2014 Annual Report Management Discussion and Analysis (the "Report")

1. Operational Activities

1.1 Business Overview

Electronics Line 3000 Ltd. ("EL" or the "Company") is a pioneer in next-generation security solutions for the residential and small commercial markets. The Company designs and produces cutting-edge solutions for security and control of living and working environments. The EL line provides comprehensive security protection, as well as sophisticated system and home management functionality, for optimal comfort, safety and peace of mind. This new industry standard is further upgraded with enhanced remote management capabilities that give homeowners instant access to their system from anywhere in the world.

Upgrading Everyday Security

EL solutions enable new levels of control and maintenance in protected sites through ELAS, a proprietary remote management server. The Company enjoys a unique market position in supplying ELAS-governed systems for the home and workplace, which provide the multiple benefits of a virtual security presence, convenient home automation, and energy efficiency, all customized by the end-user and/or the service provider.

EL's extensive product line includes both wired and wireless solutions. EL solutions offer enhanced detection and PSTN/IP/GSM/GPRS-based event reporting, along with advanced remote management tools. Effective back-office support and customized branding of EL solutions provide superior security with significant business benefits and market expansion potential.

Global Partnerships

Nearly three decades of cutting-edge leadership have earned EL a solid market position, allowing users worldwide to benefit from EL's ongoing development of upgraded security solutions. The Company maintains long-term partnerships worldwide.

EL has made cutting-edge technology, user-friendly design and exceptional quality the benchmarks for serving its international network of clients and partners. Drawing on a tradition of pioneering expertise, EL specialists also provide security integration consultancy, installation service, training and technological support.

EL was established in 1982 and is headquartered in Israel. The Company is publicly traded on the Frankfurt Stock Exchange (ELN) and is part of the RISCO Group, an established leader in the international security market.

In March 2010, RISCO Ltd., ("Risco") a leading provider of integrated security solutions, acquired a controlling interest in the Company. RISCO Group intends to maintain the Company's product offerings and independence in the market by growing it as RISCO Group's residential arm through product portfolio expansion into video and management solutions together with its major partners worldwide.

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

The Company reorganized 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 and several regional Sales Managers (RSM) were assigned to cover the rest of Europe and the Russian market.

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

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

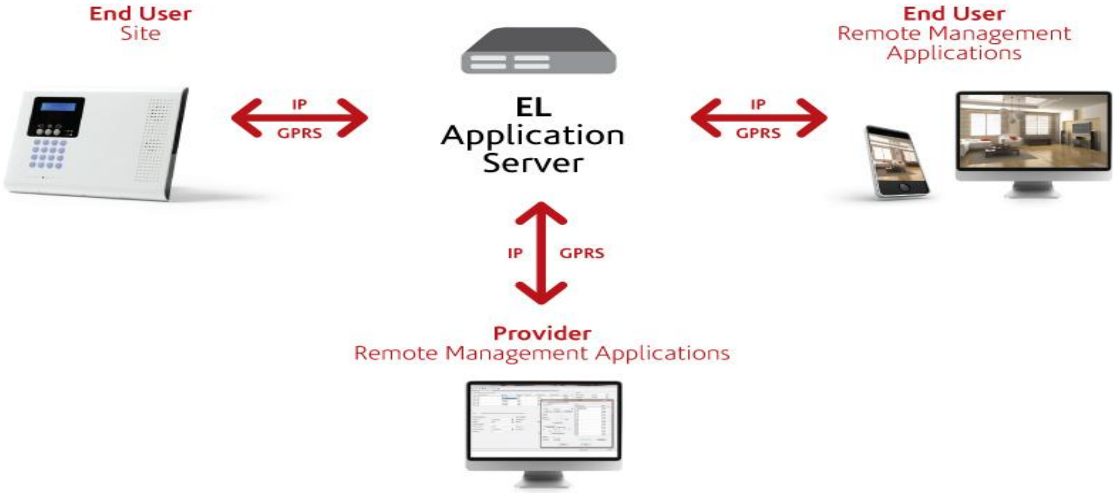
Products and Product Families

The Company offers an array of security solutions for every need. EL's wireless control systems enable end-users to choose the level of control and monitoring they require using innovative remote solutions.

Advanced security detectors supply excellent interior and perimeter protection while safety detectors offer enhanced environmental and personal safety including: smoke, gas and water leak detection, panic buttons and much more.

The systems can be activated using a variety of local control devices such as keyfobs and keypads. EL also offers end-users and providers advanced remote management applications for comprehensive control over the system from any location.

Complementing accessories and add-ons include home automation modules, zone expanders, receivers, sirens and the more for a complete security offering.



ELAS (Electronics-Line Application Server) is EL's cloud-based server which enables EL's intrusion systems to be controlled remotely using the MyELAS smartphone app.

ELAS acts as a proxy that mediates between the various applications and the panels. When the end-user exerts the MyELAS app, the application connects to ELAS and ELAS in turn connects to its main panel. Data is then transferred between the panel and the smartphone in real-time.

Smartphone App

The MyELAS app enables end-users to control their EL intrusion systems remotely, directly from their smartphones or via the web application with the push of a button, giving them peace of mind at all times.

Remote Configuration and Diagnostics

ELAS enables remote configuration and diagnostics, providing a more efficient way for installers to troubleshoot and solve issues without the need for extraneous onsite visits.

Utilizing the most Stringent Security Technologies

ELAS utilizes security technologies including encryption, advanced firewalls and additional security safeguards that comply with the most rigorous security standards to ensure that data cannot be accessed by unauthorized users.

Reliable and Scalable

Our ELAS cloud server offers total reliability with full redundancy during server downtime, enabling seamless operation in times of crisis. The system offers a totally scalable architecture, i.e. the ability to easily increase the capability of the server with the growth of your company.

iconnect

iConnect 2-Way is a powerful and streamlined 2-way wireless intrusion system, designed for the residential and small commercial markets.

Connection to the cloud-based ELAS server enables users to remotely control their iConnect 2-Way systems through the myELAS app (also available via web browser). Visual verification is also supported with the purchase of a PIR camera detector enabling users to view images on demand of their homes or businesses directly from their smartphones, allowing them to feel totally in control at all times. Users will receive email/ SMS/ voice notifications in the event of an alarm, and can also arm or disarm their iConnect 2-Way systems remotely.

iConnect 2-Way supports GPRS with GSM and IP as backup or IP and PSTN as backup, and can be remotely configured saving installers time and hassle. A wide range of 2-way detectors and accessories can be used with the system.

commpact

The **Commpact** intrusion system is named for its streamlined, space-saving design, while offering a professional, highly reliable system at a competitive price.
Commpact's connectivity to the cloud-based ELAS server enables it to be controlled remotely by EL's smartphone app (also available via web browser) which offers users the possibility to arm/disarm the system remotely as well as to receive email/ SMS/ voice notifications and to view and store a history of events.

Commpact supports a wide range of security and safety accessories including elderly care and detectors against smoke, flood and poisonous gases.

The simple and quick wireless installation and remote programming of the Commpact system add further to its appeal as a powerful, convenient system which allows users to enjoy a complete sense of control as well as peace of mind.

prime

Prime is a basic, reliable and robust security system using one-way wireless FM technology. The system uses PSTN and GSM connectivity and is compatible with all of EL's wireless keypads and peripherals. Prime supports variable applications such as SMS event notifications, remote programming and maintenance, audio communication or range extension.

1.2 Business Strategy

The Company is engaged in the design, development, production, marketing and sales of next-generation security solutions for the 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 advanced 2way wireless products as an innovative quality solution that reduces operating expenses for the service provider and increases functionality and control for the end user.
- Expanding markets by drawing on the parent Company customer's base and introducing the Company's product line to new customers.
- Expanding and strengthening relationships with key accounts in order to sell wireless security with remote management solutions to customers.
- 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 the more.
- Leveraging wireless technology and various platforms to develop new solutions.
- Investing in both short-term and long-term R&D in order to improve product design and achieve lower production costs.

1.3 Information on the stock

The issued share capital of the company is NIS 68,564,240 and consists of 13,712,848 ordinary shares at a par value of NIS 5.00 each. All shares have the same voting rights and dividend claims.

There are no shares in the company with special rights according rights of control.

Under the provisions of German securities trading legislation, every investor whose proportion of the voting rights in the company reaches, exceeds or falls below certain thresholds as a result of the purchase or sale of shares or in any other way must notify the company and the Federal Financial Supervisory Authority (BaFin) thereof. The lowest threshold for such disclosures is 3%. Risco Ltd. currently holds more than 50% of the Company's share capital.

Restrictions on the voting rights of shares could result from statutory provisions. The Company's Board of Directors is not aware of any other restrictions on the exercise of voting rights or the transfer of shares.

The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock exchange.

2. Economic Review

2.1 General economic conditions

The International Monetary Fund (IMF) calculated a growth of the global economy in 2014 by 3.3%. Global activity will receive a boost from lower oil prices in 2015, however the boost is projected to be more than offset by negative factors, including weak investment adjusting to diminished expectations about the medium-term growth in developed and emerging economies. As a consequence, the IMF in the January update of its "World Economic Outlook" (WEO) decreased its global growth projection for 2015 by 0.3 percentage points to 3.5%.The euro area meanwhile is remaining the trend of recovery. Growth is projected to strengthen from 0.8% in 2014 to 1.2% in 2015, but the recovery will remain uneven. The pickup will generally be more modest in economies under stress, despite some upward revisions including Italy and Spain. Elsewhere in Europe, activity will be particularly buoyed in the United Kingdom where growth recorded 2.7% in 2014 driven by easier credit conditions and increased confidence.

According to Markit Economics, in December 2014 the UK construction PMI fell to the slowest rise since July 2013 at 57.6. The latest reading indicated a slightly decreased civil engineering activity, while residential construction still remained the strongest performing subcategory. UK construction companies widely reported a solid rise in new business volumes in December 2014, including strong demands in new residential projects and a continued recovery in commercial projects.

According to Transparency Market Research, the worldwide market for physical security is expected to reach a market size of USD 125.03 billion by 2019 with a CAGR of 15% from 2013 to 2019. According to IHS research, the residential sector accounted for over 40% of the $2.7 billion global intruder alarm market in 2012, and is forecasted to grow at an annual rate of 5.3 % from 2012 to 2017. In US, the residential intrusion alarm market is expected to grow 5.9% in 2015. The relatively new smart home trend in North America is expected to increase the penetration rate of intruder alarm products into the residential sector. This trend is expected in Europe as well with energy-management features as one of the main drivers.

2.2 Operating and Financial Review for 2014

The financial statements of the Company as of December 31, 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

1) Earnings

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's 2014 results as well as its customers and suppliers and introduced new settings and opportunities for the future.

During the fourth quarter of 2014, the Company extended the implementation of the current distribution agreement with the parent company to additional territories other than the UK and now is fully using Risco´s sales structure for its distribution activities. Applying the distribution model, the Company´s revenues and margins will be shared with the distributers, however, it will allow the company to cut the operational costs and very likely to improve its operational profitability in the future.

US$ in thousands	12 months ended December 31, 2014	12 months ended December 31, 2013
Revenues	12,200	16,534
Gross Profit	3,914	7,027
Gross profit margin (in %)	**32%**	**42%**
Research and development	1,119	1,235
Selling and marketing	1,635	1,851
General and administrative	1,965	2,146
Financial exp (Income), net	81	(37)
Tax exp (income)	1,352	(1,095)
Net Income (Loss)	**(2,238)**	**2,927**

The Company's revenues in the Reporting Period amounted to US$ 12.2 million, compared to revenues of US$ 16.5 million for the year ended at December 31, 2013. The decrease of 26% is mainly a result of the delay in launching of a new product line, which served as the basis for the Company's volume expectations. Additionally, the economic difficulties in many European markets and the continuing recession in Southern Europe, which are the company's main markets, adversely affected the annual revenues.

The cost of goods sold amounted to US$ 8.3 million (68%) compared to US$ 9.5 million (58%) last year. The gross profit for the Reporting Period therefore amounted to US$ 3.9 million (32% of the revenues) compared to US$ 7.0 million (42% of the revenues) in 2013.
The significant decrease of the gross profit margin is a result of a low margin deal in H2 2014 with a major customer of the Company and the unfavorable currency effects (Euro & GBP against US$).

Research and development expenses amounted to US$ 1.1 million during the Reporting Period, compared to US$ 1.2 million last year.

Selling and marketing expenses decreased to US$ 1.6 million during the Reporting Period, compared to US$ 1.9 million for last year.
The general and administrative expenses amounted to US$ 2.0 million during the Reporting Period, compared to US$ 2.1 million last year.

The decrease in operating expenses is mainly due the implementation of the extended distribution agreement between Risco and the Company as mentioned above.

Net financing expenses amounted to US$ 81,000 in the Reporting Period compared to a net financing income of US$ 37,000 last year.

Tax expenses in a total amount of US$ 1.4 million were recorded in the Reporting Period, principally due to tax loss carry forwards. The changes in deferred tax assets were recorded, based on the Company's management best estimation of realization of these losses and temporary differences in the foreseeable future.

The net loss for the Reporting Period amounted to US$ 2.2 million, compared to a net profit of US$ 2.9 million last year.

2) The Company's Financial Position

The Company's cash and cash equivalents as of December 31, 2014 (hereinafter: "the Reporting Date") decreased to US$ 0.2 million, compared to US$ 2.0 million on December 31, 2013. However, the Company's quick ratio increased to 1.6 compared to 1.2 on December 31, 2013

The Company's trade receivables on the Reporting Date amounted to US$ 4.0 million, compared to US$ 0.9 million on December 31, 2013.

The Company's prepaid expenses, other accounts receivables, advance payments to suppliers and income tax receivables on the Reporting Date amounted in total to US$ 38,000, compared to US$ 0.2 million on December 31, 2013.

The Company's inventories on the Reporting Date sharply decreased to US$ 2.0 million compared to US$ 3.9 million on December 31, 2013.

Property, plant and equipment amounted to US$ 0.5 million on the Reporting Date, compared to US$ 0.6 million on December 31, 2013.

There were no short term credits from banks on the Reporting Date, compared to US$ 0.2 million on December 31, 2013.

The Company's trade payables as of the Reporting Date were US$ 0.9 million, compared to US$ 1.7 million on December 31, 2013.

Other current liabilities, accrued expenses and income tax payables decreased to US$ 1.7 million at the Reporting Date, compared to US$ 0.6 million as at December 31, 2013.

Financial Ratios	December 31, 2014	December 31, 2013
Current Ratio	2.4	2.8
Quick Ratio	1.6	1.2

The Company's equity as of the Reporting Date amounted to US$ 4.4 million, corresponding to an equity ratio of 63%, compared to US$ 6.7 million (71%) as of December 31, 2013.

3) Cash Flow

In the Reporting Period, net cash used in operating activities totaled US$ 1.5 million, compared to US$ 1.7 million provided in fiscal 2013.

The decrease in cash is the result of an increase in trade receivables that slightly offset the decrease in stock amount.

During the Reporting Period, net cash used in investing activities amounted to US$ 94,000 compared to US$ 156,000 in fiscal 2013.

During the Reporting Period, cash used in financing activities decreased to US$ 178,000, compared to US$ 351,000 during the fiscal year 2013, as the Company fully repaid all of its loans.

4) Employees

The number of employees significantly decreased to 19, compared to 34 as of December 31, 2013.

3. Risks and Opportunities

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.

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 accounted (made directly or indirectly by the group) for approximately 47% of total revenues during the year 2014 (2013: approximately 48%). 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 customers 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.

The Company is now using the distribution net of the parent company to increase its various partners and reducing its dependency on key customers

Changes in Exchange Rates

The Company is exposed to exchange rate fluctuations between the US$ and other currencies, which may negatively affect its earnings. A substantial majority of the Company's revenues are denominated in US$; however, a significant portion of the expenses associated with the Company's Israeli operations, including personnel, are incurred in NIS. The Company cannot predict any future trends in the exchange rates of the NIS against the US$. 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 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.

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, however the exposure of this risk is immaterial.

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 this happens, 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 Northern & Western Europe, Latin America 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 Raw Material Prices

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 subcontractor's costs in securing raw materials that would affect directly on its own costs for finished goods. 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 Finished products

Currently, the Company receives sales forecasts from the majority of its customers. Based on these sales forecasts and incoming orders, the Company purchases finished goods from it subcontractors needed for sale. The Company generally maintains a sufficient inventory of long lead-time items in order to meet its sales forecasts schedule.

The Company may choose to maintain inventories of products 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 as well as its operational expenses and cash flow.

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, UTC , Tyco, Bosch and Honeywell.

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

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. 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.

4. Outlook

Looking ahead to the current business year, the Company expects a stabilization of revenues along with an improved operational profitability. Particularly, the territorial expansion of the distribution agreement with Risco is expected to have a positive impact as it enables the Company to fully rely on the parent company's sales channels. This increases the opportunity to develop new sales markets and cut operational costs.

This collaboration will enable to introduce the company product line to new customers and new territories and will help saving operating costs and increase efficiency and profitability in 2015.

The Company continues focusing on its Two-way-wireless iConnect product line and its PIR camera detector with a built-in camera for video verification, in addition to the release of new complimentary products such as the two-way repeater for extending the detectors' range and the two-way vibration detector.

6. Responsibility Statement

"To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the 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, March 31, 2015

ELECTRONICS LINE 3000 LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

U.S. DOLLARS IN THOUSANDS

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Building a better
working world

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

ELECTRONICS LINE 3000 LTD.

We have audited the accompanying financial statements of Electronics Line 3000 Ltd. ("the Company"), which comprise the statements of financial position as of December 31, 2014 and 2013, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the two years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and its financial performance and cash flows for each of the two years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 25, 2015

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STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

		December 31,	
	Note	**2014**	**2013**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	219	1,988
Trade receivables	6	3,971	927
Other accounts receivable	7	38	164
Inventories	8	2,023	3,912
Total current assets		6,251	6,991
NON-CURRENT ASSETS:			
Property, plant and equipment, net	9	466	574
Intangible assets	10	101	202
Deferred taxes	16e	241	1,593
Security deposits		12	34
Total non-current assets		820	2,403
Total assets		7,071	9,394

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

STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

		December 31,	
	Note	**2014**	**2013**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks	11	-	179
Trade payables	12	851	1,728
Other current liabilities	13	1,737	563
Total current liabilities		2,588	2,470
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net	15	34	240
Total non-current liabilities		34	240
EQUITY:	18		
Share capital		15,933	15,933
Additional paid-in capital		6,651	6,632
Accumulated deficit		(18,135)	(15,881)
Total equity		4,449	6,684
Total liabilities and equity		7,071	9,394

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

March 25 , 2015			
Date of approval of the financial statements	Moshe Alkelai Chairman of the Board	Douglas Luscombe President and CEO	Sharon Sheep Responsible for finance

INCOME STATEMENTS

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

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Revenues	20	12,200	16,534
Cost of revenues	21	8,286	9,507
Gross profit		3,914	7,027
Operating costs and expenses:			
Research and development	22	1,119	1,235
Selling and marketing	23	1,635	1,851
General and administrative	24	1,965	2,146
Total operating costs and expenses		4,719	5,232
Operating income (loss)		(805)	1,795
Financial income	25a	49	167
Financial expenses	25b	130	130
Income (loss) before taxes on income		(886)	1,832
Tax on income (tax benefit)	16b	1,352	(1,095)
Net income (loss)		(2,238)	2,927
Net income (loss) per share (basic and diluted)	26	(0.16)	0.21

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

STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31, 2014	2013
Net income (loss)	(2,238)	2,927
Other comprehensive income (loss):		
Amounts that will not be reclassified subsequently to profit or loss:		
Remeasurement gain (loss) from defined benefit plans	(16)	49
Total other comprehensive income (loss)	(16)	49
Total comprehensive income (loss)	(2,254)	2,976

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

STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
Balance as of January 1, 2013	15,933	6,584	(18,857)	3,660
Net income	-	-	2,927	2,927
Other comprehensive income	-	-	49	49
Total comprehensive income	-	-	2,976	2,976
Cost of share-based payments	-	48	-	48
Balance as of December 31, 2013	15,933	6,632	(15,881)	6,684
Loss	-	-	(2,238)	(2,238)
Other comprehensive loss	-	-	(16)	(16)
Total comprehensive loss	-	-	(2,254)	(2,254)
Cost of share-based payments	-	19	-	19
Balance as of December 31, 2014	15,933	6,651	(18,135)	4,449

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

STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,	
	2014	**2013**
Cash flows from operating activities:		
Net income (loss)	(2,238)	2,927
Adjustments to reconcile net income (loss)to net cash provided by (used in) operating activities:		
Adjustments to profit or loss items:		
Depreciation and amortization	303	292
Increase (decrease) in employee benefit liabilities, net	(4)	146
Cost of share-based payments	19	48
Tax on income (tax benefit)	1,352	(1,095)
Financial expenses, net	94	129
	1,764	(480)
Changes in operating asset and liability items:		
Increase in trade receivables	(3,044)	(269)
Decrease in other accounts receivable	126	9
Decrease in inventories	1,889	130
Decrease (increase) in security deposits	22	(17)
Decrease in trade payables	(877)	(228)
Increase (decrease) in other current liabilities	955	(248)
	(929)	(623)
Interest paid	(94)	(129)
Income taxes paid	-	(3)
	(94)	(132)
Net cash provided by (used in) operating activities	(1,497)	1,692
Cash flows from investing activities:		
Purchase of property, plant and equipment	(94)	(156)
Net cash used in investing activities	(94)	(156)

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

STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,	
	2014	**2013**
Cash flows from financing activities:		
Repayment of long-term loans from banks	(178)	(351)
Net cash used in financing activities	(178)	(351)
Increase (decrease) in cash and cash equivalents	(1,769)	1,185
Cash and cash equivalents at beginning of year	1,988	803
Cash and cash equivalents at end of year	219	1,988

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

NOTE 1:- GENERAL

a. Electronics Line 3000 Ltd. ("the Company") was incorporated in Israel on December 2002.
Following the Board's resolution, dated April 8, 2014 the Company changed the trading of its shares from the Prime Standard to the General Standard segment of the Frankfurt Stock Exchange. The Company's transfer to trading in the General Standard segment took place on June 30, 2014.

b. The Company is 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. Commencing from October 2014, the Company's products are distributed by its parent company – see Note 26c(2). The registered office of the Company is located at 14 Hachoma Street, Rishon LeZion, Israel.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").
The Company's financial statements have been prepared on a cost basis, except for: financial assets and liabilities (including derivatives) which are presented at fair value through profit or loss.

The Company has elected to present profit or loss items using the function of expense method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

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

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon 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 each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and 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.

c. 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.

d. 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. Impaired debts are derecognized when they are assessed as uncollectible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Cost of inventories is determined as follows:

Purchased products and raw materials - using the weighted average cost method.

f. Revenue recognition:

Revenues are recognized in profit or loss 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. In cases where the Company acts as an agent or as a broker without being exposed to the risks and rewards associated with the transaction, its revenues are presented on a net basis. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Following are the specific revenue recognition criteria which must be met before revenue is recognized:

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. From October 2014, revenues from the sale of goods that are distributed by the Company's parent company are recognized using the "sell–through" method (recognition upon sale to end customer).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Customer discounts:

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, and they are deducted from sales revenues.

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.

g. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

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 measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

Deferred taxes are offset 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.

h. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

	%	**Mainly %**
Machinery and equipment	10 - 15	10
Motor vehicles	15	15
Office furniture and equipment	6 - 33	33

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.
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 profit or loss when the asset is derecognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized over their useful life 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 are reviewed at least at each year end.

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 asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

The useful life of intangible assets is as follows:

	Years
Product files	5

Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project 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. The asset is amortized over its useful life. Testing of impairment is performed annually over the period of the development project.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial 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.

j. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured 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 financial assets is based on their classification as follows:

a) Financial assets at fair value through profit or loss:

This category includes financial assets held for trading (including derivatives) and financial assets designated upon initial recognition as at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Loans and receivables:

Loans and receivables are investments 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 less directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term receivables are measured based on their terms, normally at face value.

2. Financial liabilities:

Financial liabilities are initially recognized at fair value. Loans and other liabilities measured at amortized cost are presented less direct transaction costs.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

a) Financial liabilities at amortized cost:

After initial recognition, loans, including debentures, are measured based on

their terms at amortized cost less directly attributable transaction costs using the effective interest method.

b) Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading (including derivatives) and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognized in profit or loss.

A liability may be designated upon initial recognition at fair value through profit or loss, subject to the provisions of IAS 39.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Derecognition of financial instruments:

a) 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.

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Company) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

When 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 amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange.

When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Impairment of financial assets:

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

Financial assets carried at amortized cost:

Objective evidence of impairment exists when one or more events that have occurred after initial recognition of the asset have a negative impact on the estimated future cash flows. 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. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. 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 profit or loss.

k. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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 Company expects part or all of the expense to be reimbursed to the Company, such as in an insurance contract, the reimbursement is recognized as a separate asset only when it is virtually certain that it will be received by the Company. The expense is recognized in the statement of profit or loss net of any reimbursement.

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

Legal claims:

A provision for claims is recognized when the Company 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 Company to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Employee benefit liabilities:

The Company has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These 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.

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 Company has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Company 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 concurrently with performance of the employee's services.

The Company also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover 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 is consistent with the estimated term of the severance pay 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 Company's own creditors and cannot be returned directly to the Company.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

m. Share-based payment transactions:

The Company's employees, other employees of the parent company and the Company’s directors 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, employees of the parent company and its Directors is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

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 is 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 Company’s best estimate of the number of equity instruments that will ultimately vest.

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/other service provider 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 above.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Earnings per share:

Earnings 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.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. 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 its share of earnings per share of the investees multiplied by the number of shares held by the Company.

o. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

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 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).

NOTE 3:- SIGNIFICANT ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

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. 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 Company 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, the Company relies on the opinion of its legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and 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.

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and deductible 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 timing and level of future taxable profits, its source and the tax planning strategy.

- Pension 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, the discount rate, rate of salary increase and employee turnover rate. The carrying amount of the liability may be significantly affected by changes in these estimates.

- Development costs:

  In testing impairment, management makes assumptions regarding the expected cash flows from the asset being developed, the discount rate and the expected period of benefits.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. IFRS 9 - Financial Instruments:

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, " Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only 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.

- 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.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

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 (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

According to IFRS 9, 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.

According to IFRS 9, changes in fair value s of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

IFRS 9 also prescribes new hedge accounting requirements.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

b. Amendment to IAS 19 regarding the accounting for contributions linked to service:
The IASB issued an amendment to the existing requirements of IAS 19 regarding contributions made by employees or third parties that are linked to service.

According to the amendment, if the amount of the contributions is independent of the number of years of service (such as in cases where contributions are computed as a fixed percentage of employee's salary, the contributions are in fixed amount over the service period, the contributions are determined by the employee's age), contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributing them to periods of service.

If contributions depend on the number of years during which service is rendered, these contributions should be attributed to periods of service by applying the same method of attribution in accordance with IAS 19.70 regarding attribution of benefit to periods of service.

The amendments to IAS 19 are to be applied retrospectively for annual periods beginning on or after July 1, 2014. Early adoption is permitted.

The Company believes the impact of the amendments to IAS 19, on the financial statements will be immaterial.

c. IFRS 15, "Revenue from Contracts with Customers":

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: *Identify the contract with a customer*, including reference to contract combination and accounting for contract modifications.

Step 2: *Identify the separate performance obligations in the contract*

Step 3: *Determine the transaction price*, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: *Allocate the transaction price to the separate performance obligations* on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

Step 5: *Recognize revenue when the entity satisfies a performance obligation* over time or at a point in time.

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. IFRS 15 allows an entity to choose to apply a modified retrospective approach, according to which IFRS 15 will only be applied in the current period presented to existing contracts at the date of initial application. No restatement of the comparative periods will be required as long as the disclosures regarding prior periods required by IFRS 15 are included.

The Company is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

d. Amendments to IAS 16 and IAS 38 regarding acceptable methods of depreciation and amortization:

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 ("the amendments") regarding the use of a depreciation and amortization method based on revenue. According to the amendments, a revenue-based method to calculate the depreciation of an asset is not appropriate because revenue generally reflects factors other than the consumption of the economic benefits embodied in the asset.

As for intangible assets, the revenue-based amortization method can only be applied in certain circumstances such as when it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated.

The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

U.S. dollars in thousands

NOTE 5:- CASH AND CASH EQUIVALENTS

Composition by currency:

	December 31, 2014	December 31, 2013
U.S. dollars	186	1,469
Euros	20	380
GBP	2	12
NIS	11	127
	219	1,988

NOTE 6:- TRADE RECEIVABLES

a. Composition:

	December 31, 2014	December 31, 2013
Parent Company	3,948	-
Open accounts	117	1,029
Less - allowance for doubtful accounts	(94)	(102)
Trade receivables, net	3,971	927

Impaired debts are accounted for through recording an allowance for doubtful accounts.

Trade receivables are non-interest bearing and are generally for 60-120 day terms.

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

	Individually impaired
Balance at January 1, 2013	77
Charge for the year	39
Derecognition of bad debts	(14)
Balance at December 31, 2013	102
Charge for the year	11
Derecognition of bad debts	(12)
Reversal of collected doubtful accounts	(7)

U.S. dollars in thousands

Balance at December 31, 2014	94

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, 2014	3,779	170	8	11	3	3,971
December 31, 2013	242	677	1	-	7	927

NOTE 7:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2014	2013
Prepaid expenses	25	32
Advances to suppliers	13	-
Government authorities	-	116
Other receivables	-	16
	38	164

NOTE 8:- INVENTORIES

	December 31,	
	2014	2013
Raw materials	78	142
Finished goods	1,727	3,562
	1,805	3,704
Merchandise in transit	218	208
	2,023	3,912

The impairment of inventories recognized as a charge to cost of sale in 2014 and 2013 amounted to $147 and $194, respectively.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 9:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

	Installations and leasehold improvements	Machinery and equipment	Office furniture and equipment	Total
Cost:				
Balance at January 1, 2013	10	948	3,293	4,251
Acquisitions during the year	-	91	98	156
Balance at December 31, 2013	10	1,039	3,358	4,407
Acquisitions during the year	-	80	14	94
Disposals during the year	-	-	(6)	(6)
Balance at December 31, 2014	10	1,119	3,366	4,495
Accumulated depreciation:				
Balance at January 1, 2013	2	537	3,103	3,642
Provision during the year	1	115	75	191
Balance at December 31, 2013	3	652	3,178	3,833
Provision during the year	1	128	73	202
Disposals during the year	-	-	(6)	(6)
Balance at December 31, 2014	4	780	3,245	4,029
Depreciated cost at December 31, 2014	6	339	121	466
Depreciated cost at December 31, 2013	7	387	180	574

NOTE 10:- INTANGIBLE ASSETS

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

	December 31, 2014	December 31, 2013
Balances at January 1, 2014	504	504
Accumulated amortization	(403)	(302)
Balance at December 31, 2014	101	202

U.S. dollars in thousands

NOTE 11:- SHORT-TERM CREDIT FROM BANKS

a. Composition:

	Annual interest rate	December 31, 2014	December 31, 2013
	%		
Current maturities of long-term loans	LIBOR + 3.5	-	179

NOTE 12:- TRADE PAYABLES

	December 31, 2014	December 31, 2013
Open accounts	851	1,728
	851	1,728

Trade payables are non-interest bearing and generally have terms of 45-90 days.

NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31, 2014	December 31, 2013
Accrued expenses	113	161
Employees and payroll accruals	484	324
Government authorities	1,100	-
Others	40	78
	1,737	563

U.S. dollars in thousands

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES, NET

Employee benefits consist of short-term benefits and post-employment benefits.

a. 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.

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 Company into pension funds and/or policies of insurance companies release the Company from any additional liability to employees for whom said contributions were made. These contributions and contributions for compensation represent defined contribution plans.

	Year ended December 31,	
	2014	**2013**
Expense in respect of defined contribution plans	48	94

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 profit or loss:

	Year ended December 31,	
	2014	**2013**
Current service cost	16	124
Past service cost	99	-
Interest cost on benefit obligation	17	26
Interest income on plan assets	(13)	(18)
Total employee benefit expenses	119	132
Actual return on plan assets	13	27

U.S. dollars in thousands

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

2. The defined benefit liability, net:

	December 31, 2014	December 31, 2013
Defined benefit obligation	469	566
Fair value of plan assets	(216)	(326)
	253	240
Reclassified to current liability	(219)	-
Total defined benefit liability, net	34	240

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

	2014	2013
Balance at January 1,	566	420
Interest cost	17	26
Current service cost	16	124
Past service cost	99	
Benefits paid	(188)	-
Net actuarial (gain) loss	16	(40)
Exchange differences	(57)	36
Balance at December 31,	469	566

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:

	2014	2013
Balance at January 1,	326	277
Interest income	13	18
Benefits paid	(94)	-
Net actuarial gain	-	9
Exchange differences	(29)	22
Balance at December 31,	216	326

U.S. dollars in thousands

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES, NET

5. The principal actuarial assumptions used are as follows:

	December 31,	
	2014	2013
Discount rate	3.11%	4%
Future salary increase	3%	3%

NOTE 15:- TAXES ON INCOME

a. Tax laws applicable to the Company:

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 (in respect of depreciable assets purchased after the 2007 tax year).

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.

NOTE 15:- TAXES ON INCOME (Cont.)

b. Tax rates applicable to the Company

The Israeli corporate tax rate was 26.5% in 2014 and 25% in 2013.

A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate in the year of sale. A temporary provision for 2006-2009 stipulates that the sale of an asset other than a quoted security (excluding goodwill that was not acquired) that had been purchased prior to January 1, 2003, and sold by December 31, 2009, is subject to corporate tax as follows: the part of the real capital gain that is linearly attributed to the period prior to December 31, 2002 is subject to the corporate tax rate in the year of sale as set forth in the Israeli Income Tax Ordinance, and the part of the real capital gain that is linearly attributed to the period from January 1, 2003, through December 31, 2009, is subject to tax at a rate of 25%.

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, increasing the corporate tax rate from 25% to 26.5%, cancelling the reduction in the tax rates applicable to privileged enterprises (9% in development area A and 16% elsewhere) and, in certain cases, increasing the rate of dividend withholding tax within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014. There are also other changes such as taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of overseas assets. As of the date of approval of these financial statements, these regulations have not been issued.

The deferred tax balances included in the financial statements as of December 31, 2013 are calculated according to the new tax rates that were substantially enacted as of the reporting date and, therefore, comply with the above changes, as applicable to the Company.

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

U.S. dollars in thousands

NOTE 15:- TAXES ON INCOME (Cont.)

c. Tax assessments:

The Company has not received final tax assessments since its incorporation, however, the assessments of the Company are deemed final through 2009.

d. Deferred taxes:

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

	December 31,	
	2014	**2013**
Non-current assets	241	1,593

Deferred tax assets are computed at a tax rate of approximately 26.5% for 2014 and 2013.

The Company recorded deferred tax assets, principally for tax loss carryforwards and also for other temporary differences, as of December 31, 2014 and 2013 in the amount of $ 241 and $ 1,593, respectively (see e below). The deferred tax assets were recorded based on the Company’s management best estimation of realization of these losses and temporary differences in the foreseeable future.

e. Changes in deferred taxes:

	Year ended December 31,	
	2014	**2013**
Balance at the beginning of the year	1,593	498
Change during the year	(1,352)	1,095
Balance at the end of the year	241	1,593

f. Income tax expense (benefit) included in profit or loss:

	December 31,	
	2014	**2013**
Deferred taxes	1,352	(1,095)
	1,352	(1,095)

U.S. dollars in thousands

NOTE 15:- TAXES ON INCOME (Cont.)

g. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,	
	2014	**2013**
Statutory tax rate	26.5%	25%
Income (loss) before taxes on income	(886)	1,832
Tax (tax benefit) computed at statutory tax rate	(235)	458
Increase (decrease) in tax on income resulting from the following:		
Non-deductible expenses for tax purposes	-	1
Cost of share-based payments	5	12
Utilization of previously unrecognized tax losses and other items	-	(471)
Losses and other temporary differences for which the Company did not record a deferred tax asset	230	-
Change in deferred tax asset	1,352	(1,095)
Taxes in income (tax benefit)	1,352	(1,095)

h. Carryforward losses for tax purposes:

The Company's carryforward losses for tax purposes as of December 31, 2014 and 2013 amount to approximately $ 16,370 and $ 16,154, respectively. With respect to tax losses carryforward of approximately $ 15,460 and $ 10,143, no deferred tax asset was recognized as of December 31, 2014 and 2013, respectively.

NOTE 16:- COMMITMENTS AND CONTINGENT LIABILITIES

In 2013 one of the Company's customers filed a lawsuit against the Company on the grounds of a commercial dispute. The customer claims damages and compensation in the amount of NIS 5 million (approx. $ 1.38 million).

Based on the estimation of the Company and its legal advisors, it is not probable the Company will pay any material compensation, and accordingly, the Company did not record any provision for this claim in its financial statements.

U.S. dollars in thousands

NOTE 17:- EQUITY

a. The share capital is composed as follows:

	December 31, 2014		December 31, 2013	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 5 par value each	50,000,000	13,712,848	50,000,000	13,712,848

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:

1. 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 Company.

2. 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.

3. On June 14, 2011 additional allocation of 330,000 options to the Company's CEO, directors and top management of Risco Ltd., the controlling shareholders, was approved by the audit committee and the board of directors. The final approval by the Company's shareholders was received on October 10, 2011.

   Measurement of the fair value of equity-settled share options:

   The Company uses the Binomial model when estimating the grant date fair value of equity-settled share options. The measurement was made at the grant date of equity-settled share options since the options were granted to employees.

   The following table lists the inputs to the binomial model used for the fair value measurement of equity-settled share options for the above plan:

Dividend yield	0%
Expected volatility of the share prices	77.3%
Risk-free interest rate	1.89%
Expected life of share options	10 years
Share price	€ 1.010

   Based on the above inputs, the fair value of the options was determined at $ 212 (€ 164) at the grant date.

U.S. dollars in thousands

NOTE 17:- EQUITY (Cont.)

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

The expected life of the share options is based on historical data and is not necessarily indicative of the exercise patterns of share options that may occur in the future.

The expected volatility of the share prices reflects the assumption that the historical volatility of the share prices is reasonably indicative of expected future trends.

4. Movement during the year:

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,			
	2014		2013	
	Number of options	WAEP (U.S.$)	Number of options	WAEP (U.S.$)
Share options outstanding at beginning of year	491,181	3.38	491,181	3.38
Share options outstanding at end of year	491,181	3.38	491,181	3.38
Share options exercisable at end of year	491,181	3.38	397,848	3.72

5. During 2012, the employment of certain officers and employees of the Company, who were previously granted options, was terminated. Consequently 50,000 of the options were forfeited.

Total expenses of share-based payments amounted to $ 19 and $ 48 for 2014 and 2013, respectively.

U.S. dollars in thousands

NOTE 18:- FINANCIAL INSTRUMENTS

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

	December 31,	
	2014	2013
Financial assets:		
Financial assets at fair value through profit or loss:		
Derivatives	-	51
Loans and receivables	3,971	927
Financial liabilities:		
Financial liabilities measured at amortized cost	964	2,068
Derivatives	17	-

b. Financial risks factors:

The Company’s activities expose it to various financial risks such as market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's financial performance.

The Company's management oversees the risks in accordance with the policies approved by the Board.

1. Market risks:

a) Foreign exchange risk:

The Company operates in a large number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies. Foreign exchange risk arises on forward commercial transactions, recognized assets and liabilities that are denominated in a foreign currency other than the functional currency. Accounting department is responsible for managing the net position of each foreign currency by the use of forward exchange contracts and other hedging tools.

Management's policy is to hedge between 40% and 70% of forecasted transactions in every principal currency over the next 12 months.

U.S. dollars in thousands

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

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

As of December 31, 2014 and 2013, the Company's monetary liabilities in NIS exceeded monetary assets by $ 107 and $820, respectively.

As of December 31, 2014 and 2013, the Company's monetary assets in Euro exceeded monetary liabilities by $ 20 and $ 485, respectively.

As of December 31, 2014 and 2013, the Company's monetary assets in GBP exceeded monetary liabilities by $ 2 and $ 393, respectively.

2. Liquidity risk:

The Company monitors its risk to a shortage of funds using a monthly and daily budget tool.

The Company’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The maturities of the financial liabilities of the Company are for one year, except for the bank loans. The long-term loans are repayable in future years based on contractual undiscounted payments, as follows:

	December 31,	
	2014	**2013**
First year	964	2,068
	964	2,068

c. Fair value:

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

U.S. dollars in thousands

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

d. Classification of financial instruments by fair value hierarchy:

The financial instruments presented in the balance sheet at fair value are with similar characteristics using the following fair value hierarchy (level 3 - valuation techniques which use inputs that are not based on observable market data).

Financial assets measured at fair value- Derivatives – level 3

	December 31,	
	2014	**2013**
Financial assets (liabilities) at fair value through profit or loss:	(17)	51

e. Sensitivity analysis relating to changes in market factors:

	December 31,	
	2014	**2013**
Sensitivity analysis to changes in the NIS exchange rate:		
Gain (loss) from the change:		
Increase of 5% in the NIS rate	(66)	(79)
Decrease of 5% in the NIS rate	66	79
Sensitivity analysis to changes in the Euro exchange rate:		
Gain (loss) from the change:		
Increase of 5% in the Euro rate	1	24
Decrease of 5% in the Euro rate	(1)	(24)
Sensitivity analysis to changes in the GBP exchange rate:		
Gain (loss) from the change:		
Increase of 5% in the GBP rate	-	20
Decrease of 5% in the GBP rate	-	(20)

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 19:- REVENUES

a. Foreign:

	Year ended December 31, 2014	Year ended December 31, 2013
Europe	8,447	14,814
Americas	430	547
Other countries	1,192	1,164
	10,069	16,525
Domestic - Israel	2,131	9
	12,200	16,534

b. Additional information about revenues:

Revenues from major customers which each account for 10% or more of total revenues as reported in the financial statements:

	Year ended December 31, 2014	Year ended December 31, 2013
Customer A (Parent Company)	4,311	-
Customer B	1,413	3,840
Customer C (Fellow subsidiary)	669	2,329
Customer D	1,223	2,327
	7,616	8,496

NOTE 20:- COST OF REVENUES

	Year ended December 31, 2014	Year ended December 31, 2013
Purchases and changes in raw materials	5,658	8,748
Labor	459	531
Other expenses (Including insurance reimbursement for prior year claim)	52	(33)
Depreciation	228	216
	6,397	9,462
Changes in inventories of finished products	1,889	45
	8,286	9,507

U.S. dollars in thousands

NOTE 21:- RESEARCH AND DEVELOPMENT EXPENSES

	Year ended December 31,	
	2014	2013
Salaries and related expenses	415	588
Consulting fees	665	607
Other	39	40
	1,119	1,235

NOTE 22:- SELLING AND MARKETING EXPENSES

	Year ended December 31,	
	2014	2013
Salaries and related expenses	999	987
Advertising	147	180
Foreign travel and transportation	179	222
Other	310	462
	1,635	1,851

NOTE 23:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2014	2013
Salaries and related expenses	602	677
Management and consulting fees	837	837
Depreciation	74	75
Other	452	558
	1,965	2,146

NOTE 24:- FINANCIAL INCOME AND EXPENSES

	Year ended December 31,	
	2014	2013
a. Financial income:		
Foreign exchange differences	49	167
	49	167
b. Financial expenses:		
Bank borrowings, net	93	129
Other	37	1
	130	130

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 25:- NET PROFIT PER SHARE

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

	Year ended December 31, ,	
	2014	2013
Profit (loss) attributable to Ordinary shares for computing basic and diluted net loss per share	(2,238)	2,927
Weighted average number of Ordinary shares for computing basic net profit (loss) per share	13,712,848	13,712,848
Adjusted weighted average number of Ordinary shares for computing diluted profit (loss) per share	13,712,848	13,712,848

In the calculation of the diluted net profit per share for the years ended December 31, 2014 and 2013, all share options were not taken into account because of the anti-dilutive effect.

NOTE 26:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

Composition:

As of December 31, 2014

	Controlling shareholder (the parent company)	Fellow subsidiary	Key management personnel	Other related parties
	U.S. dollars in thousands			
Trade receivables	3,948	-	-	-
Trade payables	-	55	-	46
Other accounts payable	-	-	24	-

As of December 31, 2013

	Controlling shareholder (the parent company)	Fellow subsidiary	Key management personnel	Other related parties
	U.S. dollars in thousands			
Trade receivables	-	364	-	-
Trade payables	684	19	-	62
Other accounts payable	-	-	24	-

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

b. Transactions:

Year ended December 31, 2014

	As for conditions, see Note	Controlling shareholder (the parent company)	Fellow subsidiary	Key management personnel (including directors)	Other related parties
		U.S. dollars in thousands			
Revenues	26c(3)	4,311	669	-	-
Cost of revenues	26c(2)	1,281	-	-	-
Research and development	26d	-	-	-	586
General and administrative	26c(1)	800	-	240	-

Year ended December 31, 2013

	As for conditions, see Note	Controlling shareholder (the parent company)	Fellow subsidiary	Key management personnel (including directors)	Other related parties
		U.S. dollars in thousands			
Revenues	26d(3)	9	2,329	-	-
Cost of revenues	26d(2)	1,296	-	-	-
Research and development	26e	-	-	-	541
Selling and marketing	-	39	-	-	-
General and administrative	26d(1)	800	-	245	-

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 and in accordance with the Company's normal and reasonable payment payroll practices regarding service providers, 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.

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

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 distributes 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, at arm's length prices.
   Starting October 2014, the Company extended the implementation of the current distribution agreement to additional territories other than the UK and using Risco Ltd sales structure for all the distribution activity.

d. After approval by the Company's audit committee and the Company's shareholders, on June 16, 2011, the Company had entered into an R&D service agreement with a service provider controlled by the controlling shareholder of the Company's largest and controlling shareholder.
On April 8, 2014 the Company’s audit committee and the Company's board of directors approved a three year extension of the R&D service agreement.
The extension of the R&D service agreement is subject to the approval of the Company’s shareholders.

e. After approval by the Company's audit committee, the shareholders, in a special general meeting on October 10, 2012 approved an amendment to the Distribution agreement with Risco (see d 3 above). According to the amendment the Company will have the option to distribute Risco products.

f. On August 29, 2013, the Company's shareholders approved the agreement that the Company had entered into with Risco, which includes the following:

1. A three year extension of the Manufacturing services agreement with the parent company (Risco).

2. An amendment to the Management services agreement with the parent company (Risco) (see c1 above). The revised agreement includes; (i) additional services which will be rendered by Risco to the Company and (ii) revises the annual amount payable to Risco so that the base amount will be an amount of $800 instead of $300, and (iii) the agreement has been extended for an additional three years period.

The revised Management Services Agreement shall be in effect for a term of 3 years as of January 1, 2013.

U.S. dollars in thousands

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

g. On April 14, 2013, the board of directors and the compensation committee recommended the approval of the Company's Compensation Policy in respect of the Company's CEO. On August 29, 2013, the Company's shareholders approved the Company's Compensation Policy.

The compensation policy includes base salary increase and annual sales commission in accordance with accomplishment of the sales and gross profit targets.
The Compensation Policy is a multi-year policy which shall be in effect for a period of three years from the date of its approval.

NOTE 27:- GEOGRAPHICAL INFORMATION

Revenues reported in the financial statements derive from the Company's country of domicile (Israel) and foreign countries based on the location of the customers refer to note 19a.

The carrying amounts of non-current assets (property, plant and equipment and intangible assets) in the Company's country of domicile (Israel) and in foreign countries based on the location of the assets, are as follows:

	December 31,	
	2014	**2013**
Israel	236	446
Foreign countries	330	330
	566	776

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