207)
Total comprehensive loss	-	-	(182)	(25)	(1,654)	(1,861)
Cost of share-based payments	-	(135)	-	-	-	(135)
Balance as of June 30, 2010	<u>10,933</u>	<u>6,486</u>	<u>1,406</u>	<u>(15)</u>	<u>(18,071)</u>	<u>739</u>

STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedges reserves	Accumulated deficit	Total equity
Balance as of April 30, 2010 (unaudited)	10,933	6,627	1,393	25	(16,178)	2,800
Loss	-	-	-	-	(1,893)	(1,893)
Other comprehensive loss:						
Financial statements of foreign operations	-	-	13	-	-	13
Loss on cash flow hedges	-	-	-	(40)	-	(40)
Total other comprehensive loss	-	-	13	(40)	-	(27)
Total comprehensive loss	-	-	13	(40)	(1,893)	(1,920)
Cost of share-based payments	-	(141)	-	-	-	(141)
Balance as of June 30, 2010	<u>10,933</u>	<u>6,486</u>	<u>1,406</u>	<u>(15)</u>	<u>(18,071)</u>	<u>739</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**U.S. dollars in thousands**

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2011	2010	2011	2010	2010
	Unaudited		Unaudited		Audited
<u>Cash flows from operating activities:</u>					
Loss	(28)	(1,654)	(190)	(1,893)	(5,851)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:					
Adjustments to profit or loss items:					
Depreciation and amortization	291	1,415	28	1,245	3,153
Loss (gain) from sale of property, plant and equipment	(27)	(9)	27	-	7
Increase (decrease) in employee benefit liabilities, net	(137)	26	(163)	11	(156)
Cost of share-based payments	4	(135)	4	(135)	(168)
Taxes on income	38	55	36	49	523
Financial expenses, net	243	250	64	183	368
	412	1,602	(4)	1,353	3,727
<u>Changes in operating asset and liability items:</u>					
Decrease (increase) in trade receivables	160	(147)	2,022	400	(98)
Decrease (increase) in other accounts receivable	(1)	187	(85)	606	(715)
Decrease (increase) in inventories	3,107	(155)	621	168	(1,019)
Increase (decrease) in trade payables	(1,676)	485	95	134	989
Increase (decrease) in other long-term liabilities	(247)	21	(130)	21	1,201
Increase (decrease) in other current liabilities	(743)	74	(1,011)	(28)	(262)
	600	465	1,512	1,301	96
<u>Cash paid and received during the period for:</u>					
Interest paid	(243)	(134)	(64)	(67)	(368)
Income taxes paid	(17)	(61)	(15)	(30)	(161)
	(260)	(195)	(79)	(97)	(529)
Net cash provided by (used in) operating activities	724	218	1,239	664	(2,557)
<u>Cash flows from investing activities:</u>					
Investment in intangible assets	-	(112)	-	(36)	(112)
Acquisition of property, plant and equipment	(105)	(97)	(101)	(42)	(120)
Proceeds from sale of equipment	62	72	8	-	73
Net cash used in investing activities	(43)	(137)	(93)	(78)	(159)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2011	2010	2011	2010	2010
	Unaudited		Unaudited		Audited
<u>Cash flows from financing activities:</u>					
Increase (decrease) in short-term bank credit, net	(1,041)	(60)	(1,048)	(95)	117
Receipt of short-term loans from related parties	1,183	-	-	-	3,817
Repayment of long-term loans from related parties	-	-	-	-	(140)
Repayment of long-term loans from banks	(881)	(1,088)	(237)	(364)	(2,260)
Receipt of long-term loans from banks	1,054	-	1,054	-	-
Net cash provided by (used in) financing activities	315	(1,148)	(231)	(459)	1,534
<u>Exchange differences on balances of cash and cash equivalents of foreign operations</u>					
	(103)	(185)	(39)	(166)	(80)
Increase (decrease) in cash and cash equivalents	893	(1,252)	876	(39)	(1,262)
Cash and cash equivalents at beginning of period	983	2,245	1,000	1,032	2,245
Cash and cash equivalents at end of period	1,876	993	1,876	993	983
<u>Significant non-cash transactions:</u>					
Conversion of shareholders' debt into shares	5,000	-	-	-	-

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

- a. Electronics Line 3000 Ltd. ("the Company") was incorporated in Israel in December 2002. The Company and its subsidiaries ("the Group") are engaged 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, and automation and video application.
- b. These interim consolidated financial statements have been prepared in a condensed format as of June 30, 2011 and for the three 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, 2010 ("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, except as noted below:

IAS 1 - Presentation of Financial Statements:

According to the amendment to IAS 1, the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Company has elected to present said disclosure in the statement of changes in equity.

The amendment is applied retrospectively from January 1, 2011.

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government-related entities.

The amendment is applied retrospectively from January 1, 2011.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- b. New IFRS Standards that have been issued but are not yet effective:

IAS 19R - Employee Benefits:

In June 2011, the IASB issued IAS 19R. The principal amendments included in IAS 19R are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not carried to profit or loss.
- The return on the plan assets is recognized in profit or loss based on a discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.
- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- The cost of past services arising from changes in the plan will be recognized immediately.

IAS 19R is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Company is evaluating the possible impact of the adoption of IAS 19R but is presently unable to assess the effects, if any, on its financial statements.

- c. Reclassification:

Consistent with the annual financial statements, the Company changed the classification of expenses relating to accelerated depreciation in the statement of income from cost of revenues and general and administrative expenses to other expenses in order to properly reflect the nature of the expenses.

Comparative data were reclassified, and accordingly, \$ 1,080 thousand was reclassified from cost of revenues and general and administrative expenses to other expenses as of June 30, 2010.

See also Note 5c.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3:- BANK COVENANTS

In May 2011 the Company entered into agreement with its main bank regarding new covenant as follows:

- a) Tangible equity to balance sheet ratio – at least 15% as of December 31, 2011, at least 20% as of December 31, 2012 and onwards.
- b) Debt to EBITDA ratio - will not be more than 5 as of December 31, 2011, will not be more than 4 as of December 31, 2012 and December 31, 2013 and will not be more than 3 as of December 31, 2014 and onwards.
- c) Operating profit - in each four consecutive quarters starting from January 1, 2012.

Based on management opinion all its obligations due from these new covenants are expected to be met.

The total amount of the long-term loans from banks is \$ 1,155.

Moreover the company has fully repaid loans from two of its major banks, which removes the floating charge of the Company's assets.

NOTE 4: - OPERATING SEGMENTS

- a. General:

The Group operates in two geographical segments: Europe and other countries.

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 CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4: - 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>
Six months ended June 30, 2011 (unaudited)					
Segment revenues	11,370	-	918	(863)	11,425
Segment results	1,315	-	376	(1,465)	226
Six months ended June 30, 2010 (unaudited)					
Segment revenues	13,486	86	1,541	(921)	14,192
Segment results	1,106	(414)	451	(2,492)	(1,349)
Year ended December 31, 2010 (audited)					
Segment revenues	25,584	1,336	1,765	(1,968)	26,717
Segment results	3,243	(6)	626	(8,825)	(4,962)

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

- a. In a private placement effected on March 14, 2011, the Company issued 3,550,000 Ordinary shares of the Company to the controlling shareholder, Risco Ltd., at a price per share of NIS 5.00, for a total consideration of NIS 17,750 thousand (approximately \$ 5,000) which was to through conversion of outstanding credit line to equity. The private placement was approved in a special general meeting of the Company's shareholders that took place on February 16, 2011.
- b. On June 14, 2011 additional allocation of 380,000 options to the Company's CEO, directors and top management of Risco Ltd., the controlling shareholders, was approved by the audit committee and board of directors, and subject to the final approval of the Company's shareholders.

The options granted will expire 10 years after the date of grant and vest over period of 3 years. The exercise price of the options granted is € 1.5.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands****NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)**

- c. Further to Note 1(d) and Note 7 to the annual financial statements, the Company accelerated the depreciation expense in respect of leasehold improvements and machinery and equipment over the expected useful period, which is due to the Company's decision to vacate the buildings of the Company's plant and administration and the decision to cease manufacturing within the Company.

As a result of the depreciation acceleration, the Company recorded in 2010 an expense in the approximate amount of \$ 2,502 and for the period ended June 30, 2011 an additional approximate amount of \$ 132.

NOTE 6:- TRANSACTIONS WITH RELATED PARTY

Transactions with related parties:

	June 30, 2011	December 31, 2010
Manufacturing services agreement:		
Raw material sales *)	(2,135)	(76)
Purchases of finished goods	1,488	-
Management service agreement	150	122
Interest due from line of credit	25	41

*) Based on Company's cost, used for manufacturing.

See Note 26 to the annual financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands****NOTE 7:- HELD-FOR-SALE**

The Company's intends to sell its subsidiary and currently is in an advanced stage of negotiations, accordingly, all the subsidiary assets and liabilities were classified as held-for-sale in the reported period.

The agreement is subject to the approval of the Board of Directors.

Composition:

	June 30, 2011
Assets classified as held-for-sale	
Cash and cash equivalents	1,219
Trade receivables	1,807
Other accounts receivables	155
Inventories	1,772
Property, plant and equipment, net	1,433
	<u>6,386</u>
Liabilities associated with assets classified as held for sale	
Short-term credit from banks	112
Other current liabilities	403
Trade payables	1,517
Loans from banks	1,051
Deferred taxes	361
	<u>3,444</u>

NOTE 8:- SIGNIFICANT EVENTS AFTER THE REPORTED PERIOD

- a. Following the Board's resolution, dated July 13, 2011, to up-listing from the General Standard to the Prime Standard, the Deutsche Bourse announced the Company's transfer to trading in the Prime Standard segment on August 15, 2011.
- b. During the reported period, the Company's controlling shareholder, Risco Ltd., purchased raw materials in the approximate amount of \$ 2,900 to be used by the Chinese subcontractor for the production of finished goods, which were billed back-to-back through the Company.

The transaction was approved by the audit committee and board of directors, and is subject to the final approval of the Company's shareholders.