

20 March 2006

Adamind Ltd

Preliminary results for the year to 31 December 2005

Adamind Ltd (Adamind or “the Company”) (LSE: ADA), the leading provider of media adaptation software for multimedia messages (“MMS”) and content services markets, announces its financial results for the year ended 31 December 2005.

Financial highlights

- Revenues increased by 100% to \$6.2m (Combined Pro-forma* 2004: \$3.1m)
- Operating loss reduced by 29% to \$2.7m (Combined Pro-forma* 2004: \$3.8m)
- Gross margin was 90%
- Net loss decreased to \$1.35m (Combined Pro-forma* 2004: \$3.9m)
- Net cash as at 31 December 2005 amounted to \$28.2m
- Achieved neutral operating cash flow for the year
- Loss per share decreased to \$0.04 (2004: \$0.20)

* Adamind was formed in November 2004 from the merger of the transcoding business units of Royal Philips Electronics and Emblaze Ltd; Philips MP4NET and Emblaze Transcoding. These are the combined financial information of the two businesses in 2004 as if the business combination had occurred on January 1, 2004 as disclosed in the admission document dated 14 February 2005.

Operational highlights

- Increased total network deployments to over 100 from over 80 at the time of Admission to AIM in February 2005. Now working with the top five of the seven mobile infrastructure vendors and three of the top System Integrators
- Revenue growth reflects new software license sales as well as capacity upgrades
- Direct sales to networks increased to 25% of revenues compared with less than 10% in 2004
- Major footprint in US with Verizon Wireless and Universal
- Significant inroads into APAC region with direct sales to SMART Communications in Philippines, M1 in Singapore, Optus in Australia and others
- Broadened strategic partnership with Ericsson to include video content adaptation and support for Digital Rights Management
- Moved into Chinese market and increased presence in APAC region with acquisition of SenseStream in February 2006

Shailendra Jain, chief executive of Adamind, said: “Adamind is in the sweet spot of the mobile content revolution as consumer use of multimedia messages and rich media content services continues to grow strongly.

The momentum of growth seen in 2005 has continued into the New Year. Our pipeline of new orders has expanded significantly, putting Adamind on track to achieve profitability and strong growth for the year as a whole.”

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Overview

Adamind announces its maiden full year results since admission to AIM with a strong operating performance that consolidated its position as the world's leading provider of media adaptation software for multimedia messaging ("MMS") and mobile content.

The total number of networks that have deployed Adamind's software increased to more than 100 during 2005 compared with over 80 at the time of the flotation in February 2005. This was achieved by increasing direct sales to major operators and by working closely with our strategic partners including Ericsson, LogicaCMG, Motorola and Openwave.

The Company benefited from the growing popularity of MMS and rich mobile content with end users and the introduction of new multimedia services by operators worldwide, particularly in Asia and North America. Adamind's software sits at the heart of a mobile network and adapts multimedia content such as picture messages, ringtones and video-clips so that these can be experienced without glitch across any network and mobile handset. As a result, the Company's software plays a critical function in a large and rapidly expanding market for mobile content. According to industry estimates the messaging market alone is expected to grow three-fold to nearly \$30bn between 2005 and 2009 (Global Mobile Data Applications Forecast, Yankee Group, Dec 2005). Over the same period, the potential market for mobile content services is expected to be even bigger at about \$60bn.

Operating review

The Company increased its revenues by 100% to \$6.2m and reduced its net loss by 66% to \$1.3m in 2005 as set out in the table below:

	Year ended 31 Dec 2004 (\$000)	Year ended 31 Dec 2005 (\$000)
	Combined Pro forma*	
Revenues	\$ 3,060	\$ 6,154
Cost of revenues	252	632
Gross profit	2,808	5,522
Total operating expenses	6,652	8,249
Operating loss	(3,844)	(2,727)
Financial income (expenses), net	(80)	1,379
Net loss	\$ (3,924)	\$ (1,348)
Basic and diluted net loss per share	\$ (0.20)	\$ (0.04)
Weighted average number of shares used in computing basic and diluted net loss per Ordinary share	19,200,000	33,548,392

* Adamind was formed in November 2004 from the merger of the transcoding business units of Royal Philips Electronics and Emblaze Ltd; Philips MP4NET and Emblaze Transcoding. These are the combined financial information of the two businesses in 2004 as if the business combination had occurred on January 1, 2004.

The increase in revenues reflects a greater number new operator customers planning the launch of MMS and content services. In addition, the Company benefited from capacity upgrades purchased by existing operator customers to handle rising MMS traffic requiring Adamind's media adaptation technology.

License sales to new customers contributed 65% of total revenues while capacity upgrades and maintenance fees from existing customers accounted for the remainder. In March 2005, Adamind's media adaptation platform was deployed at Verizon Wireless, one of the two largest North American mobile phone companies with a approximately 50 million subscriber base. Since then the volume of mobile data handled by Adamind's software in the US market has continued to grow steadily as Verizon Wireless, together with other mobile content providers roll out new services, applications and advanced new handsets to increasingly receptive end-users.

Direct sales

Direct sales to operators rose strongly during the year after the Company increased its sales and marketing spending to \$3.1m last year (2004:\$1.6m). Direct sales accounted for 25% of total revenues last year compared with less than 10% in 2004. Major direct wins and up-sell included several prominent regional mobile network operators including Smart Communications in Philippines and Wind in Italy. The Company's success with Smart was particularly noteworthy as the Philippines holds the world's No1 position for achieving the highest proportion of average revenues per user from data services at 40%.

Since the year-end, Adamind has also made a major breakthrough with the direct sale of its content production software to Universal Music Mobile US, a subsidiary of Universal Music Group, the world's largest music company. The Company is currently in talks with several other global content owners regarding its content production software.

Targeting high growth markets

The Company expects to build on its success in the US, Western Europe and SE Asia markets. Some of the top carriers in the US will be selecting their next generation media adaptation partner for content and MMS this year. In SE Asia, the company expects to make significant capacity upgrade sales this year. In Europe, there will be similar capacity upgrade sales and some new operator replacement deployments.

The Company is making solid progress in penetrating some of the world's fastest growing emerging economies of Brazil, Russia, India and China. These countries collectively account for much of the world's population, and the fastest growing mobile subscriber base.

During 2006, Adamind expects to announce significant commercial breakthroughs in each of these markets. Last month the Company announced the acquisition of SenseStream, which provides a bridgehead into mainland China, Hong Kong and Taiwanese markets. SenseStream has key relationships with some of the territories biggest mobile operators and network equipment makers.

Financial results

Revenues increased by 100% to \$6.2m compared with \$3.1m in the corresponding pro-forma period in 2004. The increase reflects a greater number of new licence fees and capacity upgrades purchased by network operators worldwide.

Revenues were broadly similar in the second half at \$3.0m compared with the first half due to a number of new agreements expected to be concluded before the end of the year being formally concluded in early January 2006.

Operating loss reduced by 29% to \$2.7m (Combined Pro-forma 2004: \$3.8m) reflecting the growth in revenues and a tight control over operational expenditure.

Net loss amounted to \$1.3m after taking into account financial income of \$1.38m reflecting interest income from cash and marketable securities. The Company also benefited from a \$0.6m one-off currency gain in the first half of 2005.

Gross margin was maintained at 90%.

Net cash balances amounted to \$28.2m reflecting \$25.5m proceeds from the placing on admission to AIM in February 2005. Cash from operations for the full year was neutral.

Trading Outlook

Adamind continues to enjoy strong demand for its world-class mobile content software by major operators worldwide. The recent acquisition of SenseStream in China and the move into the mobile content production arena with the signing of a three-year contract with Universal has also provided a strong foundation for 2006.

Since the start of the New Year our pipeline of new orders has expanded significantly, putting Adamind on track to achieve profitability and strong growth for the year as a whole.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

	Note	31 December	
		2004	2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 2,799	\$ 1,877
Short-term available-for-sale marketable securities	3	-	16,726
Short-term held-to-maturity marketable securities	3	-	2,131
Trade receivables		233	1,522
Other accounts receivable and prepaid expenses		41	148
<u>Total current assets</u>		<u>3,073</u>	<u>22,404</u>
NON-CURRENT ASSETS:			
Long-term held-to-maturity marketable securities	3	-	7,448
Equipment, net	4	413	424
Intangible assets, net	5	3,681	2,803
<u>Total non-current assets</u>		<u>4,094</u>	<u>10,675</u>
		<u>\$ 7,167</u>	<u>\$ 33,079</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables		\$ 19	\$ 304
Employees and payroll accruals		305	859
Accrued expenses and other liabilities	6	616	1,570
Deferred revenues		304	416
<u>Total current liabilities</u>		<u>1,244</u>	<u>3,149</u>
EQUITY:			
Share capital -	8		
Series A Convertible Preferred shares of NIS 0.01 par value: Authorized: 5,000,000 and 0 shares as of 31 December 2004 and 2005, respectively; Issued and outstanding: 4,800,000 and 0 shares as of 31 December 2004 and 2005, respectively		11	-
Ordinary shares of NIS 0.01 par value: Authorized: 45,000,000 and 50,000,000 shares as of 31 December 2004 and 2005, respectively; Issued and outstanding: 19,200,000 and 35,388,636 shares as of 31 December 2004 and 2005, respectively		43	80
Additional paid-in capital		5,956	31,078
Share-based compensation		-	207
Accumulated deficit		(87)	(1,435)
<u>Total equity</u>		<u>5,923</u>	<u>29,930</u>
		<u>\$ 7,167</u>	<u>\$ 33,079</u>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	From 7 November 2004 (date of commencement of operations) through 31 December 2004 *)	Year ended 31 December 2005
Revenues	10	\$ 978	\$ 6,154
Cost of revenues		<u>60</u>	<u>632</u>
Gross profit		<u>918</u>	<u>5,522</u>
Operating expenses:			
Research and development, net		391	3,157
Sales and marketing		299	3,087
General and administrative		175	1,127
Amortization of intangible assets	5	<u>150</u>	<u>878</u>
<u>Total operating expenses</u>		<u>1,015</u>	<u>8,249</u>
Operating loss		97	2,727
Financial income, net	11f	<u>10</u>	<u>1,379</u>
Net loss		<u>\$ 87</u>	<u>\$ 1,348</u>
Basic and diluted net loss per share		<u>\$ 0.00</u>	<u>\$ 0.04</u>
Weighted average number of shares used in computing basic and diluted net loss per Ordinary share		<u>19,200,000</u>	<u>33,548,392</u>

*) For additional unaudited pro forma combined statement of operations, see also Note 13.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands, except share data

	Series A Convertible Preferred shares		Ordinary shares		Additional paid-in capital	Share-based compensation	Accumulated deficit	Total equity
	Number	Amount	Number	Amount				
Balance at 7 November 2004 (date of commencement of operations)	-	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of shares *)	4,800,000	11	19,200,000	43	5,956	-	-	6,010
Net loss	-	-	-	-	-	-	(87)	(87)
Balance as of 31 December 2004	4,800,000	11	19,200,000	43	5,956	-	(87)	5,923
Issuance of Ordinary shares upon Initial Public Offering and conversion of Series A Convertible Preferred shares **)	(4,800,000)	(11)	16,163,636	37	25,113	-	-	25,139
Issuance of Ordinary shares upon exercise of employees' share options	-	-	25,000	***) -	9	-	-	9
Share-based compensation	-	-	-	-	-	207	-	207
Net loss	-	-	-	-	-	-	(1,348)	(1,348)
Balance as of 31 December 2005	-	\$ -	35,388,636	\$ 80	\$ 31,078	\$ 207	\$ (1,435)	\$ 29,930

*) Net of issuance expenses of \$ 100.

**) Net of issuance expenses of \$ 2,906.

***) Represents an amount lower than \$ 1.

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

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

	From 7 November 2004 (date of commencement of operations) through 31 December 2004	Year ended 31 December 2005
<u>Cash flows from operating activities:</u>		
Net loss	\$ (87)	\$ (1,348)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	187	1,125
Decrease (increase) in trade receivables, other accounts receivable and prepaid expenses	72	(1,535)
Increase in trade payables, employees and payroll accruals, accrued expenses and other liabilities	700	1,439
Increase in deferred revenues	84	112
Share-based compensation	-	207
Net cash provided by operating activities	<u>956</u>	<u>-</u>
<u>Cash flows from investing activities:</u>		
Purchase of equipment	(57)	(258)
Investment in short-term available-for-sale marketable securities	-	(16,700)
Investment in short-term held-to-maturity marketable securities	-	(2,018)
Investment in long-term held-to-maturity marketable securities	-	(7,448)
Net cash used in investing activities	<u>(57)</u>	<u>(26,424)</u>
<u>Cash flows from financing activities:</u>		
Proceeds from issuance of Series A Convertible Preferred shares	2,000	-
Issuance of shares upon Initial Public Offering	-	28,056
Issuance expenses	(100)	(2,554)
Net cash provided by financing activities	<u>1,900</u>	<u>25,502</u>
Increase (decrease) in cash and cash equivalents	2,799	(922)
Cash and cash equivalents at the beginning of the period	-	2,799
Cash and cash equivalents at the end of the period	<u>\$ 2,799</u>	<u>\$ 1,877</u>
<u>Supplemental disclosure of cash flow activities:</u>		
Cash received during the year for:		
Interest, net	\$ -	\$ 688
<u>Non-cash financing activities:</u>		
Issuance of Ordinary shares for acquisition of Philips MP4Net media adaptation business (see Note 1d)	<u>\$ 3,500</u>	<u>\$ -</u>
Issuance of Ordinary shares to Emblaze in consideration for net assets contributed from Emblaze as follows:		
Trade receivables	\$ 79	\$ -
Other receivables and prepaid expenses	6	-
Equipment	173	-
Acquired technology	643	-
Accrued expenses and other liabilities	(147)	-
Deferred revenues	(144)	-
	<u>\$ 610</u>	<u>\$ -</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 1:- GENERAL

a. Background:

On 17 September 2004, Emblaze Ltd. ("Emblaze"), a company organized under the laws of the State of Israel and traded on the London Stock Exchange, entered into an agreement ("the Agreement") with DommelRiver Israel Ltd., Philips Digital Networks B.V. ("PDN") and Koninklijke Philips Electronics N.V. ("Philips") (all of the aforementioned Philips companies - "Philips Parties") to transfer their respective media adaptation business to a new Israeli-based company, Adamind Ltd. ("Adamind Ltd." or "the Company"). Emblaze agreed to contribute the Emblaze media adaptation business ("Emblaze Media Adaptation Business") and operations in consideration for the issuance of Ordinary shares of Adamind Ltd., and the Philips Parties agreed to contribute the MP4Net media adaptation business ("Philips MP4Net media adaptation business") to Adamind Ltd. in consideration for the issuance of Ordinary shares of Adamind Ltd. and other consideration paid by Emblaze, all as set forth in the Agreement. In addition, Emblaze agreed to make an equity investment of \$ 2,000 in Adamind Ltd. in consideration for the issuance of Series A Convertible Preferred shares of Adamind Ltd., as set forth in the Agreement (see c. and d. below).

In 2004, the Company established a wholly-owned subsidiary in the U.S. ("Adamind Inc."), which is primarily engaged in marketing, sales provision of professional services and certain general and administrative functions associated with the Company's activities.

In February 2005, the Company completed an Initial Public Offering ("IPO") on the London Stock Exchange Alternative Investment Market ("AIM") under the symbol "ADA". The Company issued 11,363,636 Ordinary shares to institutional and other investors at a price of 1.32 GBP per share, raising approximately \$ 28,000 before issuance expenses of approximately \$ 2,900.

- b. The Company is a pure play provider of rich media content adaptation and content enhancement software solutions for the mobile messaging, content and convergence markets. The Company's flagship platform, Adamind Spire™, provides automated solutions for content adaptation and enhancement and aims to benefit virtually every player in the mobile delivery chain. Its multimedia capabilities enable service operators and content providers to deploy media rich content applications and services across a wide range of disparate types of consumer devices.
- c. Pursuant to the Agreement, on 7 November 2004, Emblaze transferred to the Company assets, including intellectual property, and liabilities related to the media adaptation business with a net carrying value in the accounts of Emblaze of \$ 610 in consideration for the issuance of 12,000,000 Ordinary shares. In addition, Emblaze transferred to the Company \$ 2,000 in cash as an equity investment in consideration of 4,800,000 Series A Convertible Preferred shares. The identification of the assets and liabilities transferred ("the transferred net assets") was agreed upon between Emblaze and Philips Parties pursuant to the Agreement and related documents entered into by and between the Company, Emblaze and Philips Parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data****NOTE 1:- GENERAL (Cont.)**

d. Business combination:

Pursuant to the Agreement, on 7 November 2004, the Philips Parties agreed to contribute the Philips MP4Net media adaptation business to the Company in consideration for the issuance of Ordinary shares of the Company and other consideration paid by Emblaze.

The transaction has been accounted for under the purchase method of accounting, under which the Company is considered as the acquirer of the Philips MP4Net media adaptation business from Philips. Accordingly, the results of operations of Philips MP4Net media adaptation business were included in the consolidated statements of operations of the Company, commencing 7 November 2004.

The estimated fair value of the identifiable assets acquired and liabilities assumed as of 7 November 2004 are as follows:

Current assets	\$ 262
Equipment	217
Acquired technology	2,266
Customer agreements	248
	<u>2,993</u>
Accrued expenses and other liabilities	(91)
Deferred revenues	(76)
	<u>(167)</u>
Fair value of net assets	2,826
Goodwill arising on acquisition	674
	<u>\$ 3,500</u>

See Note 13 for unaudited pro forma combined statements of operations for 2004.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company and its subsidiary have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The significant accounting policies applied in the financial statements, on a consistent basis, are as follows:

a. Functional and presentation currency:

Substantially all of the Company's sales are made outside Israel in non Israeli currencies, mainly the U.S. dollar. A substantial portion of the Company's expenses, mainly selling and marketing expenses is incurred in or linked to U.S. dollars. The funds of the Company are held in U.S. dollars. Therefore, the Company's management has determined that the U.S. dollar is the currency of the primary economic environment of the Company, and thus its functional and presentation currency.

b. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary. Intercompany balances and transactions have been eliminated upon consolidation.

c. Cash equivalents:

The Company considers all highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

d. Investments in financial assets:

Certain investments in financial assets in the scope of IAS 39, "Financial Instruments: Recognition and Measurement" are classified as either at held-to-maturity investments or available-for-sale financial assets, as appropriate. These financial assets are recognized initially at fair value. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at balance sheet date.

Held-to-maturity investments

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold to maturity and are stated at amortized cost. The amortized cost of held-to-maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest are included in financial income. Losses due to impairment are recognized in the statement of operations when there is subjective evidence that an impairment has been incurred. As of 31 December 2005, no impairment has been identified.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)Available-for-sale financial assets

After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of shareholders' equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in shareholders' equity is included in the consolidated statement of operations. As of 31 December 2005, no impairment has been identified.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date.

e. Trade receivables:

Trade receivables are recognized and carried at original invoice amount, less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the full amount. Bad debts are written-off when identified by management. As of 31 December 2005 and 2004, no allowance for doubtful debts was recorded.

f. Equipment:

Equipment is stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	<u>%</u>
Computers and peripheral equipment	25 - 33
Office furniture and equipment	7 - 15

The carrying value of the equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. As of 31 December 2005 and 2004, no impairment losses have been identified.

g. Intangible assets:

The cost of intangible assets acquired on acquisition is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. The amortization expense on intangible assets with finite lives is recognized in the statement of operations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's intangible assets consist of acquired technology and customer agreements. The acquired technology is amortized using the straight-line method over an estimated useful life of five years during which benefits are expected to be received. The customer agreements are amortized using the straight-line method over an estimated useful life of a period between twelve and eighteen months during which benefits are expected to be received. As of 31 December 2005 and 2004, no impairment losses have been identified.

h. Goodwill:

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized and is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained. As of 31 December 2005 and 2004, no impairment losses have been identified.

i. Revenue recognition:

The Company and its subsidiary generate revenues mainly from licensing the rights to use the Company's software products, and from royalty arrangements upon licensing of the Company's software to end-users. The Company also generates revenues from maintenance, support, training and professional services. The Company does not grant a right of return to its customers.

Revenues from software licensing arrangements are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenues can be reliably measured. Revenues from professional services are recognized when the services are rendered.

Revenues from royalty arrangements are recognized in the period when such royalties are reported to the Company, provided that all other revenue recognition criteria are met. Royalties are recognized as revenues by the Company, consistently in the quarter following the quarter in which such royalties are earned. There is a consistent lag of one quarter between the period in which the royalties are earned based on sales to end users and the period in which such royalties are recognized as revenue by the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Maintenance and support revenues are recognized on a straight-line basis over the term of the maintenance and support agreement. Deferred revenue includes unearned amounts received under maintenance and support contracts.

j. Research and development:

Research costs are expensed to operations as incurred.

k. Government grants:

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred. These grants are presented as a reduction of research and development expenses when there is reasonable assurance that the grants will not be repaid based on estimated future sales of the funded product. The management reevaluates the estimated future sales of the funded projects on each reporting period.

l. Income taxes:

The Company and its subsidiary account for income taxes under the liability method of accounting. Under the liability method, deferred taxes are provided based on the differences between the financial reporting and tax basis of assets and liabilities and are measured at enacted tax rates that are expected to be applicable in the year in which the differences reverse. Deferred tax assets in respect of carryforward losses and other temporary deductible differences are recognized to the extent that it is probable that they will be utilized.

m. Exchange rates and linkage basis:

Assets and liabilities in or linked to the Israeli currency, New Israeli Shekels ("NIS"), or the Euro are included in the financial statements based on the representative exchange rate as published by the Bank of Israel on balance sheet date.

Data regarding exchange rates of NIS and Euro in relation to U.S. dollar are as follows:

<u>As of</u>	<u>Exchange rate of one U.S. dollar</u>	<u>Exchange rate of one U.S. dollar</u>
31 December 2005	Euro 0.845	NIS 4.603
31 December 2004	Euro 0.733	NIS 4.308

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Basic and diluted net loss per share:

Basic net loss per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net loss per share is computed based on the weighted average number of Ordinary shares outstanding during each period, plus dilutive potential Ordinary shares considered outstanding during the period.

o. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair value due to the short-term maturity of such instruments.

The fair values for marketable securities are based on quoted market prices.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalent, marketable securities and trade receivables.

The majority of the Company's cash and cash equivalents are invested in major banks in the United States and Israel, in U.S. dollars. Management believes that the financial institutions that hold the Company's investments are financially sound and accordingly, minimal credit risk exists with respect to these investments.

The Company's marketable securities include investments in auction rate securities, government debentures and corporate debentures. Management believes that those corporations and governments are financially sound and that the portfolios are well-diversified, and accordingly, minimal credit risk exists with respect to these marketable securities.

Trade receivables are derived from sales to customers primarily located in Europe, North America and Asia Pacific. The Company and its subsidiary perform ongoing credit evaluations of their major customers and to date have not experienced any material losses.

As of 31 December 2005, the Company has no significant off-balance sheet concentration of credit risk, such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

q. Share-based payment transactions:

On 1 January 2005, the Company adopted IFRS 2, "Share-based Payment". IFRS 2 requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the instruments were granted.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date 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.

The effect of the adoption of IFRS 2 on the year ended 31 December 2005 was an increase in employee benefits expense and an increase in net loss in the amount of \$ 207, with a corresponding increase in equity.

The effect of the initial adoption of IFRS 2 (retrospective application) on the periods prior to 1 January 2005 is immaterial.

NOTE 3:- UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

The following proforma combined statement of operations for 2004 assumes the acquisition of the Philips MP4Net media adaptation business described in Note 1 had occurred at the beginning of 2004. The proforma results are not necessarily indicative of what actually could have occurred had the acquisition been in effect for the period presented.

	Ten months ended 31 October 2004		From 7 *) November 2004 (date of commencement of operations) through 31 December 2004				
	PHILIPS MP4Net Emblaze media Adaptation business		Adamind Ltd.		Adjustments	References	Combined Unaudited Pro forma
	Historical (audited)		Historical (audited)				
Revenues	\$ 1,307	\$ 775	\$ 978				\$ 3,060
Cost of revenues	101	91	60				252
Gross profit	1,206	684	918				2,808
Operating expenses:							
Research and development, net	1,069	2,222	391		(137)	A	3,545
Sales and marketing	574	722	299				1,595
General and administrative	355	200	175				730
Amortization of intangible assets	264	-	150		368	B	782
Total operating expenses	2,262	3,144	1,015		231		6,652
Operating loss	(1,056)	(2,460)	(97)		(231)		(3,844)
Financial income (expenses), net	-	(90)	10				(80)
Net loss	<u>\$ (1,056)</u>	<u>\$ (2,550)</u>	<u>\$ (87)</u>		<u>\$ (231)</u>		<u>\$ (3,924)</u>
Basic and diluted net loss per share							<u>\$ (0.20)</u>
Weighted average number of shares used in computing basic and diluted net loss per share							<u>19,200,000</u>

*) The results of operations from 1 November 2004 through 6 November 2004 were considered immaterial.

References:

A Elimination of research and development costs related to duplicated activities.

B Amortization of intangible assets acquired from Philips MP4Net media adaptation business for the year ended 31 December 2004.