

ELECTRONICS LINE 3000 LTD.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2011**

ELECTRONICS LINE 3000 LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2011

IN U.S. DOLLARS

UNAUDITED

INDEX

	<u>Page</u>
Consolidated Balance Sheets	2 - 3
Consolidated Statements of Comprehensive Income	4 - 5
Statements of Changes in Shareholders' Deficiency	6
Consolidated Statements of Cash Flows	7 - 8
Notes to Interim Consolidated Financial Statements	9 - 12

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 March 31, 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the 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.

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 March 31, 2010 and for the period then ended, as required by IFRS.

Qualified conclusion

Based on our review, 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.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	March 31, 2011	December 31, 2010
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	1,000	983
Trade receivables	3,704	2,970
Related Party	1,193	-
Income taxes receivable	285	276
Other accounts receivable	1,400	1,484
Inventories	3,086	5,494
<u>Total current assets</u>	<u>10,668</u>	<u>11,207</u>
NON-CURRENT ASSETS:		
Property, plant and equipment:		
Cost	15,138	15,907
Less - accumulated depreciation	13,334	13,920
Property, plant and equipment, net	1,804	1,987
Intangible assets	479	504
Deferred taxes	215	215
Security deposits	97	97
<u>Total non-current assets</u>	<u>2,595</u>	<u>2,803</u>
<u>Total assets</u>	<u>13,263</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

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
	<u>Unaudited</u>	<u>Audited</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term credit from banks	2,905	3,517
Short-term credit from related parties	-	3,817
Trade payables	3,319	5,024
Income taxes payable	385	149
Other current liabilities	2,234	2,162
<u>Total current liabilities</u>	<u>8,843</u>	<u>14,669</u>
NON-CURRENT LIABILITIES:		
Loans from banks	1,082	1,065
Employee benefit liabilities, net	180	165
Other long-term liabilities	1,084	1,201
Deferred taxes	365	379
<u>Total non-current liabilities</u>	<u>2,711</u>	<u>2,810</u>
EQUITY:		
Share capital	15,933	10,933
Additional paid-in capital	6,453	6,453
Foreign currency translation reserve	1,429	1,413
Accumulated deficit	(22,106)	(22,268)
<u>Total equity</u>	<u>1,709</u>	<u>(3,469)</u>
<u>Total liabilities and equity</u>	<u>13,263</u>	<u>14,010</u>

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

<u>June 14, 2011</u>	<u>Moshe Alkelai</u>	<u>Douglas Luscombe</u>	<u>Lior Meidan</u>
Date of approval of the financial statements	Chairman of the Board	President and CEO	Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands (except per share data)

	Three months ended March 31, 2011	Year ended December 31, 2010
	Unaudited	Audited
Revenues	6,328	26,717
Cost of revenues	4,342	18,338
Gross profit	1,986	8,379
Operating costs and expenses:		
Research and development	420	1,884
Selling and marketing	660	3,840
General and administrative	528	3,167
Other expenses	75	4,450
<u>Total operating costs and expenses</u>	1,683	13,341
Operating income (loss)	303	(4,962)
Financial income	103	62
Financial expenses	242	428
Income (Loss) before taxes on income	164	(5,328)
Taxes on income	2	523
Net income (loss)	162	(5,851)
Net income (loss) per share (basic and diluted)	0.01	(0.58)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Three months ended March 31, 2011	Year ended December 31, 2010
	Unaudited	Audited
Net income (loss)	162	(5,851)
Other comprehensive income (loss):		
Adjustments arising from translating financial statements of foreign operations	16	(175)
Loss on cash flow hedges	-	(10)
Total other comprehensive income (loss)	16	(185)
Total comprehensive income (loss)	178	(6,036)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

U.S. dollars in thousands

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Foreign currency translation reserve</u>	<u>Hedge reserves</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
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	-	-	(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)
Issuance of share capital	5,000	-	-	-	-	5,000
Net income	-	-	-	-	162	162
Other comprehensive profit	-	-	16	-	-	16
Total comprehensive Profit	5,000	-	16	-	162	5,178
Cost of share-based payments	-	-	-	-	-	-
Balance as of March 31, 2011 (unaudited)	<u>15,933</u>	<u>6,453</u>	<u>1,429</u>	<u>-</u>	<u>(22,106)</u>	<u>1,709</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended March 31, 2011	Year ended December 31, 2010
	Unaudited	Audited
<u>Cash flows from operating activities:</u>		
Net Profit (loss)	162	(5,851)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to profit or loss items:		
Depreciation and amortization	263	3,153
Loss (Gain) from sale of property, plant and equipment	(54)	7
Increase (Decrease) in employee benefit liabilities, net	26	(156)
Cost of share-based payments	-	(168)
Taxes on income	2	523
Financial expenses, net	179	368
	<u>416</u>	<u>3,727</u>
Changes in operating asset and liability items:		
Increase in trade receivables	(1,862)	(98)
Decrease (increase) in other accounts receivable	84	(715)
Decrease (increase) in inventories	2,486	(1,019)
Increase in security deposits	-	(23)
Increase (decrease) in trade payables	(1,771)	1,012
Increase (decrease) in other long-term liabilities	(117)	1,201
Increase (decrease) in other current liabilities	243	(235)
Increase (decrease) in other accrued expenses	25	(27)
	<u>(912)</u>	<u>96</u>
Interest paid	(179)	(368)
Income taxes paid	(2)	(161)
	<u>(181)</u>	<u>(529)</u>
Net cash used in operating activities	<u>(515)</u>	<u>(2,557)</u>
<u>Cash flows from investing activities:</u>		
Investment in intangible assets	-	(112)
Acquisition of property, plant and equipment	(4)	(120)
Proceeds from sale of equipment	54	73
Net cash provided by (used in) investing activities	<u>50</u>	<u>(159)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended March 31, 2011	Year ended December 31, 2010
	Unaudited	Audited
<u>Cash flows from financing activities:</u>		
Increase in short-term bank credit, net	7	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	(644)	(2,260)
Net cash provided by financing activities	<u>546</u>	<u>1,534</u>
<u>Exchange differences on balances of cash and cash equivalents of foreign operations</u>		
	(64)	(80)
Increase (decrease) in cash and cash equivalents	17	(1,262)
Cash and cash equivalents at beginning of period	<u>983</u>	<u>2,245</u>
Cash and cash equivalents at end of period	<u><u>1,000</u></u>	<u><u>983</u></u>
(a) Significant non-cash transactions:		
Issuance of shares in return for conversion of shareholders' debt	<u><u>5,000</u></u>	<u><u>-</u></u>

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

These interim consolidated financial statements have been prepared in a condensed format as of March 31, 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 3:- BANK COVENANTS**

As of the balance sheet date, the company is not in compliance with loan covenants. All company's loans classify to short term credit from bank.

On May the company entered into agreement with its main bank regarding new covenant, based on management opinion all its obligations due from these new covenants are expected to be met:

- 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.

Moreover the company has fully repaid long term loan from a major bank, which removes the floating charge on 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.

- 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>				
Three months ended					
March 31, 2011					
(unaudited)					
Segment revenues	6,050	-	677	(399)	6,328
Segment results	864	-	274	(835)	303
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)

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

In a private placement effected on March 14, 2011, the Company issued 3,550,000 Ordinary shares of the Company to the largest shareholder, Risco, at a price per share of NIS 5.00, for a total consideration of NIS 17,750,000 (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.

NOTE 6:- TRANSACTIONS WITH RELATED PARTY

Transactions with related parties:

	March 31, 2010	December 31, 2010
	U.S. dollars in thousands	
Manufacturing services agreement:		
Raw Material sales *)	(1,986)	(118)
Purchases of Finished goods	862	-
Management Service Agreement	75	122
Interest due from Line of Credit	29	41

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

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTED PERIOD

On June 14, 2011 additional allocation of options to the company's CEO, Directors and top management of Risco, the controlling shareholders was approved by the audit committee and board of directors, and pending for final approval of the company's shareholders meeting.
