Electronics Line 3000 Ltd. announces the results for the Year 2010

Rishon Le Zion, Israel (April 6, 2011) – Electronics Line 3000 Ltd. (the "Company"), a global leader in electronic security with remote management solutions, announces a turnover of US$ 26.7 million, an operating loss in the amount of US$ 5 million and a negative cash flow of US$ 1.6 million during the Year 2010.

General

We hereby submit the Directors' Report for the year ended December 31, 2010 (the "Reported Year") and the respective year 2009.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Corporate Description and Business Environment

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.

General Results Review

The Company is facing internal and external challenges due to the recent developments in the global economy. These global economic developments have affected the Company, its customers and suppliers and introduced new challenges for the Company's 2010 and 2009 performances and results.

The Company's revenues in the Reported Year amounted to US$ 26.7 million, compared to US$ 26.4 million for the year ended December 31, 2009.

The gross margins for the Reported Year amounted to US$ 8.4 million (31.4%) compare to US$ 8.6 million (33%) last year.

The lower margin rate in 2010 is a result of US$ 280 thousands provision for slow moving inventory in the Company's US subsidiary.

Total operating expenses for the Reported Year amounted to US$ 13.3 million, compared to US$ 10.3 million in the comparable year. The increase in operating expenses is mainly due to onetime, non-cash expenses of US$ 4.3 million, the Company had to record as a result of outsourcing its production activity.

The tax on income for the Reported Year amounted to US$ 523 thousands, compared to US$ 68 thousands in the comparable year. The increase in tax on income is mainly due to

a US$ 379 thousands onetime, non-cash, expense the Company had to register due to changes in tax principals in the UK which affected the Company's UK subsidiary.

The net loss for the Reported Year amounted to US$ 5.85 million, compared to a net loss of US$ 2.34 million in the comparable year. The Company's net loss increased due to the onetime expenses mentioned above.

Cost of goods sold (the "COGS"):
The COGS amounted to US$ 18.3 million (68.6%) compare to US$ 17.7 million (67%) in the comparable year.

The increase in COGS is mainly due to additional provision for slow moving inventory in the amount of US$ 280 thousands that were taken at the second quarter in the Company's US subsidiary.

As part of the Company's decision to outsource production activity, the Company has engaged into a manufacturing service agreement with a subcontractor and Risco Ltd.
The Company wishes to retain Risco's services for the purpose of manufacturing certain products of the Company, on a non-exclusive basis, prices shall be provided by the Risco, and agreed on by the parties.

Research and development expenses (the "R&D"):
The R&D expenses amounted to US$ 1.9 million during the Reported Year, similar to US$ 1.9 million in the comparable year.

Currently, the Company is developing new products and services that will help the Company to remain an innovation leader in its markets. US$504 thousands of these new, future products were capitalized until the end of the Reported Year. The Company is forecasting to have revenues from these new products starting the second half 2011.

Selling and marketing expenses (the "M&S"):
The M&S expenses amounted to US$ 3.8 million during the Reported Year, compared to US$ 5 million in the comparable year.

The decrease in M&S expense is due to better efficiency, expense savings, and the implantation of the management and distribution service agreements between Risco and the Company as mention below.

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

On August 12th 2010, the Company entered into distribution agreements with Risco. As 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.

General and administrative expenses (the "G&A"):
The G&A expenses amounted to US$ 3.2 million during the Reported Year, compared to US$ 3.4 in the comparable year.

The decrease in G&A expenses is mainly due to new business plan, put into place during 2010. Additional measures which contributed to the decrease in G&A include expenses savings, terminating advisors services agreements, and the implementation of the management service agreement between the Company and Risco as mention below:

On August 12th 2010, the Company entered into management service agreements with Risco Ltd. As 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 resources; (v) directors and consulting services; (vi) legal and company secretarial services.

Other expenses:
During the Reported Year the Company had $4.3 million onetime, non cash, other expenses as a result of vacating its plant and administration buildings and following the Company's decision to outsource its production activity. Thus, during the Reported Year the Company had to accelerate depreciation expenses in respect of leasehold improvements in the amount of US$ 2.6 million, and had to recognize the remaining obligation of lease expenses in the amount of US$ 1.7 million.

Restatements financial reports:
The Company has restated its financial statements as December 31, 2009, 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 Company's Financial Position
The Company's cash and cash equivalents as of December 31, 2010 (hereinafter: "the Reported Date") were US$ 1 million, compared to US$ 2.2 million on December 31, 2009. The reduction is mainly due to cash used for operating activities in the amount of US$ 2.6 million and cash provided by financing activity in the amount of US$ 1.5 million.

The Company's trade receivables on the Reported Year were US$ 3 million, compared to US$ 3 million on December 31, 2009.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reported Year were US$ 1.7 million, compared to US$ 1 million on December 31, 2009.

The Company's inventories on the Reported Year were US$ 5.5 million compared to US$ 4.6 million in the comparable year.

Net investment in property, plant and equipment, on the Reported Date amounted to US$ 2 million, compare to a US$ 5.2 million investment in the comparable year.
The decrease in Net investments is due to accelerated depreciation expenses in respect of leasehold improvements in the amount of US$ 3 million.

The short term credit balance from banks and related parties on the Reported Date amounted to US$ 7.3 million, compared to US$ 5.7 million in the comparable year. The increase in short terms credit is mainly due to increase in Company's inventory.

The Company's trade payables as of the Reported Date were US$ 5 million compared to US$ 4.1 million in the comparable year.

Other current liabilities, accrued expenses and income tax payable were US$ 2.3 million, compared to US$ 2.5 million in the comparable year.

Long term loans were US$ 1.1 million on the Reported Date compared to US$ 1.2 million in the comparable year.

Financial Ratios	**December 31, 2010**	**December 31, 2009**
Current Ratio	0.8	0.9
Quick Ratio	0.4	0.5

As of the Reported Date, the Company does not comply with bank covenants, and therefore, banks may ask for repayment of these loans at any time. All Company' loans classify to short term credit from bank.
In order to address this point, the Company is in the final stage of signing new covenants with its main bank and based on management opinion all its liabilities due from these new covenants are expected to be met.

Cash Flow
During the Reported Year, net cash used in operating activities was US$ 2.6 million compared to US$ 3.4 million provided by operating activities during the previous Year.

Negative cash flow from operating activity is mainly due to the Company's decision to outsource production activity and therefore recorded $4.4 million depreciation expenses and provisions for future obligation for rental fees.

During the Reported Year, the Company directed US$ 159 thousands, towards investment activities, compared to US$ 2 million during the fiscal year of 2009.

Investment activities during 2009 were high mainly due to the acquisition of commercial property in the UK.

During the Reported Year, cash provided by financing activities amounted to US$ 1.5 million, compared to US$ 1.6 million used in financing activities during the fiscal year of 2009.

During the reporting period, the Company was obliged to repay loans' principals in the amount of US$ 2.2 million and received a line of credit, in the amount of up to US$ 6.5 Million from Risco. As of December 31, 2010 the amount used by the Company from this line of credit amounted to US$ 3.8 million. Amounts taken by the Company from the line of credit shall bear an annual interest of Libor+2.5%, charged on quarterly basis

Financing Sources

Shareholders' equity as of December 31st, 2010 is negative and amounted to US$ 3.5 million, compared to US$ 2.7 million positive shareholders' equity as of December 31, 2009.

In order to strengthen the Company's equity and provide the Company with financial resources the Company signed an agreement with Risco Ltd., the Company's largest and controlling shareholder ("Risco"), to issue 3,550,000 ordinary shares of the Company (comprising 25.9% of the Company's share capital following the issuance) at a price per each share of NIS 5.00 (approximately EUR 1.01 per share), for a total consideration of NIS 17,750,000 (approximately US$ 5 Million) as approved by the Company's special general meeting of shareholders held on February 16, 2011.

The proceeds from the issue will be used for working capital and for strengthen the Company's equity.

The Company intends for the new shares to file for admission to trading on the Frankfurt Stock Exchange.

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Douglas Luscombe	Moshe Alkelai
CEO	Chairman of the Board

Rishon Le Zion, April 6th, 2011

ELECTRONICS LINE 3000 LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

U.S. DOLLARS IN THOUSANDS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

ELECTRONICS LINE 3000 LTD.

We have audited the accompanying consolidated financial statements of Electronics Line 3000 Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2010 and 2009, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years then ended, and a summary of significant accounting policies and other explanatory information.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 34% of total consolidated assets as of December 31, 2009, and whose revenues constitute approximately 33% of total consolidated revenues for the year then ended. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidat financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained, and the reports of the other auditors, are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2010 and 2009, and of its financial performance and its cash flows for each of the two years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
April 6, 2011

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	December 31, 2010	December 31, 2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	983	2,245
Trade receivables	4	2,970	2,965
Income taxes receivable		276	246
Other accounts receivable	5	1,484	769
Inventories	6	5,494	4,551
Total current assets		11,207	10,776
NON-CURRENT ASSETS:			
Property, plant and equipment:	7		
Cost		15,907	16,006
Less - accumulated depreciation		13,920	10,838
Property, plant and equipment, net		1,987	5,168
Intangible assets	8	504	392
Deferred taxes	14e	215	215
Security deposits		97	74
Total non-current assets		2,803	5,849
Total assets		14,010	16,625

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	December 31, 2010	December 31, 2009
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks	9	3,517	5,564
Short-term credit from related parties	26	3,817	140
Trade payables	10	5,024	4,091
Income taxes payable		149	62
Other current liabilities	11	2,162	2,424
Total current liabilities		14,669	12,281
NON-CURRENT LIABILITIES:			
Loans from banks	12	1,065	1,214
Employee benefit liabilities, net	13	165	395
Other long-term liabilities	15c	1,201	-
Deferred taxes	14e	379	-
Total non-current liabilities		2,810	1,609
EQUITY:	16		
Share capital		10,933	10,933
Additional paid-in capital		6,453	6,621
Foreign currency translation reserve		1,413	1,588
Hedge reserves		-	10
Accumulated deficit		(22,268)	(16,417)
Total equity		(3,469)	2,735
Total liabilities and equity		14,010	16,625

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

April 6, 2011			
Date of approval of the financial statements	Moshe Alkelai Chairman of the Board	Douglas Luscombe President and CEO	Lior Meidan Director

CONSOLIDATED INCOME STATEMENTS
U.S. dollars in thousands, except per share data

	Note	Year ended December 31, 2010	Year ended December 31, 2009
Revenues	18	26,717	26,391
Cost of revenues	19	18,338	17,703
Gross profit		8,379	8,688
Operating costs and expenses:			
Research and development	20	1,884	1,856
Selling and marketing	21	3,840	5,041
General and administrative	22	3,167	3,355
Other expenses	23	4,450	8
Total operating costs and expenses		13,341	10,260
Operating loss		(4,962)	(1,572)
Financial income	24a	62	2,371
Financial expenses	24b	428	3,067
Loss before taxes on income		(5,328)	(2,268)
Taxes on income	14b	523	68
Net loss		(5,851)	(2,336)
Net loss per share (basic and diluted)	25	(0.58)	(0.23)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
U.S. dollars in thousands

	Year ended December 31,	
	2010	**2009**
Net loss	(5,851)	(2,336)
Other comprehensive income (loss):		
Adjustments arising from translating financial statements of foreign operations	(175)	288
Loss on cash flow hedges	(10)	(5)
Total other comprehensive income (loss)	(185)	283
Total comprehensive loss	(6,036)	(2,053)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
U.S. dollars in thousands

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Hedge reserves	Accumulated deficit	Total equity
Balance as of January 1, 2009	10,933	6,610	1,300	15	(14,081)	4,777
Net loss	-	-	-	-	(2,336)	(2,336)
Other comprehensive income (loss)	-	-	288	(5)	-	283
Total comprehensive income (loss)	-	-	288	(5)	(2,336)	(2,053)
Cost of share-based payments	-	11	-	-	-	11
Balance as of December 31, 2009	10,933	6,621	1,588	10	(16,417)	2,735
Net 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	10,933	6,453	1,413	-	(22,268)	(3,469)

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

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

	Year ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	(5,851)	(2,336)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Adjustments to profit or loss items:		
Depreciation	3,153	816
Loss from sale of property, plant and equipment	7	8
Decrease in employee benefit liabilities, net	(156)	(381)
Cost of share-based payments	(168)	11
Taxes on income	523	68
Financial expenses, net	368	694
	3,727	1,216
Changes in operating asset and liability items:		
Decrease (increase) in trade receivables	(98)	3,528
Decrease (increase) in other accounts receivable	(715)	316
Decrease (increase) in inventories	(1,019)	1,413
Decrease (increase) in security deposits	(23)	12
Increase (decrease) in trade payables	1,012	(175)
Increase in other long-term liabilities	1,201	-
Increase (decrease) in other current liabilities	(262)	21
	96	5,115
Interest paid	(368)	(430)
Income taxes paid	(161)	(122)
	(529)	(552)
Net cash provided by (used in) operating activities	(2,557)	3,443
Cash flows from investing activities:		
Investment in intangible assets	(112)	(392)
Acquisition of property, plant and equipment	(120)	(1,599)
Proceeds from sale of equipment	73	7
Net cash used in investing activities	(159)	(1,984)

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

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

	Year ended December 31,	
	2010	**2009**
Cash flows from financing activities:		
Increase (decrease) in short-term bank credit, net	117	(795)
Receipt of short-term loans from banks	-	1,568
Receipt of short-term loans from related parties	3,817	-
Repayment of long-term loans from related parties	(140)	-
Repayment of long-term loans from banks	(2,260)	(2,332)
Net cash provided by (used in) financing activities	1,534	(1,559)
Exchange differences on balances of cash and cash equivalents of foreign operations	(80)	48
Decrease in cash and cash equivalents	(1,262)	(52)
Cash and cash equivalents at beginning of year	2,245	2,297
Cash and cash equivalents at end of year	983	2,245

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

NOTE 1:- GENERAL

a. Electronics Line 3000 Ltd. ("the Company") was incorporated in Israel in December 2002 for the purpose of absorbing the assets and activities of Metis Capital Ltd. ("Metis") (formerly: Electronics Line (E.L.) Ltd.). The Company's shares are publicly traded on the Prime Standard, a market operated by the Frankfurt Stock Exchange.

b. Following the Board's resolution, dated February 8, 2009, to move from the Prime Standard to the General Standard, the Deutsche Bourse announced the Company's revocation from the Prime Standard on March 17, 2009.

On June 18, 2009, all of the Company's shares began trading on the General Standard for the first time.

c. 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. The registered office of the Group is located at 14 Hachoma Street, Rishon LeZion, Israel

d. During the reporting period the Company incurred losses of $5,851 and as a result had a deficiency in shareholders' equity. In addition, the Company does not meet its loan covenants (see Note 12b).

However, the main reason for the Company's loss is one-time, noncash; expenses in the amount of $4,383 that were recorded as a result of the Company's business streamlining measures (see Note 23).

Moreover, in order to strengthen its financial position the Company issued in March 2011 additional shares to its main shareholder, Risco Ltd, in the amount of $5,000 in consideration for conversion of credit provided to equity (see Note 28). In addition, the company is in a final stage of signing new covenants with its main bank and based on management opinion all its obligations due from these new covenants are expected to be met.

NOTE 1:- GENERAL (Cont.)

e. Definitions:

In these financial statements:

The Company	- Electronics Line 3000 Ltd.
The Group	- The Company and its investees, as detailed in the accompanying appendix.
Subsidiaries	- Companies that are controlled by the Company (as defined in IAS 27) and whose accounts are consolidated with those of the Company.
Investees	- Subsidiaries.
Related parties	- As defined in IAS 24.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. Measurement basis:

The Company's financial statements have been prepared on a cost basis, except for the following:

Deferred tax assets;
Employee benefit assets and employee benefit liabilities.

The Company has elected to present the statement of comprehensive income using the function of expense method.

2. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the IFRIC and by the SIC.

3. Consistent accounting policies:

The following accounting policies have been applied consistently in the financial statements for all period presented, except when otherwise indicated.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Changes in accounting policies in view of the adoption of new standards:

   IAS 7 - Statement of Cash Flows:

   According to the amendment to IAS 7, only cash flows that are recognized as an asset may be classified as cash flows from investing activities.

   The amendment was applied retrospectively commencing from January 1, 2010.

b. Significant estimates and assumptions used in the preparation of the financial statements:

Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Legal claims:

  In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

- Pensions and other post-employment benefits:

  The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

- Development costs:

  Development costs are capitalized in accordance with the accounting policy as described in below. In testing for impairment, management makes assumptions regarding the expected cash flows from the asset being developed, the discount rate and the expected period of benefits. Further details are given in Note 8.

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases. A change in the ownership interest of a subsidiary without a loss of control is presented for as an equity transaction.

Material intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Functional currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the U.S. dollar.

The functional currency, which is the currency that best reflects the economic environment in which an entity operates and conducts its transactions, is separately determined for each Group entity and is used to measure its financial position and operating results. The functional currency of the Company is the U.S. dollar.

The financial statements of a subsidiary have been translated from the functional currency (GBP) to the presentation currency (U.S. dollar), in accordance with the following:

a) Assets and liabilities at the end of each reporting period (including comparative data) are translated at the closing rate at the end of the reporting period. Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the end of the reporting period.

b) Income and expenses for each period presented in the statement of income (including comparative data) are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.

d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions (such as dividend) during the period are translated as described in c) above.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "foreign currency translation reserve".

Upon the full or partial disposal of a foreign operation, the relevant portion of other comprehensive income (loss) is recognized in profit or loss. Commencing from January 1, 2010, upon the partial disposal of a subsidiary that is a foreign operation which disposal results in the loss of control of the subsidiary, the cumulative gain (loss) recognized in other comprehensive income is transferred to profit or loss whereas upon the partial disposal of a subsidiary that is a foreign operation which disposal results in the retention of control, the relative portion of the cumulative amount recognized in other comprehensive income is reattributed to non-controlling interests.

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment and the exchange differences arising on these loans (net of their tax effect) are recognized in the same component of equity as discussed in e) above.

Exchange differences in respect of a financial instrument in foreign currency that constitutes a net investment hedge are recorded, net of tax effect, in other comprehensive income (loss) in a hedge reserve. Upon the disposal of the net investment, these translation differences are recognized in the statement of income.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are recognized in the statement of income. Non-monetary assets and liabilities measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalized to qualifying assets or carried to equity in hedge transactions, are recognized in the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following are data about the representative exchange rate of the U.S. dollar in relation to the New Israeli Shekel ("NIS"), Euro and the GBP:

As of	Exchange rate of NIS 1	Exchange rate of € 1	Exchange rate of £ 1
		$	
December 31, 2010	0.28	1.34	1.55
December 31, 2009	0.26	1.44	1.62
Change during the year ended	**%**	**%**	**%**
December 31, 2010	7.7	(7.0)	4.3
December 31, 2009	-	3.5	11.6

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition and which form part of the Group's cash management.

f. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition. The deposits are presented according to their terms of deposit.

g. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company also recognizes a provision for groups of customers that are collectively assessed for impairment based on their credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

h. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cost of inventories is assigned as follows:

Raw and auxiliary materials - using the weighted average cost method.

Work in progress and finished products - cost of direct materials and labor and a proportion of manufacturing overheads, based on normal operating capacity but excluding borrowing costs.

The Company periodically evaluates the condition and age of inventories and makes provisions for slow-moving inventories accordingly.

If in a particular period production is not at normal capacity, the cost of inventories does not include additional fixed overheads in excess of those allocated based on normal capacity. Such unallocated overheads are recognized as an expense in the statement of income in the period in which they are incurred. Furthermore, cost of inventories does not include abnormal amounts of materials, labor or other costs resulting from inefficiency.

i. Financial instruments:

Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; and

1. Financial assets at fair value through profit or loss:

   The Group has financial assets at fair value through profit or loss comprising financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term, if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits or if they are derivatives not designated as hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss when incurred.

2. Loans and receivables:

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process.

3. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial liabilities:

Financial liabilities measured at amortized cost:

Loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the financial liability is derecognized as well as through the systematic amortization process.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A transaction involving factoring of accounts receivable is derecognized when the abovementioned conditions are met.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

Financial liabilities:

A financial liability is derecognized when it is extinguished, which is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in the statement of income. If the exchange or modification is immaterial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized from the exchange.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Impairment of financial assets:

The Group assesses at the end of each reporting period whether there is any objective evidence that the following financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost:

There is objective evidence of impairment of debt instruments and loans and receivables carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). If the financial asset has a variable interest rate, the discount rate is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account (see allowance for doubtful accounts above). In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in statement of income.

j. Derivative financial instruments designated as hedges:

The Group enters into contracts for derivative financial instruments such as forward currency contracts associated with foreign exchange rates. Such derivative financial instruments are initially recognized at fair value. After initial recognition, the derivatives are measured at fair value. Derivatives are carried in the statement of financial position as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction or the foreign currency risk in an unrecognized firm commitment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedge effectiveness is assessed at the end of each reporting period.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity as other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss.

Amounts recognized as other comprehensive income (loss) are reclassified to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, this cost also includes the associated other comprehensive income (loss) reclassified from equity in the same period during which the asset or liability are recognized.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recorded immediately in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Property, plant and equipment:

Items of property, plant and equipment are measured at cost with the addition of direct acquisition costs, less accumulated depreciation, accumulated impairment losses and related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the machinery and equipment.

The cost of an item of fixed asset comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located, any obligation which the Company incurs either when the item is acquired or as a consequence of having used the item during a particular period.

The cost of self-constructed assets includes the cost of materials, direct labor and borrowing costs as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	Mainly %
Buildings	2	
Machinery and equipment	10 - 15	10
Motor vehicles	15	
Office furniture and equipment	6 - 33	33
Leasehold improvements	see below	

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

A part of a fixed asset with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method. Depreciation is calculated on a straight-line basis at annual rates that are adequate for the depreciation of the assets over the term of their expected useful life.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and the changes are accounted for as a prospective change in accounting estimate. As for testing the impairment of property, plant and equipment, see m below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in the statement of income when the asset is derecognized.

l. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in profit or loss.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the impairment of the asset is tested and it is amortized systematically over its useful economic life.

Gains or losses arising from the derecognition of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Research and development expenses:

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from development or from the development phase of an internal project is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. As for the testing of impairment, see m below.

m. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets (property, plant and equipment, and intangible assets) whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss. A reversal of an impairment loss on a revalued asset is recognized in other comprehensive income. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment loss is also recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For development costs capitalized during the development period the impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

n. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions. Government investment grants related to assets, such as property, plant and equipment, are presented as a deduction from the carrying amount of the assets.

Government grants received from the Office of the Chief Scientist ("OCI") as support for a research and development project which grants include an obligation to pay to the State royalties that are conditional on future sales arising from the project, are recognized upon receipt as a liability if future economic benefits are expected from the project that will result in royalty-bearing sales. If no such economic benefits are expected, the grants are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as contingent liability in accordance with IAS 37.

At the end of each reporting period, the Company evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties). If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as a reduction of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

Grants received from the OCI prior to January 1, 2009, which are recognized as a liability, are accounted for as forgivable loans in accordance with IAS 20, based on the original terms of the loans.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Grants received from the OCI on or after January 1, 2009, which are recognized as a liability, are accounted for as forgivable loans, in accordance with IAS 20 (Revised), pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a government grant and recognized as a reduction of research and development expenses.

Royalty payments are treated as a reduction of the liability.

o. Taxes on income:

Taxes on income in the statement of income comprise current and deferred taxes. Current or deferred taxes are recognized in the statement of income except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity. In such cases, the tax effect is also recognized in the relevant item.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are recognized directly in other comprehensive income or in equity if the tax relates to those items.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized outside of profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, "taxes on income".

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

p. Share-based payment transactions:

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model, additional details are given in Note 16. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account. The only conditions taken into account in estimating fair value are market conditions and non-vesting conditions.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognized in profit or loss represents the movement in the cumulative expense recognized at the end of the reporting period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

q. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed simultaneously with receiving the employee's services and no additional provision is required in the financial statements.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law in Israel. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relation is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to yields on Government bonds with a term that matches the estimated term of the benefit obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits presented in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs.

Actuarial gains and losses are recognized in profit or loss in the period in which they occur.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Revenue recognition:

Revenues are recognized in the statement of income when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Revenues from credit sales transactions that include a financing element are recorded at present value such that the difference between the fair value of the consideration had credit not been provided and the nominal amount of the consideration is recognized in the statement of income as Finance income using the effective interest method.

The specific criteria for revenue recognition for the following types of revenues are:

Revenues from the sale of goods:

Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Customer discounts:

Current customer discounts are recognized in the financial statements when granted and are deducted from sales.

Customer discounts given at the end of the year and in respect of which the customer is not obligated to comply with certain targets, are recognized in the financial statements proportionately as the sales entitling the customer to said discounts are made.

Customer discounts for which the customer is required to meet certain targets, such as a minimum amount of annual purchases (either quantitative or monetary), an increase in purchases compared to previous periods, etc. are recognized in the financial statements in proportion to the purchases made by the customer during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated. The estimate as to meeting the targets is based, among others, on past experience, on the Company's relationship with the customers and on the expected amount of purchases by the customers in the remaining period.

s. Cost of revenues and supplier discounts:

Cost of sales includes expenses for loss, storage and conveyance of inventories to the end point of sale. Cost of sales also includes provisions for write-downs of inventories, inventory write offs and provisions for slow-moving inventories.

Discounts are deducted from cost of purchase when the conditions entitling to those discounts are satisfied. Certain of the discounts in respect of that portion of the purchases that are added to closing inventories are attributed to inventories and the balance reduces the cost of sales.

t. Finance income and expenses:

Finance income comprise interest income on amounts invested, changes in fair value of financial assets at fair value through profit or loss and exchange gains and gains on hedges recognized in the statement of income. Interest income is recognized as it accrues using the effective interest method. Revenues from dividend are recognized when the Group's right to receive the payment is established.

Changes in fair value of financial assets at fair value through profit or loss contain also interest income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Finance costs comprise interest expenses on borrowings, changes in the time value of provisions, reductions in the fair value of financial assets at fair value through profit or loss, impairment losses of financial assets and losses on hedges recognized in profit or loss. Borrowing costs that are not capitalized to qualifying assets are recognized in the statement of income using the effective interest method.

u. Operating segments:

An operating segment is a component of the Group that meets the following three criteria:

1. is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intragroup transactions;

2. whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

3. for which separate financial information is available.

v. Earnings (loss) per share:

Earnings (loss) per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

Following are the types of provisions included in the financial statements:

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is measured at its present value.

Onerous contract:

The Company recognized a provision for payment of future net lease fees for assets in respect of which it has future lease payments in amounts that exceed the future economic benefit expected from the assets (the expected rental income on sub-lease of the asset) since they are no longer in use as the property was abandoned and the activity relocated. This provision is measured at present value.

x. Advertising expenses:

Expenditures incurred on advertising, marketing or promotional activities, such as production of catalogues and promotional pamphlets, are recognized as an expense when the Group has the right of access to the advertising goods or when the Group receives those services.

y. Presentation of statement of comprehensive income:

The Company has elected to present comprehensive income using two statements: a statement of income and a statement of comprehensive income in which all the items recognized in other comprehensive income are presented, excluding net income which is brought forward from the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Disclosure of new IFRSs in the period prior to their adoption:

IFRS 7 - Financial Instruments: Disclosure:

The amendments to IFRS 7 deal with the following issues:

1. Clarification of the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures about the nature and extent of risks arising from financial instruments. The Standard also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The amendment should be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011. Earlier application is permitted.

2. New disclosure requirements about transferred financial assets including disclosures regarding unusual transfer activity near the end of a reporting period. The objective of the amendment is to assist users of financial statements to assess the risks to which the Company may remain exposed from transfers of financial assets and the effect of these risks on the Company's financial position. The amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The amendment should be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

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

IFRS 9 - Financial Instruments:

1. In November 2009, the IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

   According to IFRS 9, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost if both of the following conditions are met:

   - the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard is effective commencing from January 1, 2013. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively, except as specified in the Standard.

2. In October 2010, the IASB issued certain amendments to IFRS 9 regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

   The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

The amendments are effective commencing from January 1, 2013. Earlier application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments should be applied retrospectively, except as specified in the amendments.

The Company believes that the amendments are not expected to have a material effect on the financial statements.

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, Government-related companies are provided a partial exemption of disclosure requirements for transactions with the Government and other Government-related companies. The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

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

NOTE 3:- CASH AND CASH EQUIVALENTS

Composition by currency:

	December 31,	
	2010	2009
U.S. dollars	96	1,018
Euros	15	241
GBP	826	489
NIS	46	497
	983	2,245

NOTE 4:- TRADE RECEIVABLES

a. Composition:

	December 31, 2010	December 31, 2009
Open accounts	3,328	4,271
Checks receivable	36	62
	3,364	4,333
Less - allowance for doubtful accounts	394	1,368
	2,970	2,965

Trade receivables are non-interest bearing and are generally for 60-90 day terms.

b. The movements in the allowance for doubtful accounts were as follows:

	Individually impaired
At January 1, 2009	708
Charge for the year	655
Exchange rate adjustment	5
At December 31, 2009	1,368
Charge for the year	54
Derecognition of bad debts	(1,028)
At December 31, 2010	394

c. An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to reporting date:

	Neither past due nor impaired	Past due but not impaired				Total
		< 30 days	30 – 60 days	60 – 90 days	> 90 day	
December 31, 2010	1,669	43	795	369	94	2,970
December 31, 2009	1,757	794	338	76	-	2,965

NOTE 5:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2010	**2009**
Prepaid expenses	76	255
Advances to suppliers	964	126
Government authorities	394	245
Other receivables	50	143
	1,484	769

NOTE 6:- INVENTORIES

	December 31,	
	2010	**2009**
Finished products	1,908	1,661
Work in progress	596	365
Raw and auxiliary materials	1,953	2,487
	4,457	4,513
Inventory in transit	1,037	38
	5,494	4,551

The provisions for slow-moving inventories as of December 31, 2010 and 2009 are $ 1,339 and $ 2,326, respectively.

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT

	Building	Installations and leasehold improvements	Machinery and equipment	Motor vehicles	Office furniture and equipment	Total
Cost:						
Balance as of January 1, 2009	-	5,937	5,032	174	3,521	14,664
Acquisitions during the year	1,467	27	84	-	21	1,599
Disposals during the year	-	(52)	(170)	-	(37)	(259)
Currency translation differences	(11)	3	-	3	7	2
Balance as of December 31, 2009	1,456	5,915	4,946	177	3,512	16,006
Acquisitions during the year	-	-	67	-	53	120
Disposals during the year	-	-	-	(104)	(45)	(149)
Currency translation differences	(64)	-	-	(1)	(5)	(70)
Balance as of December 31, 2010	1,392	5,915	5,013	72	3,515	15,907
Accumulated depreciation:						
Balance as of January 1, 2009	-	3,218	3,942	65	3,033	10,258
Provision during the year	8	370	308	24	106	816
Disposals during the year	-	(1)	(215)	-	(28)	(244)
Currency translation differences	-	3	-	-	5	8
Balance as of December 31, 2009	8	3,590	4,035	89	3,116	10,838
Provision during the year	28	2,146	871	10	98	3,153
Disposals during the year	-	-	-	(42)	(27)	(69)
Currency translation differences	-	-	-	(1)	(1)	(2)
Balance as of December 31, 2010	36	5,736	4,906	56	3,186	13,920
Depreciated cost as of December 31, 2010	1,356	179	107	16	329	1,987
Depreciated cost as of December 31, 2009	1,448	2,325	911	88	396	5,168

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

During the reporting period, 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 additional expense in the approximate amount of $ 2,502 (See Note 23).

NOTE 8:- INTANGIBLE ASSETS

Internal development costs of software and production files that have been capitalized are composed as follows:

	December 31,	
	2010	2009
Cost:		
As of January 1	392	-
Additions	112	392
As of December 31	504	392

The intangible assets are under final examination as of December 31, 2010, and are expected to be available for use in 2011.

NOTE 9:- SHORT-TERM CREDIT FROM BANKS

a. Composition:

	Annual interest rate	December 31, 2010	December 31, 2009
	% *)		
Short-term loans (floating rate):			
NIS	7.1	338	317
U.S. dollars	2.2	900	804
		1,238	1,121
Long-term loans from banks **)		887	2,168
Current maturities of long-term loans (see Note 12)		1,392	2,275
		3,517	5,564

*) Weighted average annual interest rate as of December 31, 2010. The effective interest rate is equal to the average interest rate.

**) Classified from long-term loans due to violation of financial covenants - see Note 12b.

b. Liens:

As a collateral to bank credit amounts, The Company recorded a floating charge (a non-specific lien on all assets of the Company on which there is no previous specific lien) on the Company's assets in favor of three of the Company's banks.

NOTE 10:- TRADE PAYABLES

	December 31, 2010	December 31, 2009
Open accounts	4,926	3,515
Checks payable	98	576
	5,024	4,091

Trade payables are non-interest bearing and generally have terms of 60-90 days.

NOTE 11:- OTHER CURRENT LIABILITIES

	December 31, 2010	December 31, 2009
Accrued expenses	426	453
Accrued salaries and related expenses	819	1,838
Government authorities	17	95
Onerous contract (See Note 15c)	511	-
Others	389	38
	2,162	2,424

NOTE 12:- LOANS FROM BANKS

a. Composition:

	Average interest rate (1)	December 31, 2010	December 31, 2009
	%		
U.S. dollars	LIBOR + 1.6 (2)	201	600
U.S. dollars	LIBOR + 1.9 (2)	100	-
U.S. dollars	LIBOR + 1.74 (3)	1,870	3,652
GBP (c)	UK base rates + 1.85-2 (4)	1,173	1,327
NIS	-	-	78
		3,344	5,657
Less - current maturities		1,392	2,275
		1,952	3,382
Classified to current liabilities (b)		(887)	(2,168)
		1,065	1,214

(1) As of December 31, 2010. The effective interest rate is equal to the average interest rate.
(2) As of December 31, 2010, six-months LIBOR is 0.46%.
(3) As of December 31, 2010, three-months LIBOR is 0.3%.
(4) As of December 31, 2010, UK base rate is 0.55%.

NOTE 12:- LOANS FROM BANKS (Cont.)

b. The Company has financial covenants with its three principal banks which include certain customary financial covenants that the Company is required to fulfill, including the ratio of shareholders' equity to total assets, certain profitability level, cash balances and other balance sheet ratios. As of December 31, 2010 and 2009, the Company did not meet a specific ratio and, accordingly, long-term loans in an amount of $ 887 (2009 - $ 2,168) were reclassified to current liabilities (see Note 9). To date, the banks have not demanded early repayment. The Company is in the process of redefining its financial covenants (see Note 1d).

c. As described in b above, the Company is not in compliance with loan covenants. According to their original contractual terms, the long-term loans are repayable in future years, as follows:

	December 31,	
	2010	2009
First year	1,392	2,275
Second year	996	1,397
Third year	108	997
Fourth year	108	86
Fifth year	740	902
	3,344	5,657

d. The bank loans are secured by a fixed and floating charge over the Company's building in England.

NOTE 13:- EMPLOYEE BENEFITs LIABILITIES, NET

Employee benefits consist of short-term benefits, post-employment benefits, other long-term benefits and termination benefits.

Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

NOTE 13:- EMPLOYEE BENEFITS LIABILITIES, NET (Cont.)

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans, as detailed below.

a. Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions represent defined contribution plans.

	Year ended December 31,	
	2010	2009
Expenses in respect of defined contribution plans	247	265

b. Defined benefit plans:

The Company accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Company deposits amounts in central severance pay funds and in qualifying insurance policies.

1. Expenses recognized in the statement of income:

	Year ended December 31,	
	2010	2009
Current service cost	50	49
Interest cost on benefit obligation	89	90
Expected return on plan assets	(70)	(57)
Net actuarial gain recognized in the year	137	239
Total employee benefit expense	206	321
Actual return on plan assets	212	336

NOTE 13:- EMPLOYEE BENEFITS LIABILITIES, NET (Cont.)

2. The plan assets, net:

	December 31, 2010	December 31, 2009
Defined benefit obligation	2,015	2,070
Fair value of plan assets	(1,776)	(1,675)
	239	395
Reclassified to current liabilities	74	-
Total liabilities, net	165	395

3. Changes in the present value of defined benefit obligation:

	2010	2009
Balance at January 1,	2,070	2,069
Interest cost	89	90
Current service cost	50	49
Benefits paid	(306)	(192)
Net actuarial loss (gain)	(9)	40
Exchange differences	121	14
Balance at December 31,	2,015	2,070

4. Plan assets:

a) Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

b) The movement in the fair value of the plan assets:

	2010	2009
Balance at January 1,	1,675	1,456
Expected return	70	57
Benefits paid	(203)	(136)
Net actuarial gain	128	279
Exchange differences	106	19
Balance at December 31,	1,776	1,675

NOTE 13:- EMPLOYEE BENEFITS LIABILITIES, NET (Cont.)

5. The principal actuarial assumptions used are as follows:

	December 31,	
	2010	**2009**
Discount rate	4.65%	4.7%
Future salary increase	5%	5%

NOTE 14:- TAXES ON INCOME

a. Israeli Tax laws:

1. *Income Tax (Inflationary Adjustments) Law, 1985:*

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation.

2. *The Law for the Encouragement of Industry (Taxation), 1969:*

The Company has the status of an "industrial company", as implied by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law.

b. Income tax expense included in the statements of income:

	Year ended December 31,	
	2010	**2009**
Current taxes	144	60
Taxes in respect of previous years	-	8
Deferred taxed	379	-
	523	68

NOTE 14:- TAXES ON INCOME (Cont.)

c. Tax computation:

The difference between income tax expense on income before taxes computed at regular tax rates and income tax expense in the consolidated statement of income is explained as follows:

	Year ended December 31,	
	2010	**2009**
Loss before taxes on income	(5,328)	(2,268)
Tax benefit computed at statutory tax rate of 25% (2009 - 26%)	(1,332)	(590)
Increase (decrease) in tax due to:		
Non-deductible expenses	38	46
Cost of share-based payments	(42)	3
Change in tax laws in a subsidiary	379	-
Losses and other items for which deferred taxes were not provided	1,460	468
Taxes in respect of previous years	-	8
Differences in the basis of measurement (U.S.$ NIS) *) and others	20	(3)
	523	68

*) The amount represents the difference resulting from the basis of measurement for income tax purposes in Israel (calculated based on the New Israeli Shekel) and the measurement currency of the Company (the U.S. dollars).

d. Tax assessments:

Final tax assessments:

The Company's tax assessments in Israel are deemed final through 2006.

NOTE 14:- TAXES ON INCOME (Cont.)

e. Deferred taxes:

The deferred taxes are reflected in the statement of financial position as follows:

	December 31,	
	2010	**2009**
Non-current assets	215	215
Non-current liabilities	379	-
	(164)	215

Deferred tax assets are computed at an average tax rate of approximately 24% for 2010 and 2009.

The Group recorded deferred tax assets, principally for tax loss carryforwards and also for other temporary differences, as of December 31, 2010 and 2009 in the amount of $ 215 (see f below). The deferred tax assets were recorded based on the Group's management best estimation of realization of these losses and temporary differences in the foreseeable future.
The Group recorded deferred tax liability to reflect the change in tax laws which applies on a subsidiary in the UK, as of December 31, 2010 in the amount of $ 379 (see f below).

f. Changes in deferred taxes:

	2010	**2009**
Balance at the beginning of the year	215	215
Change during the year	(379)	-
Balance at the end of the year	(164)	215

g. Tax rates applicable to the Group companies:

1. The rate of the Israeli corporate tax is as follows: 2008 - 27%, 2009 - 26%, 2010 - 25%. Tax at a reduced rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

   The effect of the abovementioned change on the financial statements is immaterial.

NOTE 14:- TAXES ON INCOME (Cont.)

2. The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

   A company incorporated in the U.S. - weighted tax at the rate of 38.63% (Federal tax, State tax and City tax of the city where the company operates).

   Company incorporated in England - tax at the rate of 28%.

h. Carryforward losses for tax purposes:

The Group's carryforward losses for tax purposes as of December 31, 2010 and 2009 amount to approximately $ 21,099 and $ 15,218, respectively. With respect to tax losses carryforward of approximately $ 20,239 and $ 14,418, no deferred tax asset was recognized as of December 31, 2010 and 2009, respectively.

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Legal claims:

A legal claim by a landlord in the approximate amount of $ 770 has been submitted to the Company as a consequence of controversy regarding the rental payment. Based on the opinion of the Company's legal advisors, the probability of the claim is remote, and hence the Company did not include a provision for the claim.

b. Royalties:

1. The Company is obligated to pay royalties of 2%-3.5% of the revenues from products in the development of which the Chief Scientist participated. The royalties are limited to the amount of the grant received, linked to the U.S dollar. Total grants received as of December 31, 2010 and 2009 amounted to approximately $ 1,670. The balance of contingent royalties is approximately $ 1,238. Since the Company does not manufacture and sell the products for which it had received the grants, it does not expect to pay additional royalties in the future, therefore no liability was included in the financial statements.

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES

2. Under the conditions of an agreement for participation by the Bi-National Fund for Research and Development ("BIRD") in joint R&D programs between the Group and a U.S. company, BIRD granted grants to the Group. In consideration for this grant, BIRD is entitled to royalties of between 2.5% and 5% of the gross sales of products resulting from this research, up to the amount of the grant, linked to the U.S dollar. Thereafter, BIRD will be entitled to royalties of 2.5% of sales up to an additional amount equaling half of the grant received. On January 1, 2003, the benefits and the obligations deriving from this agreement were transferred to the Company from Metis. The grants received by the Company and the balance of contingent royalties as of December 31, 2010 and 2009 amounted to approximately $ 340. Since the Company does not manufacture and sell the products for which it had received the grants, it does not expect to pay additional royalties in the future, therefore no liability was included in the financial statements.

   It was also agreed with BIRD that should one of the companies register a patent on a product developed, the Group will also pay royalties to BIRD at the rate of 1.5% of the gross sales of the product resulting from the research, for the duration of the patent.

c. Operating leases:

The Company entered into agreements with Metis to lease the plant and office building until 2021 and 2024, respectively. The Company has an option to cancel the leases in 2011 and 2014, respectively. The rent is linked to the higher of the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar. Certain of the leases have escalation clauses.

Total lease expenses amounted to $ 1,023 and $ 1,376 for 2010 and 2009, respectively.

Following the Company's decision in 2010 to vacate its plant and office buildings, the Company recorded a provision for the present value of remaining obligation (Until 2014) of lease payments (onerous contract) in the amount of about $ 1,712, of which $ 1,201 is presented in non-current liabilities and the below in the amount of $ 511 is presented in of other current liabilities.

NOTE 16:- EQUITY

a. The share capital is composed as follows:

	December 31, 2010		December 31, 2009	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 5 par value each	50,000,000	10,162,848	50,000,000	10,162,848

The authorized share capital of the Company is NIS 250,000,000 comprised of 50,000,000 authorized Ordinary shares, par value NIS 5 each.

b. Stock Option Plan:

On June 8, 2005, the Company's Board of Directors adopted a share option plan according to which up to 290,735 options exercisable into Ordinary shares of the Company may be granted to officers, directors, employees and consultants of the Group.

In addition, on May 9, 2006, the BOD resolved to increase the number of shares available for option grants under the June 2005 share option plan up to 500,000 options.

During 2010, the employment of certain officers and employees of the Company, who were previously granted options, was terminated. Consequently, 104,316 of the options were forfeited.

Total cost (income) of share-based payments amounted to $ (168) and $ 11 for 2010 and 2009, respectively.

NOTE 16:- EQUITY (Cont.)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the years:

	Year ended December 31,			
	2010		2009	
	Number	WAEP (U.S.$)	Number	WAEP (U.S.$)
Outstanding at beginning of year	213,908	6.18	233,908	6.18
Granted during the year	-	-	-	-
Forfeited during the year	(104,316)	5.94	(20,000)	6.99
Exercised during the year	-	-	-	-
Outstanding at end of year	109,592	5.22	213,908	6.18
Exercisable at end of year	94,968	5.90	201,435	4.19

NOTE 17:- FINANCIAL INSTRUMENTS

a. The financial assets and financial liabilities in the balance sheet are classified by groups of financial instruments pursuant to IAS 39:

	December 31,	
	2010	2009
Financial assets:		
Financial assets at fair value through profit or loss:	46	31
Loans and receivables	3,842	2,965
Financial liabilities:		
Financial liabilities measured at amortized cost	15,135	11,009

b. Financial risks factors:

The Group's activities expose it to various financial risks such as market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance. The Group utilizes derivatives in order to hedge certain exposures to risks.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

The company management oversees the risks in accordance with the policies approved by the Board. The Company management identifies, measures and manages financial risks in collaboration with the Group's operating units. The Board establishes documented objectives for the overall risk management activities as well as specific policies with respect to certain exposures to risks such as currency risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investments of excess liquid positions.

1. Market risks:

   a) Foreign currency risk:

      The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. Group management regularly monitors its foreign exchange risk and attempts to limit such risks by making adequate decisions regarding cash and credit positions.

      As of December 31, 2010 and 2009, the Company's monetary liabilities in NIS exceeded monetary assets by $ 1,772 and $ 2,017, respectively.

      As of December 31, 2010 and 2009, the Company's monetary assets in Euro exceeded monetary assets by $ 385 and $ 1,093, respectively.

      As of December 31, 2010 and 2009, the Company's monetary assets in GBP exceeded monetary assets by $ 11 and $ 278, respectively.

   b) Interest rate risk:

      The Group is exposed to the risk of changes in the market interest rates on long-term loans with floating interest rates. The Group's policy is to manage the finance costs relating to the interest by having a balance between fixed and variable rate long-term loans.

2. Credit risk:

   The Group has no significant concentrations of credit risk. The Group has a policy to ensure collection through sales of its products to wholesalers with an appropriate credit history.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will be similarly affected by changes in economic or other conditions. Factors that have the potential of creating concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations and the financial strength of groups of borrowers.

The Company regularly monitors the credit extended to its customers. The Company provides an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information.

3. Liquidity risk:

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans and loans from shareholders.

The maturities of the financial liabilities of the Group based on contractual undiscounted payments (including interest) are as follows:

	December 31,	
	2010	2009
First year	11,983	11,009
Second year	1,594	1,520
Third year	679	1,050
Fourth year	55	101
Fifth year	824	1,124
	15,135	11,009

c. Fair value:

The carrying amount of cash and cash equivalents, trade receivables, other accounts receivable, credit from banks and others, trade payables and other accounts payable approximate their fair value.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

d. Classification of financial instruments by fair value hierarchy:

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Financial assets measured at fair value:

	December 31,	
	2010	2009
Financial assets at fair value through profit or loss (all level 3):		
Derivatives - hedged	46	23
Derivatives - non-hedged	-	8
	46	31

e. Derivatives and hedging:

Derivatives not designated as hedging instruments:

As of December 31, 2010, the Group has forward foreign currency contracts to manage some of its transactions exposure to fluctuations in exchange rates. These forward foreign currency contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with the periods of currency transaction exposure. Such derivatives do not qualify for hedge accounting.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

f. Sensitivity tests relating to changes in market factors:

	Year ended December 31,	
	2010	2009
Sensitivity test to changes in the NIS exchange rate:		
Gain (loss) from the change:		
Increase of 5% in the NIS rate	(128)	(101)
Decrease of 5% in the NIS rate	128	101
Sensitivity test to changes in the Euro exchange rate:		
Gain (loss) from the change:		
Increase of 5% in the Euro rate	19	55
Decrease of 5% in the Euro rate	(19)	(55)

NOTE 18:- REVENUES

	Year ended December 31,	
	2010	2009
Foreign:		
Europe	23,524	21,516
United States	1,320	1,550
Other countries	1,392	3,170
	26,236	26,236
Domestic - Israel	481	155
	26,717	26,391
Includes sales to one major customer	5,448	4,440

NOTE 19:- COST OF REVENUES

	Year ended December 31,	
	2010	2009
Purchases and changes in raw and auxiliary materials	13,961	11,844
Labor	2,850	2,473
Manufacturing and other expenses	1,724	1,535
Depreciation and amortization	436	657
	18,971	16,509
Changes in inventories of finished products and work-in-progress	(633)	1,194
	18,338	17,703

NOTE 20:- RESEARCH AND DEVELOPMENT EXPENSES

	Year ended December 31,	
	2010	2009
Salaries and related expenses	939	835
Other	945	1,021
	1,884	1,856

NOTE 21:- SELLING AND MARKETING EXPENSES

	Year ended December 31,	
	2010	2009
Salaries and related expenses	2,094	2,724
Commissions	238	102
Advertising	113	304
Foreign travel and transportation	756	709
Rent	216	411
Other	423	791
	3,840	5,041

NOTE 22:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2010	2009
Salaries and related expenses	804	938
Management and consulting fees	733	200
Allowance for doubtful accounts and bad debts	54	1,056
Depreciation	203	159
Other	1,373	1,002
	3,167	3,355

NOTE 23:- OTHER EXPENSES

	Year ended December 31,	
	2010	2009
	Dollars in thousands	
Onerous contract (see Note 15)	1,712	-
Accelerated depreciation (see Note 7)	2,502	-
Capital loss on sale of fixed assets	7	8
Others	229	-
	4,450	8

NOTE 24:- FINANCIAL INCOME AND EXPENSES

	Year ended December 31,	
	2010	2009
a. Financial income:		
Foreign exchange differences	52	2,371
Other	10	-
	62	2,371
b. Financial expenses:		
Bank borrowings, net	(382)	(439)
Foreign exchange differences	(25)	(2,338)
Other	(21)	(290)
	(428)	(3,067)

NOTE 25:- NET LOSS PER SHARE

The following reflects the net loss and share data used in the basic and diluted net loss per share computations:

	Year ended December 31,	
	2010	**2009**
Loss attributable to Ordinary shares for computing basic and diluted net loss per share	(5,851)	(2,336)
Weighted average number of Ordinary shares for computing basic net loss per share	10,162,848	10,162,848
Adjusted weighted average number of Ordinary shares for computing diluted loss per share	10,162,848	10,162,848

In the calculation of the diluted net loss per share for the years ended December 31, 2010 and 2009, all share options were not taken into account because of the anti-dilutive effect.

NOTE 26:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

g	December 31,	
	2010	**2009**
Short-term credit from related parties	3,817	140

b. Transactions with related parties:

Since March 1, 2003, Mr. Bob Marbut, who was the Chairman of the Board of Directors and an indirect controlling shareholder of the Company, had been acting as CEO and president of a subsidiary in the United States ("STG"). The employment contract was for a period of one year, but was automatically renewable for additional one year periods, unless one of the parties made prior notice of cancellation. In consideration for his services, Mr. Marbut was entitled to an annual salary of $ 350.

On May 14, 2007, the Company's shareholders approved Mr. Marbut's decision to waive $ 150 of his agreed salary in favor of Mr. Ron Chaimovsky, a director of the Company. On May 15, 2007, the Company signed an agreement with Mr. Chaimovsky. According to the agreement, Mr. Chaimovsky was to provide management and consultation services to the Company. In consideration for his services, Mr. Chaimovsky was entitled to an annual salary of $ 150.

NOTE 26:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

On June 16, 2009, Mr. Marbut decided to waive $ 50 of his salary. In 2009, Mr. Marbut's and Mr. Chaimovsky's annual salary was $ 150 each.

On August 12, 2010, the Company decided to terminate Mr. Marbut's and Mr. Chaimovski's service agreements, effective immediately.
Regarding change in control of the Company in March 2010, see Note 27.

c. After approval by the Company's audit committee, the shareholders, in a special general meeting on August 12, 2010, approved the agreement that the Company had entered into with Risco, which includes the following:

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, an annual gross amount of $ 300. 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 defined in the agreement) and is willing to act as the supplier's non-exclusive distributor of the products in the territory. The 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 $ 6,500 from Risco. Any amount used by the Company from the line of credit shall bear an annual interest of LIBOR+2.5%, charged on a quarterly basis. As of December 31, 2010, the Company used $ 3,817.

d. As for a private placement for Risco, see Note 28.

NOTE 27:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

On March 2010 Argyle Global Opportunities, L.P. Texas ("Argyle"), the Company's largest shareholder, sold its entire 40.77% interest in the Company to Risco Group Israel (Risco). As for new agreement with Risco see Note 25c(1).

NOTE 28:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

1. In a private placement effected on March 14, 2011, the Company issued 3,550,000 Ordinary shares of the Company to 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.
2. During the reported period, the company’s R&D service provider was acquired by the controlling shareholder of the company’s largest and controlling shareholder. No change has occurred in the commercial terms following the mentioned acquisition.

NOTE 29:- OPERATING SEGMENTS

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

Management monitors the operating results of its geographical units separately for the purpose of making decisions 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: the Company's research and development expenses, the Company's general and administrative expenses, the company’s other expenses and Group financing.

The Group operates in one business segment of electronic security with remote management solutions and complementary products.

Segment assets do not include deferred taxes and loans to associates, as these assets are managed on a group basis.

Segment liabilities do not include the Company’s loans, the Group’s deferred taxes, current tax liability, as these liabilities are managed on a group basis.

Capital expenditures consist of additions to property, plant and equipment, and intangible assets.

NOTE 29:- OPERATING SEGMENTS (Cont.)

The following tables present revenue and profit information, and certain asset and liability information regarding geographic segments:

a. Revenues:

	Year ended December 31,	
	2010	2009
Sales to external customers:		
Europe	23,629	21,516
United States	1,323	1,550
Other countries	1,765	3,325
	26,717	26,391
Intersegment sales:		
Europe	1,955	1,761
United States	13	110
	1,968	1,871
Total revenues	28,685	28,262
Adjustments	(1,968)	(1,871)
Total revenues in financial statements	26,717	26,391

b. Segments results:

	2010	2009
Sales less directly attributable and allocable expenses:		
Europe	3,243	3,914
United States	(6)	(757)
Other countries	626	432
	3,863	3,589
Adjustments	(111)	255
	3,752	3,844
Unallocated expenses	(8,714)	(5,416)
Operating loss	(4,962)	(1,572)
Financial income	62	2,371
Financial expenses	(428)	(3,067)
Taxes on income	(523)	(68)
Net loss	(5,851)	(2,336)

NOTES TO CONTOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 29:- OPERATING SEGMENTS (Cont.)

c. Segment assets:

	December 31, 2010	December 31, 2009
Europe	7,054	6,847
United States	187	470
Other countries	89	601
	7,330	7,918
Adjustments	(151)	(39)
Unallocated assets	6,831	8,746
Total assets	14,010	16,625

d. Segment liabilities:

	2010	2009
Europe	2,607	2,635
United States	6,546	6,474
	9,153	9,109
Adjustments	(6,761)	(6,536)
Unallocated liabilities	15,087	11,317
Total liabilities	17,479	13,890

e. Tangible property, plant and equipment:

1. Capital expenditure:

	2010	2009
Europe	1,413	1,490
United States	-	2
	1,413	1,492

2. Depreciation:

	2010	2009
Europe	47	29
United States	12	16
	59	45

SCHEDULE OF ACTIVE INVESTEES

Entity	Place of incorporation
Electronics Line (UK) Ltd.	United Kingdom
Electronics Line USA Inc.	United States
Sectec Global Inc.	United States

All of the investees are wholly-owned subsidiaries held directly by the Company for all reporting periods.

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The Annual Report's Management Discussion and Analysis (the "Report")

1. Business Overview and Important Trends in the Industry
    1) Business Overview
    2) Market Information
    3) Business Strategy
2. Research and Development, Patents and Trademarks
3. Operating and Financial Review for 2010
4. Additional information
5. Risk Report
6. Outlook Risk Report

Market Overview and Operational Activities

Business Overview and Important Trends in the Industry

The Company engages in the design, development, production, marketing and sale of security with remote management solutions as well as complementary products for the mass residential and small commercial markets. The Company's solutions include both wireless and wired security platforms including intrusion prevention, hazard detection including fire and water leaks, medical monitoring, home automation, video event capture and remote video look-in. These solutions can be monitored by a third party or by the end user and enable remote management via a Smartphone Application and Web user interfaces to interactively manage the premises for security and automation, video and other applications. All these are provided using multiple communications protocols including PSTN, GSM, TCP/IP and GPRS.

The Company was incorporated as a private company limited by shares on December 19, 2002 with the Israeli Registrar of Companies in accordance with the laws of the State of Israel and started its activities on January 1, 2003.

Although in its current corporate form, the Company has existed for almost six years, Metis Capital Ltd. ("hereinafter "Metis") previously Electronics line (E.L.) Ltd, which transferred the business to the Company has existed in one form or another for over 25 years. Thus the Company has much more experience and familiarity with the security market, the technologies serving this market, its customers and competitors than would be apparent based on the period of its corporate existence.

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 operations and product offerings, and to grow 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.

The Company has a strong technological foundation and believes it is one of the leading companies in the field of integration of advanced communication methodologies with security systems for residential and small commercial users.

The Company's customers include leading security monitoring companies, service providers and distributors throughout the world. The Company supports its global customer base from its headquarters in Israel and its subsidiaries. The Company further enhances its presence by using a network of distributors in various countries. The Company sells through traditional security channels – monitoring companies and distributors.
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 distribution agreements with Risco, As 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 the Supplier's non-exclusive distributor of the Products in the Territory.

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 is a customer-centric organization and continuously endeavors to work with its customers to understand the market needs and to introduce new solutions to the market. The Company provides its customers with features for maximum convenience – including wireless detectors, wireless communicators, advanced management tools such as remote programming software and remote firmware updates. For the end user, the Company provides solutions that are designed to be easy to use and attractive and also have enhanced functionality, including a 45kg pet-immune motion detector, remote connectivity and system management capabilities and home automation applications.

Products and Product Families

The Company's flagship solution is the *iConnect* product line which offers residential security, safety, connectivity and control with interactive remote management applications. These enable users to control and be connected to their homes, anywhere, anytime. Sophisticated remote management capabilities are attained using advanced communications based on PSTN, GSM, Ethernet, and a GPRS platform.

An additional product line, *CommPact* is about to be introduced to the market during the first half of 2011. This product line presents all main security capabilities based on the *iConnect* technology, in a compact packaging.

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.

The Company also sells fully wired security solutions – the *Summit* and *Penta* control panels and wired detectors as the secondary product family. These are used for similar solutions as the wireless product lines, but they are wired and target more traditional security customers and markets.

Industry Information

Market Size

The global residential security market is estimated to be US$ 7.2 Billion in 2010. Currently, the penetration of monitored residential burglar alarm systems is approximately 20% in the U.S. and 5% across Europe, and even lower in Asia.

Market Structure

The main players in the security market are: (1) the manufacturers of systems, (2) integrators, service providers, distributors and installers of systems who are responsible for reselling and/or installing the systems at end-user sites, and (3) alarm monitoring service companies that are responsible for monitoring the protected areas through monitoring centers and informing the local police or private security companies or other authorities of activations received by the systems.

Market Trends

The growth in the residential market is attributable to several factors: (1) the expected general growth in crime, (2) increase in the standard of living, and (3) a reduction in prices of security solutions. These factors all contribute to a growth in demand for security with remote management solutions.

In addition, the increasing availability of broadband and GPRS, encourage growth in the residential market. The trend appears to be that more and more end-users will be looking to be connected with their home or office. As part of this trend, end-users will be looking to obtain information valuable to them, such as if a child has arrived home from school, to look in on the nanny, remotely manage appliances, check the status of an alarm system or oversee operations within a business.

The Company is leveraging the opportunity to develop the channels seeking security with remote management solutions. As a direct result of new technology which is digital/IP-based, the Company is able to integrate its technology and bundle the security with remote management solutions with service providers' other offerings (security providers, as well as cable companies, utility companies and telecommunication companies). This increases the number of distribution channels and provides the Company with a larger target market. The Company endeavors to work with service providers with established reputations and large customer bases, which enables the Company to benefit from their reputations. The Company offers multiple business models to service providers in order to maximize the Company's revenues from these customers.

The Company believes that both service providers and end users benefit from the Company's relationships with service providers. The service providers are able to increase their revenue base by offering the Company's solutions, and the end users are able to receive more value for the existing broadband or other platforms in their home or office.

Trend from Wired to Wireless Solutions

The Company focuses its marketing and sales efforts on its product family of wireless products and solutions. In the past, security systems were standard wired systems – these took days to install with much drilling and resultant damage to the homes and commercial installation sites. In addition, these systems were difficult for the end user to use and provided only the basic functionality of monitoring. Today, wireless solutions can be installed in less than two hours, with no drilling in the walls and no damage to homes and property. The detectors use encrypted RF (radio frequency) to communicate back to the control panel thus eliminating the need to run wires throughout the home. In addition, these solutions have easy-to-use interfaces including one button arming and disarming. This decrease in installation time reduces the overall cost of a system. As a result of this increase in functionality and the decrease in costs, the Company believes that there is and will continue to be a greater demand for wireless solutions in the foreseeable future. Nonetheless, the Company also offers a wide range of wired products, while the *Prime* and *iConnect* can also support existing wired installations.

Increased Functionality of Wireless Security Solutions

Today's security solutions integrate new technologies. They offer advanced functionality, including home automation – the ability to manage lights and appliances from the control panel, two-way connectivity and interactive medical monitoring and fire detection. A user

can receive notifications from the system through a website, via email or an SMS message from a cell phone or other personal data accessories (PDA's) or Smartphones. For example, a customer may send a web command or SMS to turn on the lights in a home, arm the security system, operate electrical appliances or receive an email or SMS about an emergency in the home.

Insurance Cost Savings

In some jurisdictions, a form of security system is mandatory in order to obtain property insurance. In addition, if a property owner has a professionally installed a monitored solution, the property owner may be eligible for an insurance premium reduction. As a result, payments of the monthly service fees are often offset, in whole or in part, by the reduction in insurance premiums and do not constitute a new or significant financial burden on the customer.

Demand to Always be Connected to the Home or Office

The Company believes users have an increasing desire to be connected to their homes and offices, wherever they are. With cell phones and broadband access becoming ever more popular and available, people are more aware of the benefits of always being connected to their homes or offices. New security with remote management solutions integrates innovative communications such as GSM/GPRS (cell phone) and Ethernet (internet). These types of communications enable an end user to proactively receive information about the status of the home (e.g., if a child arrived home from school or if an elderly parent got out of bed in the morning).

New Companies Distributing Security with Remote Management Solutions

Professional security systems have principally been sold through traditional security monitoring and distribution companies. Today, many new players, such as value added resellers, in addition to service providers, are looking for additional solutions to add to their product portfolio in order to increase their revenue per customer; therefore, the availability of the solutions to the end customers is expanding.

Market Structure

The main players in the security with remote management market are: (1) the manufacturers of systems, (2) integrators, service providers, distributors and installers of systems who are responsible for reselling and/or installing the systems at end-user sites, and (3) alarm monitoring service companies that are responsible for monitoring the protected areas through monitoring centers and informing the local police or private security companies or other authorities of activations received by the systems

Industry Standards

Industry standards create a barrier for entry into the market and into specific countries, as they are costly and time consuming to obtain. As in other industries, alarm manufacturers are expected to conform to ISO 9001:2000 quality standards.

The Company received confirmation from the Israeli Institute of Standards that the Company's production facilities in Israel comply with the requirements of the Israeli and International Standard ISO 9001:2008. This approval is valid through December 29 2012

Certain of the Company's products **are approved** by international **institutes**, including:

Standard	**Country**	**Nature of Products**
VDS	Germany	Security and Functionality
CE	European Union	RTTE & LVD Directive
EN50131	European standard for Alarm system	Functionality
F&P	Denmark	Security and Functionality
UL	USA	Security and Functionality
FCC	USA	Communication Interruptions
ACTA	USA	Telecom
CCC	China	Security and Functionality
NCP	Holland	Security and Functionality

Business Strategy

The Company engages in the design, development, production, marketing and sales of security and control solutions with remote management applications for the mass residential and small commercial markets.

The Company's vision is to be a leading global provider of wireless security with remote management solutions for the mass residential and small commercial markets.

Key elements of the Company's growth strategy include:

- Continuing to position the Company's wireless products as an innovative quality solution that reduces operating expenses for the service provider and increases functionality and control for the end user.
- Developing and strengthening relationships with key target customers in order to sell to their customers the wireless security with remote management solutions.
- Providing a full range of market solutions – from standard, low cost solutions to high end, advanced solutions
- Increasing services which are available as part of the Company's platform for remote management solutions, including advanced video capabilities, remote management applications and more.
- Leveraging wireless technology and various platforms to develop new solutions.
- Invest in both short-term and long-term R&D in order to improve product design and lower production costs.

Customers

General

The Company's current customers include monitoring companies, distributors, value added resellers, security providers and service providers in Europe, Latin America, APAC and other parts of the world. Approximately 99% of the products that are produced by the Company are exported from Israel.

The following is the distribution of the revenues of the Company according to geographical regions. The figures include the sales distribution from the Company's headquarters:

Territory	Turnover in US$ (thousands)
America	1,373
Asia	1,511
Europe	23,486
Israel	341
Others	6
Grand Total	**26,717**

Service Providers/Monitoring Companies

The Company sells its products to large providers with strong marketing organizations that have a large customer base. These service providers, in turn, sell and install the Company's solutions at the end user's location. In addition, these service providers take responsibility for monitoring of emergency events, technical support and maintenance of the solutions.

Distributors and Value Added Resellers

The Company also sells to local distributors who buy the product from the Company and re-sell the products to installers who take responsibility for the sales, installation and maintenance of the Company's solutions. The Company focuses only value-added resellers that can also be responsible for marketing and advertising activities, as well as approaching service providers.

Marketing and Sales

The Company sells its products and solutions directly through its own sales force, the sale forces of its subsidiaries and business partners, as well as indirectly through local distributors. The Company has an established customer base with which it works either on an order-by-order basis or via yearly forecasts with regular purchase orders.

The Company's sales and marketing bases are located in Israel and Europe. In addition, the Company has local and regional direct sales offices through its subsidiaries.

The Company has indirect sales channels through local distributors. The Company engages only with selected distributors chosen for their proven ability to act as effective marketers in their territories. The Company works on both exclusive and non-exclusive bases with its local distributors. In exclusive relationships, the Company typically imposes minimum annual purchase requirements on the distributors. Should a distributor fail to meet these annual minimum purchase requirements, the Company may choose to terminate the distributor's exclusivity or distribution agreement.

In several countries, there is more than one distributor, and different distributors may sell different models of the Company's products. Such distributors purchase the products from the Company and re-sell them to end users.

The Company utilizes a variety of marketing programs to support its sales efforts and to promote its products and systems including seminars, print advertising, trade shows, speaking engagements, public relations activities, web site advertising and more. The sales and marketing department also performs product demonstrations and prepares product literature, including product presentation materials, brochures, data sheets and materials that are relevant to the area of interest of a specific customer.

The Company markets products under its own brand names and also under private labels for selected large customers.

From its office in Israel and through its subsidiaries, the Company provides global customer support. The customer care team consists of trained professionals who use advanced computer and communications systems to respond to the technical needs of the Company's customers.

The Company provides customer support to its customers, but not to the end users of the systems. To minimize overall service calls and increase customer satisfaction, the Company's products and services are specifically designed with remote diagnostic and management tools that enable the customer to troubleshoot and maintain the system. In addition, this capability enables the Company to provide customers with real-time support if they are experiencing trouble while at an end user's premises.

Competition

The market for security with remote management solutions is an established yet growing industry. The market is global in nature, yet it has national customizations. The players in the security with remote management market include manufacturers of systems, service providers, distributors, installers and monitoring stations. The main manufacturers of systems include large global entities such as Tyco, a worldwide leader in fire protection and electronic security; UTC, a global conglomerate with a security group providing wired and wireless intrusion products and fire protection components; Honeywell, a global conglomerate; and Bosch, a global conglomerate with a security division focused on large scale electronic

security systems. Smaller players include Visonic, and Crow –Israeli companies selling intrusion products.

Manufacturing Capability

The Company has been manufacturing its own products from its facility in Petach Tikva, Israel. The Company maintains two independent robotic production lines with a combined capacity of 15 million components per month when operated with three shifts. The Company also has additional machines for sub-assembly. As of the date of this Report, the Company, on average, utilizes approximately 70% of its manufacturing capability. The Company, to the extent necessary, also transfers a part of the production to sub-contractors.

During the Reported Year, the Company took a decision to outsource its production activity in order to increase the efficiency and reduce production costs. Thus, the Company engages into manufacturing service agreement with manufacturing subcontractors and with Risco Ltd. the Company is expecting to shutdown its own production facilities during the second quarter of 2011.

Raw Materials and Suppliers

The Company's raw materials are mainly electronic, metal and plastic components, such as microchips, control panel covers and motion detector covers. Most of the raw materials have several alternative vendors, thus minimizing the Company's dependence on a single vendor. For select raw materials, which are in shorter supply or require longer lead times, the Company undertakes to maintain appropriate inventories to meet the demands of manufacturing. A delay in the supply or a shortage of raw materials could impede or delay the production of the Company's products and the Company may be unable to find alternative suppliers.

Finished Goods Inventory Policy

As a rule, the Company's policy is to manufacture products according to orders ("build to order") and not for inventory. The Company therefore does not maintain extensive inventories of its finished goods. The majority of finished goods inventory that the Company has is held by its subsidiaries.

Description of Company Policy of Warranty

The Company limits its liability for product warranty as follows:

• Most of the products sold by the Company have a 24-month warranty from the date of shipment to the customer against defects in material or workmanship, although some have a 36-month warranty.

• Batteries and software are not covered under the Company's warranty.

• The Company repairs or replaces products found to be defective in material or workmanship. The cost of fulfilling its warranty obligations includes labor required to repair the defect, material cost and return shipping and insurance costs.

• A product, even though defective, will not be covered by the Company's warranty if the product is altered, tampered with or improperly repaired or serviced by anyone other than the Company or an entity or individual approved by the Company in writing.

• Other than intentional misconduct, the Company further limits its liability by placing a maximum limit on the amount for which it can be held liable in the event of a claim for loss or damage due to a product defect, such limit being the price of the alleged defective product.

• The Company disclaims all other warranties, other than those explicitly set forth in its written agreement including, but not limited to, the warranty of merchantability or fitness for a particular purpose.

The Company's product warranty is a part of the Company's standard sales agreement. Because the Company conducts business in many countries, the enforceability of the product warranty may be governed by different countries laws.

Regulatory Provisions

In each country in which it does business, the Company is subject to the applicable statutes and provisions in relation to its business. These include provisions on technical safety and environmental protection, provisions concerning the reporting, registration, labeling and handling of products, labor law provisions, and industrial and occupational safety provisions. The Company's products comply with the safety standard requirements of the European Union and are entitled to be marked as "CE".

Insurance

The Company and its subsidiaries have group insurance (property damage and business interruption insurance) insuring them against the physical loss or damage, including total destruction or partial damage of their plants and other property and loss resulting from interruption to operations as a result of such physical loss or damage. In addition, the Company and its subsidiaries have insurance protection under group insurance, including environmental insurance caused by an accidental occurrence and product liability insurance policies, as well as other property and liability policies. Directors' and Officers' insurance is in

place on a group basis to protect all office holders, including the members of the Company's governing bodies and including all subsidiaries. In the Company's opinion, the sums insured and limits of liability under all policies provide adequate insurance protection in line with industry standards.

RESEARCH AND DEVELOPMENT, PATENTS AND TRADEMARKS

Research and Development

The Company considers R&D to be an essential part of its operating discipline and strategy. The Company intends to continue to invest substantial resources in R&D.

The Company conducts surveys of both its customers and the end user to solicit feedback on its products and services. In addition, the Company monitors the market, industry trends and its competitors to anticipate future functionality requirements and to develop new products and services that meet the needs of both its customers and their end users.

The R&D team is about 35 people strong and is comprised of both employees and outsourced professionals with multi-disciplinary qualifications in electronics, assimilation of systems, physics, optics and software development. In addition, the Company utilizes sub-contractors from time to time to complement its in-house skills. The R&D team has developed numerous products including, the leading *infinite* wireless platform, and currently has several other product offerings in various stages of development.

The know-how and technology developed by the Company is used solely for the Company's products and services. The Company does not engage in the sale or licensing of its know-how.

The Chief Scientist

Certain products are developed using financing, in part, provided by the Chief Scientist of the Israel Ministry of Industry and Trade (the "Chief Scientist"), which is responsible for implementing the Israeli government's policy regarding the support and encouragement of industrial research and development within Israel.

In order to repay the amount of grants received from the Chief Scientist and in accordance with the letters of approval originally issued to Metis in 1998 and earlier, the Company pays royalties to the Chief Scientist at the rate of 2% - 3.5% of sales for those products that were developed in part or in whole with funds from the Chief Scientist. The total royalties paid shall not exceed the amounts of the grant as linked to the U.S dollar. As of the date of this Report, the Company (and earlier Metis) received grants totaling approximately U.S. $ 1.67 million of which a total of U.S.$ 425,000 has already been refunded to the Chief Scientist.

The participation of the Chief Scientist in R&D expenses is conditioned on the fact that the R&D efforts are undertaken in Israel, unless the Chief Scientist approves another arrangement. A separate agreement is required from the Chief Scientist to transfer

technologies outside of Israel, which were developed with governmental funding. These restrictions do not apply to the export for sale of products that were developed with the Chief Scientist's funds. The Company is also required to notify the Chief Scientist of any change of 25% or more in the shares of the Company and/or a change in the means of control: (1) Voting rights in meetings of the Company; (2) the right to appoint officers to the Company; and (3) the right to participate in profits of the Company. Furthermore, according to the letter of approval, any transferring of control to a foreign resident or to a foreign company requires the advanced written approval of the Research Committee of the Chief Scientist office.

R&D Agreement

Intangible Assets

Patents

The following is a list of patents, registered in favor of the Company and/or its subsidiaries or patents to which the Company and/or its subsidiaries has an exclusive right of use thereof as of December 31, 2009

The Patent **The Country of Registration**	**Status** **Expiration Date**	Burglary infra red detector and methods		
United States (6,642,846)	Registered Registered	Fee due 6-Dec-08 Fee due 4-Jul-11	Dec 6, 2018 Dec 6, 2019	Methods of practical implementation and sorting, mainly of a Doppler effect detector and burglary detector systems
United States (6,509,835)	Registered Registered	Fee due 7-Dec-08 Fee due 21-Jul-10	Dec 7, 2018 Dec 6, 2019	A system and method for the detection of moving objects during burglary.
United States (6,348863)	Registered	Registered Fee due 9-Jun-09	Fee due 19-Aug-09	Jun 9, 2019
Method and apparatus for detecting moving objects, particularly intrusions	United States (CIP) (6,774,791)	Registered		

Jun 5, 2021	System for remote secured operation, monitoring and control of security	United States (11/433,954)	Pending

As of the date of this Report, the Company has four registered and two pending patents.

The Company shall be able to continue with its ongoing operations and business notwithstanding the expiration or invalidity of any of the patents listed above.

Trademarks

EL-UK registered the trade name of “infinite” on March 20, 2003.
The Company has filed for the following trademarks or service marks:
• Electronics Line with logo - Madrid Protocol Countries (includes USA), China, Turkey, Norway, the Russian Federation and Bulgaria
• infinite – Madrid Protocol Countries (includes USA), China, Turkey, Norway, and the Russian Federation
• infinite Triangle Logo - Madrid Protocol Countries (includes USA), China, Turkey, Norway, and the Russian Federation
• E.L. - China
• SecTecGLOBAL – USA (SecTec Global, Inc. is a wholly owned subsidiary of the Company)
• iConnect logo –In Israel, China, European union, United States, Chile

Domain Names

The Company has the following internet domain names:

• ELECTRONICS-LINE.EU
• electronics-line.com
• electronics-line.co.il
• electronics-line.in
• elecline.com
• electronics-line.co.uk
• el3000.com.cn
• elgoldkeeper.com
• sectecpartners.com
• sectechpartners.com
• sectec-partners.com
• infinitebroadband.net
• espuk.com
• sectecglobal.com

• sectecusa.com
• sectecus.com
• sectecglobal.net
• sectecglobal.org
• argglobal.com
• El-usa.com

OPERATING AND FINANCIAL REVIEW for 2010

General

We hereby submit the Directors' Report for the year ended December 31, 2010 (the "Reported Year") and the respective 2009 year.

Corporate Description and Business Environment

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.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

General Results Review

The Company is facing internal and external challenges due to the recent developments in the global economy. These global economic developments have affected the Company, its customers and suppliers and introduced new challenges for the Company's 2010 and 2009 performances and results.

The Company's revenues in the Reported Year amounted to US$ 26. 7million, compared to US$ 26.4 million for the year ended December 31, 2009.

The gross margins for the Reported Year amounted to US$ 8.4 million (31.4%) compare to US$ 8.6 million (33%) last year.

Total operating expenses for the Reported Year amounted to US$ 13.3 million, compared to US$ 10.3 million in the comparable year. The increase in operating expenses is mainly due to onetime, non-cash, expenses of US$ 4.3 million the Company had to recorded as a result of outsourcing its production activity.

The tax on income for the Reported Year amounted to US$ 523 thousands, compare to US$ 68 thousands in the comparable year. The increase in tax on income is mainly due to US$ 379 thousands onetime, non-cash, expenses the Company had to register due to changes in tax principals in UK which affected its UK subsidiary.

The net loss for the Reported Year amounted to US$ 5.85 million, compared to a net loss of US$ 2.34 million in the comparable year. The Company net loss increased due to onetime expenses mentioned above.

The Cost of Goods sold amounted to US$ 18.3 million (68.6%) compare to US$ 17.7 million (67%) in the comparable year.

As part of the Company decision to outsource production activity, the Company engages into manufacturing service agreement with subcontractor and Risco Ltd.
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 Risco Ltd, and agreed on by the parties.

The Research and Development expenses amounted to US$ 1.9 million during the reported Year, similar to US$ 1.9 million in the comparable year.

The Company is developing new products and services that will help the Company to remain an innovation leader in its markets. US$504 thousands of these new developing future products were capitalized until the end of the Reported Year. The Company is forecasting to have revenues from that new product starting second half 2011.

The Selling and Marketing expenses amounted to US$ 3.8 million during the Reported Year, compared to US$ 5 million in the comparable year.

Decrease in Selling and Marketing expense is due to better efficiency, expense savings, and implantation of the management service agreement between Risco and the Company as mentioned below.

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

On August 12th 2010, the Company entered into distribution agreements with Risco, as 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.

The General and Administrative expenses amounted to US$ 3.2 million during the Reported Year, compared to US$ 3.4 in the comparable year.

Decrease in General and Administrative expenses is due to a new business plan put in place during 2010, among others expenses savings, terminating advisors services agreements, and implementation of the management service agreement between the Company and Risco as mention below:

At August 12th 2010, the Company entered into management service agreements with Risco Ltd. As 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 resources; (v) directors and consulting services; (vi) legal and company secretarial services.

During the Reported Year the Company had $4.3 million onetime, non-cash, other expenses as a result of vacate its plant and administration buildings and its decision to outsource its production activity. Thus, during the Reported Year the Company had to accelerate depreciation expenses respect of leasehold improvements in the amount of US$ 2.6 million, and had to recognize the remaining obligation of lease expenses in the amount of US$ 1.7 million.

The Company has restated its financial statements as December 31, 2009, 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 Company's Financial Position

The Company's cash and cash equivalents as of December 31, 2010 (hereinafter: "the Reported Date") were US$ 1 million, compared to US$ 2.2 million on December 31, 2009. The reduction is mainly due to cash used for operating activity in the amount of US$ 2.6 million and cash provided by financing activity in the amount of US$ 1.5 million.

The Company's trade receivables on the Reported Year were US$ 3 million, compared to US$ 3 million on December 31, 2009.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reported Year were US$ 1.7 million, compared to US$ 1 million on December 31, 2009.

The Company's inventories on the Reported Year were US$ 5.5 million compared to US$ 4.6 million in the comparable year.

Net investment in property, plant and equipment, on the Reported Date amounted to US$ 2 million, compare to a US$ 5.2 million investment in the comparable year.
Decrease in Net investments is due to accelerated depreciation expenses respect of leasehold improvements in the amount of US$ 3 million.

The short term credit balance from banks and related parties on the Reported Date amounted to US$ 7.3 million, compared to US$ 5.7 million in the comparable year. The increase in short terms credit is mainly due to an increase in the Company's inventory.

The Company's trade payables as of the Reported Date were US$ 5 million compared to US$ 4.1 million in the comparable year.

Other current liabilities, accrued expenses and income tax payable were US$ 2.3 million, compared to US$ 2.5 million in the comparable year.

Long term loans were US$ 1.1 million on the Reported Date compared to US$ 1.2 million in the comparable year.

Financial Ratios	**December 31, 2010**	**December 31, 2009**
Current Ratio	0.8	0.9
Quick Ratio	0.4	0.5

As of the Reported Date, the Company does not comply with bank covenants, and therefore, banks may ask for repayment of these loans at any time. All companies' loans classify to short term credit from bank.
In order to address this point, the Company is in the final stage of signing new covenants with its main bank and based on management opinion, all liabilities due from these new covenants are expected to be met.

Cash Flow

During the Reported Year, net cash used in operating activities was US$ 2.6 million compared to US$ 3.4 million provided by operating activities during the comparable Year.

Negative cash flow from operating activity is mainly due to the Company's decision to outsource its production activity and therefore recorded $4.4 million depreciation expenses and provisions for future obligation for rental fees.

During the Reported Year, the Company directed US$ 159 thousands, towards investment activities, compared to US$ 2 million during the entire year of 2009.

Investment activities during 2009 were high mainly due to the acquisition of commercial property in the UK.

During the Reported Year, cash provided by financing activities amounted to US$ 1.5 million, compared to US$ 1.6 million used in financing activities during the fiscal year of 2009.

During the Year the Company repaid loans' principals in the amount of US$ 2.2 million.

During the Reported Year the Company received a line of credit, in the amount of up to US$ 6.5 Million from Risco. As of December 31, 2010 the amount used by the Company from this line of credit amounted to US$ 3.8 million. Amounts taken by the Company from the line of credit shall bear an annual interest of Libor+2.5%, charged on quarterly basis

General Israeli Tax Law Information

Measurement of results for tax purposes under the Israeli Income Tax (Inflationary Adjustments) Law, 1985:

Income Tax (Inflationary Adjustments) Law, 1985*:*

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation.

Tax benefits under the Israeli Law for The Encouragement of Industry (Taxes), 1969:

The Company is an "industrial company" as defined by the Israeli Law for the Encouragement of Industry (Taxes), 1969 and, as such, is entitled to certain tax benefits, primarily accelerated depreciation and the right to claim public offering expenses as a deduction for tax purposes.

Tax benefits under the Israeli Law for The Encouragement of Capital Investments, 1959:

Metis was accorded the status of an Approved Enterprise under the Israeli Law for Encouragement of Capital Investments, 1959. On December 31, 2002 (see Note 1), the benefits deriving from this status were transferred to the Company. These benefits include an exemption from income taxes on income from the Approved Enterprise for a period of four years beginning with the first year in which it reports taxable income (started in 2000) and a reduced tax rate of 25% for the following three years (starting 2004).

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published hereunder, and the instruments of approval for the specific investments in "Approved Enterprise". In the event of failure to comply with these conditions, the benefits may be canceled, and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2010, management believes that the Company is meeting all of the aforementioned conditions.

In the event of distribution of a dividend from tax exempt income, as described above, the Company will be required to pay income tax at a rate of 15% and the dividend will be subject to 15% tax withholding. The Company's policy is to reinvest its tax-exempt earnings and not to distribute such earnings as dividends. Accordingly, no deferred income taxes have been provided on income attributable to the Company's "Approved Enterprise".

Income from sources other than the "Approved Enterprise" during the benefit period will be subject to tax at the regular corporate tax rate.

A recent amendment to the Law, which was officially published effective as of April 1, 2005 ("The Amendment") has changed certain provisions of the Law. As a result of the Amendment, a company is no longer obligated to implement an "Approved Enterprise" status in order to receive the tax benefits previously available under the alternative benefits provisions, and therefore there is no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking grants). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under the Amendment.

Approved Enterprise Status

The Offices of the Israeli Chief Scientist:

The Company is obligated to pay royalties of 2%-3.5% of the revenues from products in the development of which the Chief Scientist participated. The royalties are limited to the amount of the grant received, linked to the U.S dollar. Total grants received as of December 31, 2010 and 2009 amounted to approximately $ 1,670. The balance of contingent royalties is approximately $ 1,238. Since the Company does not manufacture or sells the products for which it had received the grants, it does not expect to pay additional royalties in the future, therefore no liability was included in the financial statements.

Under the conditions of an agreement for participation by the Bi-National Fund for Research and Development ("BIRD") in joint R&D programs between the Group and a U.S. company, BIRD granted grants to the Group. In consideration for this grant, BIRD is entitled to royalties of between 2.5% and 5% of the gross sales of products resulting from this research, up to the amount of the grant, linked to the U.S dollar. Thereafter, BIRD will be entitled to royalties of 2.5% of sales up to an additional amount equaling half of the grant received. On January 1, 2003, the benefits and the obligations deriving from this agreement were transferred to the Company from Metis. The grants received by the Company and the balance of contingent royalties as of December 31, 2010 and 2009 amounted to approximately $ 340. Since the Company does not manufacture and sells the products for which it had received the grants, it does not expect to pay additional royalties in the future, therefore no liability was included in the financial statements.

It was also agreed with BIRD that should one of the companies register a patent on a product developed, the Group will also pay royalties to BIRD at the rate of 1.5% of the gross sales of the product resulting from the research, for the duration of the patent.

The benefits under the Encouragement of Capital Investments Law are conditional upon compliance with conditions set out in that law and in the Letters of Approval in accordance with which the investments were made in the approved enterprises. Non-compliance with the conditions may lead to a cancellation of the benefits, in whole or in part, and to the repayment of the amounts of the benefits with interest. In the opinion of the management of the Company, the Company is in compliance with the aforesaid conditions.

A dividend that is distributed from the income of an approved plant is liable for tax at a rate of 15% by the recipient thereof, including by a company that is resident in Israel (unless its recipient is entitled under an international convention to a lower rate of tax). If a dividend is distributed from exempt income from an approved enterprise, the Company, although previously exempt, will be liable for tax, which it received an exemption from paying, on the amount of the grossed-up dividend which will be distributed, and this is in addition to the tax at the rate of 15% that is payable when the dividend is distributed.

The Company believes that its Approved Enterprises currently operate in compliance with all applicable conditions and criteria, but there can be no assurance that it will remain in compliance in the future.

Additional information/additional balance

The company's special general meeting of shareholders held on February 16, 2011 approved to issue 3,550,000 ordinary shares of the Company (comprising 25.9% of the Company's share capital following the issuance) at a price per each share of NIS 5.00, for a total consideration of NIS 17,750,000 to Risco Ltd., Israel, the Company's largest and controlling shareholder. 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.

Risk Report

Risks related to the Company

Dependence on Sub-contractors

The Company depends on sub-contractors in production and in research and development services. In the event that the relationship with any of the sub-contractors is terminated, the Company may incur a delay in developing new products and in producing and supplying its products until such time as the Company is able to locate and establish a relationship with alternative sub-contractor(s) or alternatively, perform such work in-house. Additional time would be needed before such new sub-contractor(s) or internal personnel could render effective development services and prepare production files previously provided by the original sub-contractor(s). This time delay could affect the Company's ability to producing products, launch new products or introduce new versions of products in a timely manner which could adversely affect the Company's market share. In addition, any arrangement with a new sub-contractor or a decision to perform any such work in-house may increase the Company's costs and affect its gross margins.

The Dependence on Integrators, Service Providers, Distributors and Installers of Systems

Currently, the Company does not typically sell its solutions to end users. The Company's traditional customers are integrators, service providers, distributors and installers of systems. Therefore, the Company is dependent, and has little control over, the customers who are, in fact, third-party installers of the Company's products. The Company has virtually no contact with end users of the product. The customers are responsible for the most part, for the sale, installation and technical support of the Company's products in relations to the end user. Due to this extended channel of distribution, the business results of the Company could be significantly harmed through changes in the business conditions of the customers which are beyond the ability of the Company to control. Installation and/or service problems could arise that might affect the sale of products to end users and because the Company does not perform the installation or service of its products at the end user facility, it might be difficult for the Company to positively impact or resolve such issues between the customer and the end user. Furthermore, the Company may not be able to preserve its current relationships or to develop new relationships with different customers. Any such change in its relationships with customers is liable to significantly harm the business affairs of the Company, affect the Company's sales, its financial condition and business results.

Dependence on Key Customers

The Company's sales to its largest four customers accounted for approximately 43% of its total revenues in during the year 2010 and approximately 37.2 % of its total revenues during 2009. The Company does not have long-term purchase contracts with its customers, and sales arrangements with some of these customers do not have minimum purchase requirements. The Company cannot assure that these major customers or any

other customer will continue to purchase its products at all or in the same volumes or on the same terms as they have in the past. Their failure to do so may significantly reduce the Company's revenues.

Delay or Discontinuation of the Supply of Raw Materials

Currently, the Company receives sales forecasts from the majority of its customers. Based on these sales forecasts and incoming orders, the Company purchases raw materials needed for production. The Company generally maintains a sufficient inventory of long-lead time items in order to meet its production schedule. The Company does purchase several components from a sole source supplier. This makes the Company dependent on a single supplier. In the event the sole source supplier ceases to supply the Company or materially raises its price, or the Company incurs substantial delay in delivery, the Company may need to seek a new supplier for these components. The search process can be time consuming, costly, and could potentially delay production until the new suppliers components are tested and approved.

There may be a delay in supply of, or a shortage of, raw materials or component(s) that could impede or delay the production of the Company's products, particularly with respect to raw materials supplied by a sole source supplier. The Company may be unable to quickly locate alternative sources for needed components at reasonable prices and at the time needed to meet the Company's production cycle. In the event of i) a delay in supply, or ii) shortage of raw materials, customers may cancel their orders or turn to the Company's competitors to fill their orders. In addition, in the event the Company is compelled to find new sources of supply, this could cause delay in shipments of its products, which could increase its costs in order to meet the Company's commitments to its customers.

The Company may choose to maintain inventories of certain components that exceed what is necessary for the short term in order to have a small buffer stock to compensate for shortages or cessation in the supply of components. In such event, the Company will incur additional costs to maintain this excess inventory, which could affect its gross margins.

Changes in Exchange Rates

At certain points in time, the financial statements can be exposed to fluctuations created due to the fact that some of the financial balances are linked to different currencies other than the U.S. dollar as opposed to the financial statements of the Company, which are denominated in U.S. dollars. In the event of depreciation in the U.S. dollar vis-à-vis other currencies, the Company will incur additional financial expenses, which would have a negative impact on the Company's operations and its financial condition. The Company endeavors to mitigate its exposure to such currency fluctuations by entering into transactions in different currencies with customers and suppliers.

In addition, the Company is exposed to exchange rate fluctuations between the U.S. dollar and other currencies, which may negatively affect its earnings. A substantial majority of the Company's revenues are denominated in U.S. dollars; however, a significant portion of the expenses associated with the Company's Israeli operations, including personnel, are incurred in NIS. The Company cannot predict any future trends in the exchange rates of the NIS against the U.S. dollar. In addition, exchange rate fluctuations in currency exchange rates in countries other than Israel where the Company operates may also negatively affect the Company's earnings. These currencies currently include the Euro and the British Pound.

The Company has established certain hedging policies to protect itself against the impact of currency fluctuations going forward.

Intellectual Property

Critical to the Company's future is the Company's ability to protect its proprietary technology. The Company relies on a combination of patent, copyright, trademark and trade secret laws in order to protect its intellectual property rights. The Company currently has been issued four patents and has filed an additional provisional patent.

The process of seeking patent protection can be long, expensive and sometimes unsuccessful. Therefore, the Company has chosen to file for protection of its intellectual property in certain selected markets, although not in all markets in which the Company sells its products. There can be no assurance that the Company's pending or future patent applications will result in patents being issued or that the Company's existing patents or any future patents which may be granted will provide meaningful protection or commercial advantages to the Company. A patent only provides partial protection to intellectual property, as much depends on the climate of enforcement within the country granting the patent. In addition, any issued patent may be challenged, invalidated or legally (or illegally) circumvented by third parties, and the Company cannot be certain that its patents will be upheld as valid, be enforceable or prevent the development of competitive products. Moreover, the Company sells and markets its products in some countries; e.g., China, with potentially weak enforcement of intellectual property rights. If competitors are able to develop, manufacture and sell products that directly compete with the Company's products, the Company's sales and gross margins could be adversely affected.

In addition, competitors could purchase one of the Company's systems and attempt to replicate some or all of the competitive advantages the Company derives from its development efforts or design a product based on the Company's protected proprietary technology or develop their own competitive technologies that fall outside of the Company's protected intellectual property rights. If the Company's intellectual property is not adequately protected against use by competitors and other third parties, its competitive position could be eroded and its business could be adversely affected.

In addition to the risks of third-party infringement of the Company's intellectual property, there is also the risk that the Company may inadvertently and innocently infringe on the intellectual property of a third party, which would expose the Company to possible patent infringement claims which are often lengthy and costly disputes. The Company may be required to obtain licenses from third parties or otherwise redesign its products so as not to utilize such intellectual property, which may be uneconomical or otherwise impossible.

Risks Pertaining to Product Liability and Product Warranty The products developed by the Company may contain latent defects that may only be discovered after the products have been installed and are in use. Such defects could cause a reduction in customers' satisfaction, harm the reputation of the Company or create a need to introduce costly changes to the product. In addition, the Company could be exposed to potential product liability claims. This could involve significant costs to the Company. Although the Company has a Corporate General Liability insurance policy, this policy does not cover costs the Company may incur to change the product, and there is no guarantee that the Company's insurance policy will fully cover any and all types of claims pertaining to product liability or afford coverage to the full extent of such claims that may be filed against the Company.

The Company provides a limited product warranty for the use and operation of its products, many of which also contain components manufactured by third parties. In effect, the Company is warranting components which it does not manufacture. This could give rise to a situation whereby the Company provides a more extensive warranty on these third party components than the Company receives from such third party manufacturers, thus creating some warranty exposure for the Company.

Marketing and Product Risk
The Company spends significant time and money to understand the needs of the market; however, the Company may misjudge market needs. The Company may design products and solutions that do not meet market demands or are not priced correctly or are not delivered to the market in a timely manner. For example, the Company may develop complementary products for its security solution with remote management capabilities which the market deems not to be necessary. If thishappens, the Company's costs would increase without a corresponding increase in revenues. This may have a negative impact on the Company's operations and its financial condition.

International Markets
The Company sells its products globally, primarily in Western Europe and Asia. As a result of operating internationally, the Company may face the following risks due to its international operations, any one of which may affect sales or the Company's profitability:

- Changes in governmental requirements and regulations and differences in various countries' requirements;

- Difficulty in collecting accounts receivables;
- Differences in customs in each country;
- Differences in taxation in different countries;
- Political and/or economic instability;
- Disruption in trade caused by civil disturbances and/or war;
- Local labor strikes that affect the Company's ability to sell or deliver products in a particular country; and
- Weakening economies in target markets.

Risks Related to the Industry

Changes in Prices of Raw Materials

The raw materials of the Company (mainly electronic, metal and plastic components) are purchased from various suppliers throughout the world. The capacity, supply and demand for such raw materials is subject to cyclical forces and market factors as well and may fluctuate significantly and as a result, the Company may have limited ability to control its costs in securing raw materials. In addition, prices of raw materials may be subject to fluctuation. The Company cannot assure that it will be able to pass on to customers the increased costs associated with the procurement of raw materials. To the extent that increases in costs of raw materials cannot be passed on to customers or there is a delay in passing on the increased costs to customers, the Company is likely to absorb the increase in the cost of raw materials which may materially reduce its margin of profitability.

Delay or Discontinuation in the Supply of Raw Materials

Currently, the Company receives sales forecasts from the majority of its customers. Based on these sales forecasts and incoming orders, the Company purchases raw materials needed for production. The Company generally maintains a sufficient inventory of long lead-time items in order to meet its production schedule. The Company does purchase several components from a sole source supplier. This makes the Company dependent on a single supplier. In the event that the sole source supplier ceases to supply the Company or materially raises its price, or the Company incurs substantial delays in delivery, the Company may need to seek a new supplier for these components. The search process can be time consuming, costly, and could potentially delay production until the new supplier's components are tested and approved.

There may be a delay in the supply of, or a shortage of, raw materials or component(s) that could impede or delay the production of the Company's products, particularly with respect to raw materials supplied by a sole source supplier. The Company may be unable to quickly locate alternative sources for needed components at reasonable prices and at the time needed to meet the Company's production cycle. In the event of (1) a delay in the supply of, or (2) shortage of, raw materials, customers may cancel their orders or turn to the Company's competitors to fill their orders. In addition, in the event the Company is compelled to find new sources of supply, this could cause delays in shipments of its products, which could increase costs needed to meet the Company's commitments to its customers.

The Company may choose to maintain inventories of certain components that exceed what is necessary for the short term in order to have a small buffer stock to compensate for shortages or cessation in the supply of components. In such an event, the Company will incur additional costs to maintain this excess inventory, which could affect its gross margins.

Competition and Pressure to Develop New Products

The Company operates in a competitive market environment. Competition, whether direct or indirect, may adversely affect the income and profits of the Company through pressure exerted on prices, the loss of market share or other factors. Some of the Company's current and potential competitors are large companies or conglomerates that have vast

resources (including capabilities in the fields of finance, technology, production, marketing and distribution), including, for example, General Electric, Tyco, Bosch and Honeywell. The Company may not be able to position its solutions as distinct from those of its competitors or be able to invest the same amount of resources in order to penetrate the market or successfully develop and introduce new products at the same pace of its competitors. These large competitors may also be able to respond quickly to the Company's marketing or technological initiatives due to their vast resources, which would materially affect the Company's competitive position and its ability to increase its sales.

In addition, new competitors, such as service providers, utility companies, cable companies, and non-security distributors, may enter into the competitive market in which the Company operates.

The Company's products deal with evolving technology. The Company must continually invest in product development in order to stay on the cutting edge of technology in its market and secure its market position. The Company's sales may be affected by newer technologies offered by competitors that are not available from the Company.

Risks Related to Israel

Dependence on Governmental Programs and Tax Benefits

Pursuant to the *Encouragement of Capital Investments Law,* 1959, the Company is obligated to continuously fulfill certain requirements, including the receipt of additional approvals for the execution of certain investments in fixed assets, employing a certain number of employees and maintaining a certain level of exports from its total sales. The Company has received a formal approval which indicates that it has met all necessary terms and requirements with respect to its current approved plans. However, if the Company fails to meet such requirements, the benefits may be cancelled and the Company may be required to return to the State of Israel taxes and other receipts, plus interests tied to the Israeli consumer price index.

In connection with the private placement of July 2005, the Company on November 6, 2005, obtained approval of the private placement from the Investment Center of the Ministry of Industry, Trade and Employment of the State of Israel which is the branch of the Ministry which implements and coordinates the *Encouragement of Capital Investments Law, 1959* (the "Investment Center"). In addition, the Company has taken steps to obtain approval of the sale of New Shares and the Over-allotment Shares contemplated in this Report by the Investment Center of the Ministry of Industry and Trade. In the event the Investment Center does not approve the sale of shares contemplated by this Report, the Company may be required to return all benefits that it has received from the Investment Center.

Any changes or reductions of certain programs and tax benefits that currently benefit the Company, especially those available as a result of the Company's "Approved Enterprise" status, would increase the Company's tax rate up from 25% to the full rate of taxation

applicable to companies in Israel, which would adversely affect the Company's profitability. *Chief Scientist*

Certain of the Company's products are developed using financing, in part, provided by the Chief Scientist of the Israel Ministry of Industry and Trade (the "Chief Scientist"), who is responsible for implementing the Israeli government's policy regarding the support and encouragement of industrial research and development.
The participation of the Chief Scientist in R&D expenses is based on certain conditions, unless the Chief Scientist approves a different arrangement (see page 26).In the event the Company does not comply with the terms of the Chief Scientist grants, the Company may be required to return the grants, which may have a material adverse effect on the Company.

Security, Political and Economic Instability in Israel The principal offices of the Company are located in Israel. Accordingly, security, political and economic conditions in Israel may directly affect the Company's business. Over the past several decades, a number of armed conflicts have occurred between Israel and its Arab neighbors. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect the Company's operations. Since October 2000, terrorist violence in Israel increased significantly, primarily in the West Bank and Gaza Strip. Thus far in 2005, there has been a noticeable decline in terrorist activity. Israel's recent unilateral withdrawal from the Gaza Strip has stimulated the local economy and opened potential contacts with countries which had no previous diplomatic contact with Israel. However, the ongoing hostilities and violence, future armed conflicts, political developments in other countries in the region or continued or increased terrorism, could disrupt the Company's operations or make conducting the Company's operations in Israel more difficult. Any of these factors could have the effect of increasing the Company's costs, adversely affecting the Company's financial results and the expansion of the Company's business and delaying deliveries to Customers.

Furthermore, several countries continue to restrict business with Israel, in general, and with Israeli companies, in particular, and this may limit the Company's ability to make sales to these countries. These boycotts and embargos may have an adverse impact on the operations, financial condition or the further expansion of the Company's business.

Outlook

Future Projections

Looking forward, the Company expects an increase in revenues from its strategic 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.

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 iConnect product line and its PIR 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 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. Also the Company plans to hire further new additional Sales Manager (SM) for Europe in the near future.

While Risco focuses exclusively on the commercial markets, Electronics Line is the group’s specialist for the attractive and fast growing residential mass market and SOHO segment.

Among its goals, the Company will also continue its efforts to obtain and maintain international standard approvals for its products.

The Company is outsourcing its production activity, both to sub-contractors and to Risco Ltd., in order to achieve better efficiency and margins. The Company believes that this will have a positive effect on its financial results starting H2 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	Moshe Alkelai
CEO	Chairman of the Board

Rishon Le Zion, April 6, 2011