

EMBLAZE

2006 Annual Report & Accounts

Consolidated Financial Statements

as of December 31, 2006

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ALL NUMBERS IN THESE CONSOLIDATED FINANCIAL STATEMENTS
ARE U.S. DOLLARS IN THOUSANDS
(EXCEPT SHARE AND PER SHARE DATA)

Chairman's Statement

2006 was supposed to be the breakthrough year in terms of financial results. Unfortunately, Emblaze Mobile, a Group subsidiary which has been the main provider of revenues for the Group business, representing 98% of the total revenues in 2006, experienced a significant slowdown in its distribution and trading business in the second half of the year. The slowdown was mainly as a result of a dispute with Her Majesty Revenue & Customs (HMRC) regarding a decision made by the HMRC to withhold VAT reclaims in the sum of \$16.2m. As a result, the Group's operating loss increased to \$45.0m (2005: \$10.3m), mainly due to provisions and reserves taken in consideration of the VAT withholding.

2006 did not meet our expectations in terms of results and market sentiments. We are not happy with it, but it is truly due to an industry matter that was beyond our control. However, we did not stand still – the year encircled many changes in the Group, restructuring it better and building solid foundation for the future evolution of the Group. Historically, Emblaze's growth was organic as well as through mergers and acquisitions. The Board and management carefully examined each company in the Group and decided on a two-pronged strategy, addressing both growth and innovation companies, thus combining the stability of the “bread and butter” matured technology enterprises with the “high-risk/high-reward” innovation companies.

As part of this strategy, the Group decided to depart of non-core operations or such that were marginal in their future support of shareholders' value. As a result, Emblaze sold its entire holding in Adamind Ltd. in March 2006. In addition, the Group consolidated two of its subsidiaries, **Emblaze V CON** and **Zone-IP** (formerly known as Ki-Bi Mobile Technologies Ltd.). With the view to create a group focused on IP related services, Zone-IP completed a reverse takeover of the entire issued share capital of Emblaze V CON in July 2006. Emblaze V CON is a provider of wireless video communications technologies and conferencing solutions for operators and enterprise markets over IP networks. Emblaze V CON designs, develops, manufactures and markets high-performance, feature-rich desktop and group videoconferencing systems, designed for a variety of networks, including those based on Internet Protocols, as well as infrastructure servers to manage the video network and related services.

Emblaze Mobile Ltd. continues to develop the next generation mobile device (the Monolith).

emoze Ltd., a wholly owned subsidiary of the Group, is a free, global “push-email” service for mobile devices, pushing email and PIM (Personal Information Management) data anywhere and to any device. Since its establishment, the company made tremendous progress by improving product functionality, stability and downloading process and preparing the only solution available to the mass market. emoze was ranked 1st by Google search engine for “FREE PUSH EMAIL”.

Orca Interactive Ltd. (LSE: ORCA), is a provider of IPTV middleware and applications for broadband network operators and service providers. Orca won several contracts in 2006 for the implementation of its solutions. However, consolidation remains a feature of Orca's market and the timing of revenues therefore remains difficult to predict. There has been a number of approaches expressing an interest in making an offer for the company but no formal offer has been made as of yet.

In November 2006, Emblaze announced that it has completed the acquisition of control of **Formula Systems (1985) Ltd.** (NASDAQ & TASE: FORTY). Since then, Emblaze has increased its holding in Formula through various purchases of shares in the open market. On March 30, 2007, Emblaze completed a special tender offer for the purchase of additional 5.3% of the issued and outstanding share capital of Formula. As a result, Emblaze now owns 50.1% of Formula and will be consolidating the Formula group results from Q2 2007 and on.

Formula Systems is the parent company of subsidiaries and affiliates that are engaged in two principal business areas: IT services and proprietary software solutions. Through its subsidiaries, Formula offers a wide range of integrated IT solutions and services, including the design, development and marketing of proprietary software solutions for sale in selected niche markets. Formula is delivering its solutions in over 50 countries worldwide to customers with complex IT services needs, including a number of “Fortune 1000” companies. Following is a description of Formula's business areas:

Matrix IT Ltd. (TASE: MTRX), is one of Israel's leading integration and information technology services companies. Matrix is active in four principal areas: software solutions and services, software products, infrastructure solutions and hardware products, and training and assimilation.

Chairman's Statement

continued

Magic Software Enterprises Ltd. (NASDAQ & TASE: MGIC) develops, markets and supports composite application development and deployment platforms with a service-oriented architecture (SOA), including application integration and business process management (BPM), with existing and legacy systems.

BluePhoenix Solutions Ltd. (NASDAQ & TASE: BPHX), develops and markets unique enterprise IT modernization solutions that enable companies to automate the process of modernizing and upgrading their mainframe and distributed IT infrastructure.

The company was sold in June 2007 for a consideration of over US\$64 million, creating capital gain for Formula Systems of approximately US\$18 million.

Sapiens International Corporation N.V. (NASDAQ & TASE: SPNS), is a global provider of IT solutions that modernize business processes to enable insurance and other companies to quickly adapt to changes. Sapiens' solutions, sold as customizable software modules, align IT with business demands for speed, flexibility and efficiency.

nextSource Inc. designs, develops and implements Web-based, high quality, innovative human capital management solutions. These offerings allow customers to save money while managing the business processes related to sourcing, procuring, and accounting of their workforce.

Due to the Formula acquisition and the need for stronger operational skills, the Board appointed a new team in December 2006 to lead the Group in its next path to growth. As a result, Eli Reifman moved to assume the position of President of the Group and Guy Bernstein, who was the Group's Finance Director at the time, was promoted to become Chief Executive Officer. In addition, Mrs. Hadas Gazit-Kaiser, who was the Group VP of Finance at the time, was promoted to the position of Chief Financial Officer and Finance Director.

While our subsidiaries each have independent management, Emblaze is monitoring the growth of its subsidiaries through active involvement in matters such as strategic planning, senior management recruitment, budget planning, and financial investment policies and more. The Formula subsidiaries have all demonstrated significant improvement since the acquisition by Emblaze, which is greatly attributed to the reorganization and efficiency measures implemented and monitored by the Group.

Going forward, the Group will focus its skills and talents to generate sustainable growing profits and value for shareholders. In addition, we intend to leverage the Group's strong financial position and management experience through mergers and acquisitions whilst upgrading the average deal size. We continue to keep costs under a strict control in order to minimize our cash burn but most importantly, we have a strong portfolio of mature technology businesses which are a fine base for future success and which we intend to grow globally.

I would like to take this opportunity to thank our management and staff for their hard work and commitment.



Naftali Shani
Chairman

Board of Directors

Naftali Shani, Chairman

Naftali Shani (59) is one of the four founding partners of Emblaze. Prior to founding Emblaze, he served as General Manager of Bartrade Ltd. (a subsidiary of Bank Leumi, one of Israel's leading banks), dealing with trade finance and counter-trade worldwide, and as General Manager of the Israeli Chemical Company, Pazchem. Prior to this, Mr Shani was the Treasurer and Controller of the Israeli Prime Minister's Office.

Eli Reifman, President

Eli Reifman (37) is one of the four founding partners of Emblaze. Prior to his appointment as President of the Company in December 2006, Mr Reifman served as Chief Executive Officer of the Company since September 2000, leading the Company through its growth stages from the early startup phase to the publicly traded, global corporation it is today. Before founding Emblaze, he was the head of the Technical Development Department and acting head of all production in the Training Development Center of the Israeli Defense Force, where he was responsible for producing high-end military simulators. In parallel to his business activities, Mr Reifman is a regular lecturer at BA and MBA courses to Israeli and International students and is involved with promoting social education agenda in Israel via his memberships at various nonprofit organizations.

Guy Bernstein, Chief Executive Officer

Guy Bernstein (39) joined the Emblaze Group as Chief Financial Officer and member of the Board of Directors in April 2004 and was appointed Chief Executive Officer in December 2006. Prior to joining Emblaze, Mr Bernstein served as Chief Financial and Operations Officer of Magic Software Enterprises (NASDAQ: MGIC), a position he held since 1999. At Magic, Mr Bernstein's responsibilities included the overseeing of all finance operations, legal and M&A worldwide including, budget planning, sales forecasting, board and SEC reporting and investor relations. Guy played a key role in Magic's corporate second offering raising \$100 million in 2000. He also acted as the Interim CEO for Magic's subsidiaries: MSE Israel Ltd. and Coretech Consulting Group, turning them around to profitability. Guy joined Magic from Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, where he acted as senior manager from 1994 to 1997. Mr Bernstein is a Certified Licensed Public Accountant and holds a BA in Accounting and Economics from Tel-Aviv University.

Hadas Gazit-Kaiser, Chief Financial Officer

Hadas Gazit-Kaiser (31) joined the Emblaze Group as VP Finance in 2005 and was appointed Chief Financial Officer and member of the Board of Directors in December 2006. Prior to joining Emblaze, Mrs. Gazit-Kaiser was a member of TTI Telecom International (NASDAQ:TTIL) team for three years where she came after acting as a manager at Ernst & Young Global (Kost, Forer Gabbay & Kasierer). Mrs. Gazit-Kaiser is a Certified Licensed Public Accountant and holds an MBA in Finance and a BA in Economics and Accounting.

Ruth Berger, Non-Executive Director

Ruth Berger (55) joined the Board of Directors of Emblaze in October 1996 and served as Finance Director in a part time capacity through the Company's startup phase. During that period, she was also Deputy General Manager of most of the subsidiaries of the Industrial Development Bank of Israel (IDBI) and General Manager of two of its subsidiaries, where she was responsible for the management of funds and development of new business. Ms Berger was also Chief of Financial Reporting for the subsidiaries of IDBI. Currently, she serves as an independent business consultant and holds several directorships. Ms Berger is a Certified Public Accountant in Israel.

Board of Directors

continued

Bertrand Faure-Beaulieu, Non-Executive Director

Bertrand Faure-Beaulieu (41) joined the Board of Directors of Emblaze in August 2005. He is a graduate of ESSEC Business School and has a background in banking and risk management. Mr Faure-Beaulieu began his career in corporate banking and then spent four years looking after political risk management with Glencore, a leading commodities trading company. In 1993, Mr Faure-Beaulieu became a co-founder of Trafigura, a commodities trading and recycling group, which grew to over 600 people in four years with annual revenues in excess of US\$6 billion. After leaving Trafigura in 1997, Mr Faure-Beaulieu became an independent consultant and long-term investor, playing active roles in the early financing stages of companies. In 1999 Mr Faure-Beaulieu founded Vielifit Ltd., a UK based company that became a leading global provider of corporate health and productivity solutions. Mr Faure-Beaulieu acted as CEO for Vielifit until 2002, when he stepped up to the position of executive chairman, a role he held until the company was sold to Cigna in 2007.

Ilan Flato, Non-Executive Director

Ilan Flato (51) joined the Board of Directors of Emblaze in April 2006. Until 2004, Mr. Flato served as the VP for planning, economics & online banking in United Mizrahi Bank and as the Chief Economist of the bank, where he was responsible for strategic & business planning and all aspects of online banking. Between 1992 and 1996, Mr Flato served as the Economic Advisor to the Prime Minister of Israel. His responsibilities included participation in government meetings, membership of the economic delegation to peace talks with the Palestinians in Paris and membership of the board of directors of El-Al (Israel Airlines & Israel Aircraft Industry). Prior to this position, Mr Flato served in the Treasury Office as the deputy director of budget department, responsible for the budgets of various governmental offices. In addition, Mr. Flato served as member of the board of directors of many government owned companies. Mr Flato has a BA in Economics and Work Relationships from the Tel-Aviv University and Master in Law from the Bar-Ilan University.

Shimon Laor, Non-Executive Director

Shimon Laor (40) served as the Chief Financial Officer of Emblaze until April 2000, also directing the operations and legal departments. Since then he has served as a non-executive director on the Emblaze Board and has been engaged in private business initiatives. Mr Laor also serves as a non-executive on the board of directors of several of the Company's subsidiaries and affiliated companies: Orca Interactive Ltd. (LSE: ORCA), Zone-IP Ltd. (LSE:ZIP) and Visual Defence Inc. (LSE: VDI). Prior to joining Emblaze in August 1995, Mr Laor served as an economist at the Head Office Foreign Currency Division of the First International Bank in Israel.

Corporate Governance

Incorporated in Israel, Emblaze Ltd. ("Emblaze" or the "Company") is listed on the Official List of the London Stock Exchange and the board of directors of Emblaze (the "Board") has therefore decided, as a matter of best corporate practice, that the Company will comply, so far as practicable, with the main provisions of the Combined Code on Corporate Governance (the "Code").

The following statement of corporate governance reflects the position of the Company as at 31 December 2006.

The Board

Emblaze has a balanced Board, which comprises 8 directors. The Board is responsible for the Company's corporate governance policy. It recognises the importance of high standards of integrity and consistently seeks to apply the provisions set out in the Code.

During the year ended December 2006, the Board comprised the following members:

Mr. Naftali Shani, the non-executive Chairman
Mr. Eli Reifman, the President
Mr. Guy Bernstein, the Chief Executive Officer
Mrs. Hadas Gazit-Kaiser, the Chief Financial Officer *
Ms. Ruth Berger, a non-executive director
Mr. Shimon Laor, a non-executive director
Mr. Bertrand Faure Beaulieu, a non-executive director
Mr. Ilan Flato, a non-executive director **

* Mrs. Hadas Gazit-Kaiser joined the Board in December 2006.

** Mr. Ilan Flato joined the Board in April 2006.

The Board consists of a non-executive Chairman, an executive President, a Chief Executive Officer, a Chief Financial Officer and four non-executive directors, one of whom, Bertrand Faure Beaulieu, is the senior non-executive director.

Directors are subject to re-election at every Annual General Meeting (with the exception of the external directors, as further described below). The Board has the power at any time, and from time to time, to appoint additional directors (either to fill any vacancy or as additional directors) provided that the number of directors does not exceed the maximum permitted by the Company's articles of association.

Each of the directors has a service agreement with the Company. Details of the terms of the service agreements are set out in the Report on Directors' Remuneration.

While there is no formal process in place, the performance and effectiveness of each director is assessed on an on-going basis by the other members of the Board.

Board meetings

The Board meets on a regular basis to discuss the overall direction and strategic plan of the Company. The Board also monitors the Company's budget, performance and achievements.

Prior to each Board meeting, each director receives background materials related to the matters for discussion at the meeting. Once a year, a budget is discussed and approved by the Board for the following year. All directors are properly briefed on progress with respect to matters discussed at Board meetings and further information requested by a director is made available.

The Company's non-executive directors are central to an effective and accountable board structure. As such, during the year ending December 2007, the non-executive directors of the Company will meet at least once without the executives being present.

There is in place a procedure whereby the directors may, in furtherance of their duties, take independent legal and financial advice, at the Company's expense.

Corporate Governance

continued

Independence

The Code recommends that the board of directors of a listed company should include a balance of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. The Code states that the board of directors should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The Board has considered the independence of its non-executive directors in line with the principles of the Code (section A.3.1) and, following careful consideration, assessed the independence of the non-executive directors as set out below.

The non-executive Chairman, Naftali Shani, a founding shareholder of Emblaze, holds approximately 14% of the issued and outstanding shares of the Company and is therefore not considered under the Code to be independent. However, the Board has determined that Mr. Shani is performing his chairmanship obligations on an independent basis. In reaching such determination, the Board established clear criteria for the Chairman's responsibilities, which include:

- ensuring that the Board functions effectively in all aspects of its role;
- ensuring constructive relations between executive and non-executive directors;
- leadership of the Board and responsibility for ensuring that all directors receive accurate, timely and clear information;
- ensuring that the directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board committees;
- guiding and appraising the CEO, assisting in setting strategy and balancing the power and authority of the CEO; and
- ensuring effective communication with shareholders and stakeholders and facilitating the contribution of non-executive directors to the Company's operations.

In August 2005, Ruth Berger voluntarily waived her right to the options granted to her by the Company in order to be considered independent. Ms. Berger did not receive any compensation from the Company for such waiver. Following such waiver, Shimon Laor remains the only non-executive director who holds Company options and the Board believes that the relatively modest number of options that he holds does not affect his independence.

Mr. Ilan Flato, who meets the Code's independence requirements, was appointed to the Board in April 2006 so that the Company could further satisfy the Code requirements for independent directors.

The Israeli Companies Law requires the Company to appoint two "External Directors" who meet certain statutory criteria of independence. Under Israeli law, the initial term of an External Director is three years and the term may be extended for one additional three-year period. Ruth Berger was appointed as an external director at the Company's Annual General Meeting held on June 14, 2004 and Ilan Flato was appointed as the second external director at the Annual General Meeting held on April 20, 2006.

Eli Reifman, the Company's president, holds approximately 8.6% of the issued and outstanding shares of the Company.

Board Committees

The Board has established Audit, Remuneration and Nomination Committees. The duties of these committees are set out in formal terms of reference, which are available for inspection on the Company's website at www.Emblaze.com.

AUDIT COMMITTEE

The Audit Committee is chaired by Ruth Berger. The other members are Bertrand Faure Beaulieu and Ilan Flato. All three members of the Audit Committee have recent and relevant financial experience. Under the Israeli Companies Law, the audit committee must have at least three members, including all external directors, and neither the Chairman of the Board, nor any person who is employed by or provides services to the Company nor any person having control over the Company (or any relative of such control person) may be a member of the Audit Committee.

Corporate Governance

continued

In accordance with its terms of reference, the Audit Committee is required to oversee the relationship with the Company's external auditors, to review the Company's preliminary results, interim results and financial statements and to monitor compliance with statutory and listing requirements for any exchange on which the Company's shares are quoted. It reviews the Company's internal control and risk management as well as the Company's cash investment policy. The Audit Committee also review the arrangements by which the Company's employees may, in confidence, raise concerns about improprieties in matters of financial reporting and other matters (commonly referred to as "whistleblowing" procedures).

The Company's Chairman and Chief Financial Officer may attend meetings of the Audit Committee, at the Committee's request.

The Code and the Israeli Companies Law require the Company to ensure a sound system of internal control to safeguard shareholder's investments and the Company's assets. Such system should cover all material controls – financial, operational, compliance and risk management. To comply with this provision, the Board appointed an internal auditor, who is responsible for examination of the Company's internal controls and reviewing their effectiveness. To date, the following issues have been reviewed by the internal auditor at the request of the Audit Committee:

- The Company's investment policy and management of bank accounts
- The Company's relationship and interface with its subsidiaries
- Policy and procedures of the Company's legal department
- Policy and procedures of the Company's purchasing department
- Policy and procedures of the Company's human resource & payroll departments
- Policy and procedures for the Company's travel arrangements
- The Company's process for the establishment of offices abroad and the procedure for reporting to headquarters
- Policy and procedure of the Company's subsidiaries' travel arrangements
- Policy and procedure of the Company's renting and leasing arrangements
- Review of the Company's fixed assets procedures and arrangements

All the recommendations provided by the internal auditor are presented to the Audit Committee for review and evaluation. The Audit Committee then recommends the required measures, if any, to the Board of directors for final decision and execution.

The Company's auditors are Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. For the year ended December 31, 2006, the Board of Directors of the Company has determined the audit remuneration of its auditors at a level of \$US120,000. In addition, the auditors were entitled for remuneration of approx. US\$123,000 in relation to non-audit consultancy.

REMUNERATION COMMITTEE

Under the Israeli Companies Law, at least one external director must be a member of the Remuneration Committee. The Remuneration Committee is chaired by Ruth Berger and the other members are Bertrand Faure Beaulieu and Ilan Flato.

In accordance with its terms of reference, the Remuneration Committee approves the remuneration of all of the Company's senior executives and is responsible for making recommendations to the Board on the Company's framework of executive remuneration and for determining on behalf of the Board the remuneration package for each executive director.

The remuneration of non-executive directors is determined by the entire Board. No director participates in Board discussions on, or votes on matters relating to, their own remuneration.

NOMINATION COMMITTEE

The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. Under the Israeli Companies Law, at least one external director must be a member of the Nomination Committee. It is chaired by Naftali Shani and its other members are Ruth Berger and Bertrand Faure Beaulieu. The Nomination Committee's principal function is to regularly review the structure, size and composition of the Board (including the skills, knowledge and experience required of directors) and to make recommendations to the Board as to any changes required.

Corporate Governance

continued

Accountability and internal control

The Board's accountability is demonstrated by the adoption of a formal schedule of matters specifically reserved to the Board for its decision, concerning all key areas across the Group's activities, thereby ensuring that all major decisions affecting the Group are taken at Board level.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board recognises that no system of internal control can provide absolute assurance. This system is designed to manage, rather than to eliminate, risks of failure to achieve business objectives and can therefore only provide the Board reasonable, but not absolute, assurance against material misstatement and loss.

There is an on-going process in place for identifying, evaluating and managing the Company's significant risks. Such process is reviewed by the Board at least annually. Risk assessment and evaluation takes place as an integral part of the Company's strategic annual planning process and in the day-to-day operations. The main characteristics of the risk management process include:

- The Company carries out continuing assessments of the quality of risk management and control;
- The Board and the Audit Committee monitor the standards of internal and external audit;
- The Company's strategy review includes consideration of major business risks;
- Senior executives are required to identify and assess risks to meeting objectives (which they are required to report to the Chief Executive Officer) and then to take timely action to manage or eliminate them. The effectiveness of these actions is monitored and reviewed by the Board and the Audit Committee; and
- The Company has established internal operational and reporting procedures to ensure that risk assessment and management procedures are incorporated into all areas of the Company's activities.

Relations with shareholders

The Company welcomes dialogue with its shareholders and communicates with them through its interim and annual reports and through the Company's website, which is regularly updated. The Company encourages the direct approach of its senior management by shareholders for questions and clarifications on the Company's business activities. To facilitate this approach, regular meetings are held with institutional investors. Further, Mr. Faure-Beaulieu, as senior non-executive director, is available to shareholders if they have concerns which contact through the normal channels of chairman, president, chief executive or chief financial officer has failed to resolve or for which such contact is inappropriate.

The Company's Annual General Meeting is also used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's Annual General Meetings in order to take advantage of the opportunity to ask questions of the directors. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration, including the approval of the annual report and accounts. Proxy votes are announced after each proposed resolution is voted on by a show of hands.

Notice of the Annual General Meeting and related documentation are (subject to certain exceptions) sent to shareholders at least 35 days in advance of such meeting.

Corporate social responsibility

Emblaze recognises the obligations it has towards those with whom it has dealings, including its staff, customers, suppliers, shareholders and the community as a whole. More information on the Company's approach to these matters can be found in the Company's Ethics and Environmental Policies, which are available on the Company's website at www.Emblaze.com.

The Company also contributes to the community with means that do not necessarily involve direct out of pocket expense. Following semi-annual and annual inventory counts, the Company donates its surplus computers and computer related accessories to local universities, welfare and the Ministry of Education organisations, kindergartens and youth at risk associations. In addition, the Company's employees are encouraged to devote and allocate time to special community projects as well as to voluntarily lecture at universities.

Report on Directors' Remuneration

As it is incorporated outside the United Kingdom, the Company is not obliged to include in its Annual Report and Accounts a report to shareholders on directors' remuneration. Nonetheless, as part of its commitment to best corporate practice, the Board has decided to issue this report, which has been prepared in accordance with UK Listing Rules and the Code.

Remuneration Committee

The Remuneration Committee, which comprises Ruth Berger, Bertrand Faure Beaulieu and Ilan Flato, is responsible for approving the remuneration of all of the Company's senior executives, for making recommendations to the Board on the Company's framework of executive remuneration and for determining on behalf of the Board the remuneration package for each executive director.

Policy on executive directors' remuneration

The Group's executive remuneration policy is to set total remuneration at levels designed to attract, motivate and retain high quality executives of appropriate ability, experience and integrity to manage the affairs of the Company. In formulating its remuneration policy, the Remuneration Committee is mindful of the competitive pressures inherent in the sector in which it operates. It is the Company's policy that a significant element of total remuneration is related to the financial performance of the company. Remuneration is reviewed annually.

Non-executive directors

The remuneration of the non-executive directors is set by the Remuneration Committee and approved by the Audit Committee and the Board of Directors, subject to the approval of the Annual General Meeting.

Non-executive directors and the Chairman are entitled to fees of £20,000 per annum. These fees have been determined with reference to available information on the fees paid to non-executive directors in other companies of broadly similar size, market cap and complexity. Non-executive directors are entitled to reimbursement of reasonable out-of-pocket expenses in line with the Company's policy relating to its employees.

Service contracts

Each of the directors has a service contract with the Company, providing a notice provision of a maximum of six months.

Non-executive directors have service contracts with the Company with the exception of the two external directors who are appointed, as required by Israeli law, for a term of three years and may be appointed for one additional three-year term. Each non-executive director is subject to re-election at each Annual General Meeting. None of the directors is involved in any discussion with the Board or any committee of the Board relating to their own remuneration, nor do they participate in any vote on their remuneration by the Board or any committee of the Board.

Report on Directors' Remuneration

continued

Executive directors – remuneration packages (in thousands of \$US)

Name	Salary	Bonus	Insurance and/or pension plan	Educational fund	Other	Total
Eli Reifman	227	–	25	3	–	255
Guy Bernstein *	194	48	–	–	–	242
Hadas Gazit-Kaiser **	10	–	2	–	–	12

*Guy Bernstein, Chief Executive Officer

Mr. Guy Bernstein was appointed to the position of the Company's Chief Executive Officer in December 2006. The figures in the above table represent eleven months of his previous remuneration plus one month of remuneration according to the below detailed terms, which were adopted by the Board following recommendation of the Remuneration Committee, as follows:

1. monthly gross salary as of December 2006 is set at NIS 95,000 (approx. US\$22,430) which will be reviewed by the Board annually plus payment for car and social benefits amounting to NIS 30,882 (approx. US\$7,290) per month.
2. an annual bonus in an amount to be determined by the Board in the beginning of each calendar year. The bonus for 2007 is set at US\$250,000, subject to achievement of targets.
3. grant of option to purchase 1,650,000 ordinary shares of the Company at an exercise price of 75.5 pence equally vested over a period of four years commencing December 1, 2007.
4. a special bonus for his contribution to the completion of the acquisition of Formula Systems (1985) Ltd. in September 2006 in the form of grant of an option to purchase 261,128 ordinary shares of the Company at par value, and subject to a lock-up period of twelve months as of May 31, 2007. This bonus is in exchange of a cash consideration, at the request of Mr. Bernstein, and represents a total value of \$400,000.

**Hadas Gazit-Kaiser, Chief Financial Officer

Mrs. Gazit-Kaiser was appointed to the position of the Company's Chief Financial Officer and Finance Director as of December 1, 2006. The figures in the above table represent December 2006 remuneration only.

Following recommendation of the Remuneration Committee, the Board has approved the following main terms of remuneration to Mrs. Gazit-Kaiser in her new position as Chief Financial Officer:

1. gross monthly salary of NIS 40,000 (approx. US\$9,445) plus payment for social benefits in an aggregate amount of NIS 6,456 (approx. US\$1,525) and the use of a company car.
2. a bonus for the year 2006 in the amount of US\$40,000.
3. a grant of option to purchase 150,000 ordinary shares of the Company at an exercise price of 75.25 pence and a grant of option to purchase 150,000 ordinary shares of the Company at par value. The options will vest equally over a period of four years commencing May 7, 2007.

Report on Directors' Remuneration

continued

Share options

The share options held by each Director are as follows:

	Number of Emblaze Shares	Exercise Price	Exercise Period From	Until	Vesting Schedule
Eli Reifman	4,000,000 ¹	£1.32	June 09, 2003	June 09, 2013	Fully vested as of July 5, 2005
	3,850,000 ^{1*}	£2.00	June 29, 2006	June 29, 2016	Vesting between year end 2006 and year end 2010 and exercisable according to performance criteria set by the Board
	3,762,500 ^{1*}	£2.50	June 29, 2006	June 29, 2016	
	3,762,500 ^{1*}	£3.00	June 29, 2006	June 29, 2016	
Guy Bernstein	160,000 ¹	£1.1677	April 01, 2004	April 01, 2014	4 equal annual instalments
	240,000 ¹	£1.422	Dec. 14, 2004	Dec. 14, 2014	4 equal semi-annual instalments
Shimon Laor ³	50,000 ²	£0.47	March 1, 1999	March 1, 2009	4 equal annual instalments
	200,000 ²	£1.075	Sept. 8, 1999	Sept. 8, 2009	4 equal annual instalments
Hadas Gazit-Kaiser	40,000 ¹	£1.45	Oct. 11, 2005	Oct. 11, 2015	4 equal annual instalments

¹ Options under the Emblaze 2001 Global Stock Option Plan.

² Options under the Emblaze 1999 Stock Option Plan.

³ Was formerly in an executive position and was granted options at the time of employment. Also holds 100,000 Company shares previously exercised from an option granted to him at the time of his employment.

* 1,625,000 options (550,000 options at an exercise price of £2.0, 537,500 options at an exercise price of £2.5 and 537,500 options at an exercise price of £3.0) were forfeited as of December 31, 2006 according to performance criteria set by the Board.

Eli Reifman, who is the President of the Company, serves also as the executive chairman of Emblaze Mobile Ltd., a wholly owned subsidiary of the Company that is currently devoted to the development of the next generation mobile device – the Monolith. As such, the Board has resolved to adopt the recommendation of the Remuneration Committee to grant to Eli Reifman an option to purchase 10% of Emblaze Mobile ordinary shares at an exercise price of \$US1.55 per share. The options will vest equally over a period of four years commencing June 30, 2007. The exercise of the options is subject to meeting certain criteria determined by the Board.

Naftali Shani, the Chairman of the Board, has been serving as chairman of emoze Ltd., a wholly owned subsidiary of the Company providing free global Push Email technology for mobile devices since its inception in 2005 and has actively contributed to its achievements to date. The Board has approved the recommendation of the Remuneration Committee to grant to Mr. Shani an option to purchase 4% of emoze ordinary shares at an exercise price of \$US0.125 per share (based on the investment of the Company in emoze to date). The option will become vested and exercisable upon approval of the grant by the Shareholders.

It is the policy of the Company to grant share options under its employee share schemes to all of its full time employees in a manner that is consistent with that of other similar companies with whom Emblaze competes for recruitment and retention of staff, and which incentives and rewards loyalty and high performance.

Options to acquire the Company's shares are granted in addition to other forms of remuneration. The price at which shares may be acquired is the higher of the fair market value at the date of grant or the average of 30 days trading prior to the grant date. The exercise of options granted is generally phased over four years. The grant or exercise of options may be linked to performance criteria, as was the case for options granted in the 2006 financial year.

Report on Directors' Remuneration

continued

On June 28, 2001 the Shareholders approved the Company's Global Option Plan. The Company reserved 10,000,000 registered (i.e. authorised) but unissued ordinary shares of the Company for the purpose of this option plan. On June 9, 2003 the shareholders approved the consolidation of the Geo Interactive Media Group Ltd. 1999 Stock Option Plan ("1999 Plan") with the Emblaze Ltd. 2001 Global Stock Option Plan ("2001 Plan") so as to treat shares reserved for allotment under the 1999 Plan as being reserved for allotment under the 2001 Plan (but without prejudice to the actual terms and conditions of each grant previously made under the 1999 Plan). The reason for the consolidation was that, following the adoption of certain amendments to Israeli tax laws, rules and regulations, grants under the 1999 Plan did not comply with such amendments. Therefore, the available pool of options under the 1999 Plan was transferred to the 2001 Plan. On August 31, 2006 the Shareholders approved an additional reserve of 13,000,000 registered (i.e. authorised) but unissued ordinary shares of the Company for the purpose of the Global Option Plan.

Pension plans

The Company makes contributions for all of its employees for a pension fund and severance account, in amounts of 5% and 8.33%, respectively, of the employees' salary. The Company also withholds 5% of the employees' salary and transfers such amount to the employees' pension fund. In addition, the Company contributes up to 2.5% of the employees' salary to disability insurance.

Report on the Independent Auditors

To the Board of Directors and Shareholders of Emblaze Ltd.



We have audited the accompanying consolidated balance sheets of Emblaze Ltd. ("the Company") and its subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with generally accepted accounting principles in the United States.

As discussed in Note 2S to the consolidated financial statements, in 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment".

Kost Forer Gabbay & Kasierer
A Member of Ernst & Young Global

Tel-Aviv, Israel
April 2, 2007

Consolidated Balance Sheets

U.S. dollars in thousands

	Note	December 31,	
		2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents		23,233	12,676
Short-term bank deposits		217	237
Deposits in escrow	2(i)	5,526	–
Restricted deposit	2(j)	–	5,149
Accrued interest		1,917	1,180
Short-term marketable securities	3	32,315	30,797
Restricted short-term marketable securities	3	–	25,752
Trade receivables (net of provision for doubtful accounts of \$329 and \$1,643 as of December 31, 2005 and 2006, respectively)		14,484	10,503
Other receivables and prepaid expenses	4	12,428	4,244
Inventories	5	4,536	7,063
Short-term assets of discontinued operations	1(c)	22,437	–
Total current assets		117,093	97,601
Long-term investments:			
Long-term marketable securities	6	145,198	30,151
Restricted long-term marketable securities	6	–	25,357
Restricted deposits	2(j)	3,751	–
Other long-term investments	7	3,990	86,535
Severance pay fund		1,436	1,378
Long-term assets of discontinued operations	1(c)	12,712	–
Total long-term investments		167,087	143,421
Property and equipment, net	8	1,966	2,392
Goodwill	9	1,710	3,679
Intangible assets, net	10	2,864	2,570
Total assets		290,720	249,663

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

Consolidated Balance Sheets

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

	Note	December 31,	
		2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	11	3,799	49,935
Trade payables		15,732	11,385
Advance payments from customers		–	10,107
Deferred revenues		822	949
Other payables and accrued expenses	12	15,451	27,565
Short-term liabilities of discontinued operations	1(c)	2,825	–
Total current liabilities		38,629	99,941
Accrued severance pay		2,069	2,020
Long-term liabilities	13	18,586	847
Minority interests		12,456	363
COMMITMENTS AND CONTINGENT LIABILITIES			
	14		
Shareholders' equity:	15		
Share capital:			
Ordinary shares of NIS 0.01 par value:			
Authorized			
– 200,000,000 shares as of December 31, 2005 and 2006;			
Issued			
– 140,578,154 shares as of December 31, 2005 and 2006;			
Outstanding			
– 135,872,691 shares as of December 31, 2005 and			
111,473,687 shares as of December 31, 2006		416	416
Additional paid-in capital		463,848	468,400
Treasury stock, at cost		(7,381)	(76,441)
Accumulated other comprehensive loss		(2,187)	(328)
Accumulated deficit		(235,716)	(245,555)
Total shareholders' equity		218,980	146,492
Total liabilities and shareholders' equity		290,720	249,663

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

Consolidated Statements of Operations

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

	Note	2004	Year ended December 31,	
			2005	2006
Revenues:	17			
Revenues from sales of products and related services		6,617	120,136	354,807
Equity in earnings (losses) of affiliated companies, net		–	(613)	239
Other revenues and capital gains (losses), net		11,438	6,475	(3,517)
Total revenues		18,055	125,998	351,529
Costs and expenses:				
Cost of sales and related services		2,233	108,268	335,893
Research and development, net		5,654	4,898	8,301
Selling and marketing		9,019	16,104	17,382
General and administrative		8,892	7,618	16,381
Other expenses	14(d)	–	–	18,078
Amortization of intangible assets	10(b)	–	121	512
Restructuring, other charges and impairment of property and equipment, net	1(e)	6,338	(720)	–
Total costs and expenses		32,136	136,289	396,547
Operating loss		(14,081)	(10,291)	(45,018)
Financial income, net	18	9,501	10,197	5,925
Loss before taxes on income		(4,580)	(94)	(39,093)
Taxes on income	16(b)	–	353	2,125
Loss before minority interests in losses of subsidiaries		(4,580)	(447)	(41,218)
Minority interests in losses of certain subsidiaries		35	1,103	15,445
Net income (loss) from continuing operations		(4,545)	656	(25,773)
Gain (loss) from discontinued operations, net	1(c)	(18,618)	(21,730)	15,934
Net loss		(23,163)	(21,074)	(9,839)
Basic and diluted earnings (loss) per share:				
From continuing operations		(0.03)	0.01	(0.21)
From discontinued operations		(0.14)	(0.16)	0.13
Net loss		(0.17)	(0.15)	(0.08)
Weighted average number of shares used in computing basic earnings (loss) per share		134,953,259	135,765,992	123,595,330
Weighted average number of shares used in computing diluted earnings (loss) per share		134,953,259	137,069,366	123,595,330

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

Consolidated Statements of Changes in Shareholders' Equity

U.S. dollars in thousands

Note	Share capital	Additional paid-in capital	Deferred stock compensation	Treasury Stock, at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total comprehensive loss	Total
	414	465,056	(219)	(5,702)	66	(191,479)		268,136
	–	–	–	(3,539)	–	–		(3,539)
	2	848	–	618	–	–		1,468
	–	(8)	219	–	–	–		211
	–	–	–	–	(66)	–	(66)	(66)
	–	–	–	–	(284)	–	(284)	(284)
	–	–	–	–	1,785	–	1,785	1,785
	–	–	–	–	–	(23,163)	(23,163)	(23,163)
							(21,728)	
	416	465,896	–	(8,623)	1,501	(214,642)		244,548
	–	452	–	1,242	–	–		1,694
15(j)	–	(2,500)	–	–	–	–		(2,500)
	–	–	–	–	(1,857)	–	(1,857)	(1,857)
	–	–	–	–	(1,831)	–	(1,831)	(1,831)
	–	–	–	–	–	(21,074)	(21,074)	(21,074)
							(24,762)	
	416	463,848	–	(7,381)	(2,187)	(235,716)		218,980
15(b)	–	–	–	(70,953)	–	–		(70,953)
	–	49	–	182	–	–		231
	–	1,139	–	1,711	–	–		2,850
15(j)	–	2,500	–	–	–	–		2,500
	–	864	–	–	–	–		864
	–	–	–	–	1,905	–	1,905	1,905
	–	–	–	–	(46)	–	(46)	(46)
	–	–	–	–	–	(9,839)	(9,839)	(9,839)
							(7,980)	
	416	468,400	–	(76,441)	*(328)	(245,555)		146,492

*Composed as follows:

Accumulated unrealized losses from available-for-sale marketable securities	(236)
Accumulated foreign currency translation adjustments	(92)
Accumulated other comprehensive loss	(328)

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

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Year ended December 31,		
	2004	2005	2006
Cash flows from operating activities:			
Net loss	(23,163)	(21,074)	(9,839)
Less: loss (gain) from discontinued operations	18,618	21,730	(15,934)
Net income (loss) from continuing operations	(4,545)	656	(25,773)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities from continuing operations:			
Impairment of goodwill	–	–	150
Loss on business combination	–	–	1,405
Impairment of property and equipment	1,646	–	–
Depreciation and amortization	2,493	1,077	1,786
Amortization of marketable debt securities, premiums and accretion of discounts, net	1,669	612	511
Stock compensation expenses	211	–	300
Stock compensation expenses of subsidiaries	–	248	637
Net loss (gain) on sales of marketable securities	(1,267)	(140)	41
Equity in losses (earnings) of affiliated companies	–	613	(239)
Other revenues and capital loss (gain), net	(11,489)	(6,030)	1,962
Minority interests in losses of subsidiaries	(35)	(1,103)	(15,445)
Decrease in trade receivables, other receivables and prepaid expenses, inventories and accrued interest	1,200	7,672	12,436
Increase (decrease) in trade payables, other payables and accrued expenses and accrued severance pay, net	4,586	(7,936)	11,191
Increase (decrease) in deferred revenues	(213)	794	127
Increase (decrease) in long-term liabilities	2,678	(1,289)	159
Other	12	(13)	571
Net cash provided by (used in) operating activities from continuing operations	(3,054)	(4,839)	(10,181)
Net cash provided by (used in) operating activities from discontinued operations	(46,416)	(4,281)	31,028
Net cash provided by (used in) operating activities	(49,470)	(9,120)	20,847
Cash flows from investing activities:			
Purchase of property and equipment, net	(230)	(1,124)	(1,578)
Proceeds from sale of property and equipment	13	123	56
Investment in (proceed from) short-term bank deposits and deposits held in escrow	(183)	(45)	357
Investment in short-term marketable securities	(24,333)	(234,700)	(126,036)
Proceeds from maturity of short-term marketable securities	1,031	255,366	130,888
Investment in long-term marketable securities	(68,147)	(78,863)	(13,422)
Proceeds from sales, calls and maturity of long-term marketable securities	154,344	32,851	86,545
Proceeds from (investment in) long-term bank deposits and restricted deposits	(56,477)	–	3,751
Proceeds from long-term bank deposits and restricted deposits	–	51,712	–
Payment for acquisition of 51% of Global Telecom Distribution plc. (1)	–	(4,492)	–
Payment for acquisition of intangible assets from VCON	–	(1,225)	–
Investment in Formula	–	–	(84,414)
Investment in subsidiaries	–	–	(1,922)
Other investment	–	(2,944)	(1,215)
Net cash provided by (used in) investing activities from continuing operations	6,018	16,659	(6,990)
Net cash provided by (used in) investing activities from discontinued operations	32,268	(41,823)	(101)
Net cash provided by (used in) investing activities	38,286	(25,164)	(7,091)

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

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Year ended December 31,		
	2004	2005	2006
Cash flows from financing activities:			
Repurchase of shares, net	(3,539)	–	(70,953)
Debt security from related party	–	(2,500)	–
Short-term borrowings, net	–	(120)	45,472
Proceeds from Initial Public Offering of Orca Interactive Ltd., net	22,621	–	–
Proceeds from issuance of Emblaze VCON shares to third parties, net	–	1,803	–
Proceeds from exercise of subsidiaries' stock options, net	–	42	–
Proceeds from exercise of stock options, net	405	2,759	257
Net cash provided by (used in) financing activities from continued operations	19,487	1,984	(25,224)
Net cash provided by (used in) financing activities from discontinued operations	(3,327)	25,502	–
Net cash provided by (used in) financing activities	16,160	27,486	(25,224)
Effect of exchange rate translation adjustments on cash of discontinued operations	237	–	(966)
Increase (decrease) in cash and cash equivalents from continuing operations	24,534	13,804	(43,361)
Increased (decrease) in cash and cash equivalents from discontinued operations	(19,321)	(20,602)	30,927
Cash and cash equivalents from continuing operations at the beginning of the year	26,192	25,533	23,233
Cash and cash equivalents from discontinued operations at the beginning of the year	503	6,375	1,877
Cash and cash equivalents from continuing operations at the end of the year	25,533	23,233	12,676
Cash and cash equivalents from discontinued operations at the end of the year	6,375	1,877	–

(1) **Payment for acquisition of 51% of Global Telecom Distribution PLC.**

Estimated fair values of assets acquired and liabilities assumed at the date of acquisition:

	Year ended December 31, 2005
Working capital, excluding cash and cash equivalents	4,452
Property and equipment	477
Distribution networks	1,776
Goodwill	67
Investment in affiliates	360
Minority interest	(2,640)
	4,492

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

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General

(a) **Organization and business:**

Emblaze Ltd. ("Emblaze" or "the Company"), an Israeli corporation, is a holding company. The Company's subsidiaries and affiliated companies provide telecom operators with technologies, products and solutions for next generation services (see also Note 17).

The Company holds the following major subsidiaries:

Emblaze Mobile Ltd. ("Emblaze Mobile") is a wholly owned subsidiary of the Company. Emblaze Mobile, together with its UK subsidiaries, Emblaze Mobility Solutions Ltd. (Formerly: Emblaze Mobile UK Ltd.) ("Mobility Solutions") and Global Telecom Distribution plc., sells handsets either under the Emblaze brands or co-branded with the operator and is engaged in the business of trading in handsets (see also 1b(1) and Note 17).

ZONE-IP Ltd. ("ZONE-IP") (LSE: ZIP), previously known as Ki-Bi Technologies Ltd., is a holding company for IP related technologies, currently holding, Emblaze VCON Ltd. ("EVC"), a developer of video over-IP conferencing solutions. As of December 31, 2006, The Company holds 64.84% of ZONE-IP issued share capital (see also b(3)).

Orca Interactive Ltd. ("Orca") (LSE: ORCA), an Israeli corporation, held 58.22% by the Company as of December 31, 2006. Orca is a provider of Interactive Protocol television ("IPTV") middleware for video on demand (VOD) and broadcast services, aimed at Telecom, Cable and Digital Subscriber Lines (xDSL) operators (see also Note 1d).

Emoze Ltd., a wholly owned subsidiary of the Company, provides a free push-send email and Personal Information Management data services for mobile devices. The service is provided globally and to any device.

The Company has a major investment in an affiliated Company, Formula Systems (1985) Ltd. (see Note 1b (8)).

(b) **Business combinations and acquisitions:**

(1) **Acquisition of Global Telecom Distribution PLC. ("GTD"):**

On November 11, 2005, Mobility Solutions effectively acquired 51% of the issued and outstanding Ordinary shares of GTD. The closing of the transaction was on December 7, 2005. However, the Company effectively gained control of GTD commencing November 11, 2005, and exercised control from that date. GTD is a distributor of multimedia handsets, operating mainly from the UK with offices and operations across Europe. GTD operates through retail, distance-sales and independent dealer channel partners, as well as networks operators. The acquisition of GTD was accounted for under the purchase method of accounting and the accounts of GTD were consolidated with those of the Company, commencing November 11, 2005.

The total consideration for the acquisition is up to £15.3 million (\$26,500) (subject to upward adjustment upon a change in control of Mobility Solutions, of which £2.5 million (\$4,591) was paid in cash (including acquisition cost of \$248) and the remaining cash consideration, is dependent on GTD's performance in 2006 and 2007, based on earn-out multiples derived either from GTD's net income or profit before tax (which is secured by the shares of GTD held by Mobility Solutions).

The purchase price allocation, including the estimate of the fair value of the purchased intangible assets, was performed by an independent third party valuation specialist.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

The estimated fair values of the identifiable assets acquired and liabilities assumed as of November 11, 2005 are as follows:

Current assets, net	32,734
Long-term investments	360
Property and equipment	477
Total tangible assets	33,571
Intangible assets:	
Distribution networks (estimated amortization period of seven years at the acquisition date)	1,776
Goodwill	67
Total intangible assets	1,843
Total assets acquired	35,414
Liabilities assumed:	
Trade payables, other payables and accrued expenses	(28,183)
Minority interest	(2,640)
Total liabilities assumed	(30,823)
Net assets acquired	4,591

Unaudited pro forma results:

The following represents the unaudited pro forma results of operations giving effect to the acquisition of GTD as if the acquisition had been consummated on January 1, 2004 and 2005:

	Year ended December 31, Unaudited Total consolidated	
	2004	2005
Revenues	125,933	406,166
Net loss	(23,326)	(19,090)
Basic and diluted loss per share	(0.17)	(0.14)

(2) Acquisition of SmartContent Ltd. ("SmartContent"):

In September 2005, Emblaze acquired 51% of the issued and outstanding Ordinary shares of SmartContent in consideration for \$300 in cash. SmartContent develops technology for Content-Push over wireless and IP networks to mobile devices and personal computers. The acquisition of SmartContent was accounted for under the purchase method of accounting and the accounts of SmartContent were consolidated with those of the Company, commencing September 1, 2005. The pro forma results of operations were not presented due to immateriality.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

(3) Acquisition of business of Emblaze V CON Ltd. ("EVC"):

EVC was incorporated in August 2005 by the Company. Shortly after its incorporation, EVC purchased a substantial portion of the business activities (including certain assets, liabilities and employees) of VCON Telecommunications Ltd. ("VCON"), formerly a public company listed on the Nouveau Marche in France (see (i) below). Following the purchase of the assets and liabilities from VCON, EVC restructured VCON's operations and engaged a new management as well as significantly reduced its cost structure. Therefore the operating results of VCON for prior periods are not necessarily indicative of the results that may be expected in the future periods.

EVC is engaged in the development and deployment of Video over-Internet Protocol ("VOIP") Conferencing Solutions. EVC designs, develops, manufactures and markets high-performance, feature-rich desktop and group videoconferencing systems designed for a variety of networks, including those based on the IP as well as infrastructure servers to manage the video network and services.

See also (4) below.

(i) Acquisition of VCON business:

As described above, on August 15, 2005, EVC purchased a substantial portion of the business activities (including certain assets, liabilities and employees) of VCON for a consideration in cash of \$1,631 (including acquisition costs of \$31). The acquisition was accounted for under the purchase method of accounting.

The purchase price allocation, including the estimate of the fair value of the purchased intangible assets, was performed by an independent third party valuation specialist.

The estimated fair values of the identifiable assets acquired and liabilities assumed are as follows:

Inventories	1,498
Property and equipment	494
Developed technology	1,225
Liabilities for Government grants	(1,361)
Accrued expenses and other liabilities	(225)
Total consideration	1,631

(ii) Issuance of shares of EVC to the Company and other investors:

On December 15, 2005, the Company entered into an agreement with EVC and other investors for the issuance of Preferred Shares of EVC to the Company and other investors in consideration for \$3,886 in cash.

Pursuant to the agreement, the Company transferred to EVC \$2,000 in consideration of the issuance of 2,857,143 Preferred shares.

Following the transactions, the Company's interest in EVC is 65%, and the Company recorded a capital gain of approximately \$540, which is included in the consolidated statements of operations in the line item "other revenues and capital gains (losses), net".

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

(4) Investment in ZONE-IP Ltd. (formerly known as Ki-Bi Technologies Ltd.):

In January 2005, Emblaze acquired Preferred shares of ZONE-IP Ltd. ("ZONE-IP"), which are convertible into approximately 27% of the issued and outstanding share capital of ZONE-IP on an as converted and fully diluted basis, immediately prior to the IPO of the ZONE-IP shares.

On May 5, 2005, ZONE-IP completed its IPO on the AIM. Immediately following and by virtue of the IPO, the Company's holdings in ZONE-IP (after giving effect to the conversion of all Preferred shares) were reduced to 13.2%. The Company recorded in the consolidated statements of operations other revenues from this IPO in the amount of approximately \$4,040.

On November 15, 2005, the Company purchased additional ZONE-IP shares in the open market and increased its holding in ZONE-IP to 24.95% of the issued share capital.

Emblaze accounted for the investment retroactively in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary under the equity method, in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock".

As of December 31, 2005, an other-than-temporary decline in the value of the investment in ZONE-IP was identified, based on the quoted market price of ZONE-IP's shares, and a loss in the amount of approximately \$2,400 was recorded in the line item "other revenues and capital gains (losses), net" in the consolidated statements of operations.

In February 2006, Emblaze acquired an additional 1,019,755 Ordinary shares of ZONE-IP in the open market, representing 5% of the then issued share capital of ZONE-IP. As a result, the Company's holding in ZONE-IP increased to 29.95%. The Company recorded goodwill from this transaction in the amount of \$215.

On May 31, 2006, ZONE-IP entered into a conditional agreement to acquire the entire issued share capital of EVC for a consideration of 60% of the enlarged issued share capital of ZONE-IP, (30,592,652 Ordinary shares) ("the Acquisition"). In view of the size of EVC relative to ZONE-IP, the Acquisition constituted a reverse takeover under the AIM rules. Therefore, completion of the Acquisition was conditional upon the approval of ZONE-IP's shareholders at the annual general meeting ("AGM").

On July 12, 2006, ZONE-IP's AGM was convened and the shareholders approved the Acquisition and Ki-Bi's change of name to ZONE-IP Ltd. The admission and dealing in the enlarged issued share capital of ZONE-IP on the AIM commenced on July 13, 2006. Immediately following the admission, the Company purchased an additional 4,165,631 Ordinary shares of ZONE-IP in consideration for 600,000 Ordinary shares of the Company plus \$1,500 in cash. In addition, the Company exercised its call option under an option agreement executed between the Company and certain shareholders of ZONE-IP to purchase 2,958,574 Ordinary shares of ZONE-IP in consideration for 482,935 Ordinary shares of the Company. Following this transaction, the Company's interest in ZONE-IP is 64.84%. Since Kibi was discontinued from operations at the time of the transaction, the merger with EVC, which is considered a Business, is treated as fund raising rather than a business combination.

Emblaze views these phases of the transaction as occurring concurrently, with no change in holdings in EVC and in the merged entity, resulting with additional payment for the same holding rate and thus, incurring a loss in the amount of approximately \$1,400, recorded in the "Other revenues and capital gains (losses), net" line item in the consolidated statement of operations.

On September 4, 2006, ZONE-IP executed an Asset Purchase Agreement with Spiral Solutions Ltd. ("Spiral") for the sale of ZONE-IP's Intellectual Property rights and assets included in the proprietary mobile content delivery and provisioning system and platform which operates in the context of smart cards, DVD technology and web/WAP banner ads as well as certain trademarks. In consideration of the sale, Spiral paid ZONE-IP a total sum of \$373.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

(5) Emblaze Defence Ltd. (“Emblaze Defence”):

In January 2004, the Company established the defence division which commenced its operations on July 1, 2004. In January 2005, the Company established a wholly owned subsidiary, Emblaze Defence, and transferred the defence businesses to Emblaze Defence in consideration for all its shares.

On April 22, 2005, the Company entered into an agreement with Girit Holding Inc. Pursuant to the agreement, the parties agreed to combine their businesses in a new company incorporated in Canada under the name of Visual Defence Inc. The Company transferred to Visual Defence Inc. all its shares in Emblaze Defence and a perpetual license in respect of the intellectual property owned by the Company and required by Visual Defence Inc. to carry on the Emblaze Defence business.

On May 6, 2005, Visual Defence Inc. completed its IPO on the AIM. Visual Defence Inc. issued 33,492,823 Ordinary shares at a price of £0.55 per share, raising approximately £18.4 million (before expenses). Following the admission, the Company's interest in Visual Defence Inc. was 10.85%, and the Company recorded a capital gain of approximately \$9,300, which is included in the consolidated statement of operations in the line item “other revenues and capital gains (losses), net”.

As of December 31, 2006, other-than-temporary impairment on an equity security was identified, based on the investment's quoted market price, and a loss in the amount of approximately \$1,240, was recorded in the consolidated statements of operations, in the line item “other revenues and capital gains (losses), net”. As of December 31, 2006, the Company holds 12.62% of Visual Defence Inc.'s outstanding share capital.

The investment in Visual Defence Inc. is included in the balance sheet as long-term marketable securities.

(6) Adamind Ltd. (“Adamind”):

On September 17, 2004, the Company 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. The Company agreed to contribute the Emblaze media adaptation business (“Emblaze Media Adaptation”) and operations in consideration for the issuance of Ordinary shares of Adamind, and the Philips Parties agreed to contribute the media adaptation business for the mobile telephony infrastructure market (“Philips MP4Net media adaptation business”) to Adamind. In consideration for the issuance of Ordinary shares of Adamind and other cash consideration paid by the Company, all as set forth in the Agreement. In addition, the Company agreed to make an equity investment of \$2,000 in Adamind, as set forth in the Agreement.

Pursuant to the Agreement, on November 7, 2004, the Company transferred to Adamind assets, including intellectual property, and liabilities related to the media adaptation business and operations with a net carrying value in the accounts of the Company of \$610 in consideration for the issuance of Ordinary shares. In addition, the Company transferred to Adamind \$2,000 in cash as an equity investment in consideration for Series A Convertible Preferred shares. The identification of the assets and liabilities transferred (“the transferred net assets”) was agreed upon between the Company and the Philips Parties pursuant to the Agreement and related documents entered into by and between Adamind, the Company and the Philips Parties.

Pursuant to the Agreement, on November 7, 2004, the Philips Parties agreed to contribute the Philips MP4Net media adaptation business to Adamind in consideration for the issuance of Ordinary shares of Adamind and \$500 in cash paid by the Company.

Following the transactions, the Company's interest in Adamind was 70%, and the Company recorded a capital gain of approximately \$1,100, which is included in the consolidated statements of operations in the line item “other revenues and capital gains (losses), net”.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

The transaction has been accounted for under the purchase method of accounting, under which Adamind was considered as the acquirer of the Philips MP4Net media adaptation business from Philips.

Accordingly, the results of operations of the Philips MP4Net media adaptation business were included in the consolidated statements of operations of the Company, commencing November 7, 2004.

On February 21, 2005, Adamind completed an IPO on the AIM. Adamind issued 11,363,636 Ordinary shares at a price of £1.32 per share, raising approximately \$28,000 before issuance expenses of approximately \$2,900. Accordingly, the Company's holding in Adamind was reduced to 47.5%. The Company recorded approximately \$10,300 as a net gain from the issuance of shares to third parties, which is included in the consolidated statements of operations in the line item "other revenues and capital gains (losses), net".

Following the IPO, the Company increased its holding in Adamind to 50.01% in consideration of \$2,607. The excess of the purchase price over the fair value of the net assets acquired in the amount of \$1,827 was recorded as goodwill.

See also 1c(4) below.

(7) Acquisition of Innostream Inc. ("Innostream"):

On October 19, 2004, Emblaze Mobile effectively acquired 60% of the issued and outstanding Ordinary shares of Innostream and gained control thereof. Innostream is a privately-held Korean company that specialized in manufacturing and selling handsets and General Pocket Radio Service ("GPRS") mobile-phones mainly in the Far East.

Following the acquisition of the control of Innostream, the Company discontinued the manufacturing operations of Emblaze Mobile's original products ("C5" and "M5" handsets) (see 1c(2) below).

The acquisition of Innostream was accounted for under the purchase method of accounting and the accounts of Innostream were consolidated with those of the Company, commencing October 19, 2004.

The total consideration of \$26,497 consisted of (i) cash in the amount of \$11,432 for the Ordinary shares purchased and (ii) an additional \$15,065 in cash mainly for funding Innostream's working capital requirements. Additional cash consideration of up to \$20,000 was payable contingent upon the future performance of Innostream (net income or net loss) during the year ended December 31, 2005. No additional consideration was paid.

The purchase price allocation, including the estimate of the fair value of the purchased intangible assets, was performed by an independent third party valuation specialist.

See also Note 1c(3).

(8) Purchase of Formula Systems (1985) Ltd.:

On November 20, 2006, the Company consummated the purchase of an aggregate of 4,406,237 Ordinary shares of Formula Systems (1985) Ltd. ("Formula"), representing approximately 33.4% of the issued and outstanding share capital of Formula, from FIMGold Limited Partnership ("FIMGold"), for an aggregate purchase price of \$70,500 (\$16 per share). Following the transaction, the Company granted to President and a director of Formula an option to sell to Emblaze up to 325,000 Ordinary shares of Formula, constituting approximately 2.46% of the share capital of Formula, at a price per share of \$16, through December 31, 2007.

Through September 2006 and until December 2006, the Company purchased an aggregate of 1,184,183 Ordinary shares of Formula in various private transactions, at an aggregate purchase price of approximately \$13.

The acquisition of Formula was accounted for under the purchase method of accounting.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

The excess of the purchase price over the Company's share in the equity acquired, as adjusted, amounted to approximately \$73 millions and was allocated as follows: approximately \$24 millions to intangible assets other than goodwill, such as customer relationship, developed technology, brand name and software distribution agreements and approximately \$49 millions to goodwill. The amounts allocated to intangible assets other than goodwill are amortized on a straight-line basis over their weighted average expected useful life of 6-13 years. The amortization of the identifiable intangible assets are included as part of the line item "Equity in earnings (losses) of affiliated companies" in the statements of operations.

Formula, through its subsidiaries, is engaged in the development, production and marketing of information technology ("IT") solutions and services. Formula's Ordinary shares are traded on the Tel Aviv Stock Exchange (FRMLH) and on the NASDAQ (FORTY)

Through December 31, 2006, equity earnings of \$1,093 were recorded in the consolidated statements of operations. The investment in Formula is included in the balance sheet in long-term investments.

See also Note 19 for subsequent events.

(c) Discontinued operations:

The financial statements for the reported periods include discontinued operations in respect of the following: (1) Emblaze Semiconductor Ltd. (2) Manufacturing operations of Emblaze Mobile (3) Innostream and (4) Adamind (5) ZONE-IP:

- (1) On July 8, 2004, Emblaze Semiconductor Ltd., a wholly owned subsidiary, was sold by the Company to semiconductor solutions provider, Zoran Corporation (NASDAQ: ZRAN) ("Zoran"), for a total consideration of \$54,200 in cash. The Company recorded a net gain on the sale of \$48,212 which was included in the line item gain (loss) from discontinued operations". The results of operations and cash flows of Emblaze Semiconductor Ltd. are presented as discontinued operations as provided under Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") for all periods presented.

Summarized selected financial information of the discontinued operations of Emblaze Semiconductor Ltd. is as follows:

	Year ended December 31, 2004*
Revenues	1,014
Net loss from operations	(6,050)
Gain on sale, net	48,212

* Through July 8, 2004

- (2) In October 2004, the Company discontinued the manufacturing operations of Emblaze Mobile's original products ("C5" and "M5" handsets). The Company ceased the operations and disposed of by abandonment of all assets related to the manufacturing component Emblaze Mobile's operations, which manufacturing was previously outsourced to a subcontractor. The operations and cash flows of this manufacturing component of operations have been eliminated from the continuing operations of the Company as a result of the disposal transaction. The Company's consolidated balance sheets as of December 31, 2005 and 2006, reflect the assets and liabilities of this manufacturing operation of Emblaze Mobile, as assets and liabilities of discontinued operations within current assets and current liabilities.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

The carrying amounts of the major classes of assets and liabilities of Emblaze Mobile included as assets and liabilities of discontinued operations are as follows:

	2005
Trade receivables	–
Other receivables and prepaid expenses	32
Assets of discontinued operations	32
Trade payables	–
Accrued expenses and other liabilities	74
Liabilities of discontinued operations	74

Summarized selected financial information of the discontinued operations of Emblaze Mobile Ltd. is as follows:

	Year ended December 31,		
	2004	2005	2006
Revenues	3,008	–	–
Net income (loss)	(54,177)	98	572

- (3) On December 31, 2005 the Company sold 20% of Innostream's shares.

At the end of 2005, Innostream effectively ceased its business activities. Accordingly, in accordance with SFAS No. 144, the Innostream business has been treated as discontinued operations in the financial statements for all periods presented.

On December 31, 2005, the Company sold 20% of Innostream's shares for no consideration and decreased its holdings from 60% to 40%. The Company accounted for the investment under the equity method in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock" ("APB No. 18"). As of December 31, 2005, all balances related to the investment in Innostream were written off and included in the loss from discontinued operations.

The Company's consolidated balance sheets at December 31, 2005 reflect the assets and liabilities of Innostream, as assets and liabilities of discontinued operations.

As of September 2006, Innostream is no longer operates.

Summarized selected financial information of the discontinued operations of Innostream is as follows:

	Year ended December 31,	
	2004	2005
Revenues	36,539	54,374
Net income (loss) from operations	7,644	(23,353)
Loss on disposal, net	–	(8,293)

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

- (4) On March 31, 2006, the Company sold its entire holdings of 17,735,000 Ordinary shares in Adamind through a placing to institutional investors at £1.1 per share. The Company recorded a net gain on the sale of \$16.8 million which is included in the line item "Gain (loss) from discontinued operations". The Company's consolidated balance sheets as of December 31, 2005 and 2006 reflect the assets and liabilities of Adamind as assets and liabilities of discontinued operations. The results of operations and cash flows of Adamind are presented as discontinued operations as provided under SFAS No. 144 for all periods presented.

The carrying amounts of the major classes of assets and liabilities of Adamind included as assets and liabilities of discontinued operations are as follows:

	2005
Current assets of discontinued operations:	
Cash and cash equivalents, short-term deposit, accrued interest and short-term marketable securities	20,734
Trade receivables	1,522
Other receivables and prepaid expenses	149
Total current assets of discontinued operations	22,405
Long-term assets of discontinued operations:	
Long-term marketable securities	7,448
Severance pay fund	209
Property and equipment, net	424
Goodwill and other intangible assets	4,631
Total long-term assets of discontinued operations	12,712
Current liabilities of discontinued operations:	
Trade payables	304
Other payables and deferred income	2,447
Total current liabilities of discontinued operations	2,751
Long-term liabilities of discontinued operations:	
Accrued severance pay	220
Minority interest	15,096
Total long-term liabilities of discontinued operations	15,316
Total liabilities of discontinued operations	18,067

Summarized selected financial information of the discontinued operations of Adamind is as follows:

	Year ended December 31,	
	2005	2006
Revenues	6,154	6,152
Capital gains	10,260	16,855
Net income from operations	9,818	15,893

- (5) In April 2006, ZONE IP's board of directors decided to scale down the Zone IP Card operations including termination of the employment of ZONE-IP CEO and CFO. Discontinued expenses of \$531 were recorded in the third and fourth quarters of 2006.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

1 General (continued)

(d) IPO of Orca:

On October 13, 2004, Orca completed its IPO on the AIM. Orca issued 14,141,414 Ordinary shares at a price of \$1.80 per share, raising a net amount of approximately \$22,000. Accordingly, the Company's shareholding in Orca was reduced to 60%. The Company recorded \$11,537 as a net gain from the issuance of shares to third parties, in the year ended December 31, 2004, which is included in the consolidated statements of operations in the line item "other revenues and capital gains (losses), net".

(e) Restructuring:

During 2004, the Company implemented strategic initiatives intended to reduce costs, increase efficiencies and focus on key business areas. In connection with the strategic initiatives, and in accordance with SFAS No. 144, EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs in a Restructuring)", and Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), the Company recorded during 2004 restructuring charges of \$6,338. The strategic initiative included the lay-offs of employees and recognizing an impairment of under-performing assets.

In 2004, the Company abandoned certain assets, which did not constitute a separable component of an entity, and reduced its operations in certain of its leased facilities. These assets ceased to be used and therefore, the carrying amounts of the assets were written off.

The expenses in 2004 were recorded as restructuring and other charges and impairment of property and equipment in the statements of operations. The accrual is included in other payables and accrued expenses and in long-term liabilities.

The following table details the major components of the fiscal 2002 and 2004 restructuring and other charges and the remaining reserve balances as of December 31, 2004, 2005 and 2006:

	Employee termination and severance costs	Exit costs	Impairment of property and equipment	Other	Total restructuring charges
Restructuring accrual as of					
January 1, 2004	—	2,477	—	—	2,477
Accrual in 2004	379	4,313	1,646	—	6,338
Utilized:					
Cash	(281)	(745)	—	—	(1,026)
Non-cash	—	—	(1,646)	—	(1,646)
Restructuring accrual as of					
December 31, 2004	98	6,045	—	—	6,143
Utilized:					
Cash	(98)	(1,380)	—	—	(1,478)
Accrual reversal	—	(720)	—	—	(720)
Restructuring accrual as of					
December 31, 2005	—	3,945	—	—	3,945
Utilized:					
Cash	—	(1,345)	—	—	(1,345)
Restructuring accrual as of					
December 31, 2006	—	2,600	—	—	2,600

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") including relevant accounting and financial reporting pronouncements promulgated by the U.S. Securities and Exchange Commission.

(a) **Use of estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(b) **Financial statements in U.S. dollars:**

The Company's management believes that the dollar is the primary currency of the primary economic environment in which the Company and certain of its subsidiaries operate. Thus, the functional and reporting currency of the Company and certain of its subsidiaries is the U.S. dollar.

Accordingly, amounts in currencies other than U.S. dollars have been translated as follows in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation":

Monetary balances – at the exchange rate in effect on the balance sheet date.

Costs – at the exchange rates in effect as of the date of recognition of the transaction.

All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of operations in financial expenses (income), net.

For those subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of operations items are translated at average exchange rates prevailing during the year. Related translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in shareholders' equity.

(c) **Principles of consolidation:**

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

(d) **Cash equivalents:**

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less.

(e) **Short-term bank deposits:**

Short-term bank deposits are deposits with maturities of more than three months but less than one year. Short-term bank deposits are presented at their cost, including accrued interest.

The deposits are in U.S. dollars and bear interest at an average rate of 5% for 2005 and 2006.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

(f) **Marketable securities:**

The Company accounts for investments in marketable debt and equity securities in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date.

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities 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 decline in value judged to be other than temporary and interest are included in financial income, net.

Debt and equity securities that are classified as available-for-sale are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity, net of taxes. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of operations. An other-than-temporary impairment on an equity security was recorded in the consolidated statements of operations, in the year ended 2004, 2005 and 2006 in the amount of \$0, \$4,980, and \$1,244, respectively.

In accordance with SFAS No. 115, the Company has classified certain of its marketable debt securities as trading securities. Trading securities are held for resale in anticipation of short-term market movements. Under SFAS No. 115, marketable securities classified as trading securities are stated at the quoted market prices at each balance sheet date. Gains and losses (realized and unrealized) related to trading securities as well as interest on such securities are included as financial income, or expenses as appropriate.

According to the SEC's Staff Accounting Bulletin No. 59 ("SAB No. 59"), management is required to evaluate in each period whether the decline in value for a security is other than temporary.

At December 31, 2006, the Company accounted for its structured notes in accordance with the provisions of FASB Emerging Issues Task Force ("EITF") Issue No. 96-12, "Recognition of Interest Income and Balance Sheet Classification of Structured Notes", according to which the Company used the "retrospective interest method" to recognize interest income (expenses). Structured notes were accounted for in accordance with the provisions of FASB Emerging Issues Task Force (EITF) Issue No. 96-12, "Recognition of Interest Income and Balance Sheet Classification of Structured Notes". Under the terms of the notes, for each day in which the three-month or six-month LIBOR is below an agreed fixed rate, which ranges from 2.25% to 6.75%, the notes bear interest at the rate of 5% to 5.2% per annum. On all other days, the deposits do not bear any interest.

(g) **Inventories:**

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and for market prices lower than cost.

The cost of raw materials and finished products is determined using the moving average cost method.

(h) **Long-term bank deposits:**

Bank deposits with maturities of more than one year are included in long-term investments, presented at their cost.

(i) **Deposits in escrow:**

As of December 31, 2005, there is a deposit held in escrow in the approximate amount of \$5,100 relating to the sale of Semiconductor Ltd. (see Note 1c(1)). The deposit is presented in current assets. The deposit was released from escrow in January 2006.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

(j) **Restricted deposits:**

In 2004, a restricted deposit was invested in a highly liquid U.S. dollar deposit, which secured related party liabilities, fully covered by collateral. Both the restriction and guarantee were removed during 2005, and therefore the fair value of the guarantee in the amount of \$2,000 was recorded as financial income in accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". In 2006, the receivable of \$2,000 recorded in connection with the guarantee was paid in full by the related party. In 2005 and 2006, the restricted deposits secure bank credit lines (\$10,000 unutilized as of December 31, 2005 and \$45,000 as of December 31, 2006) and facility rent payments. The maturity date of the restricted deposit is June 2007. The restricted deposits are presented at cost.

(k) **Investments in affiliates:**

The Company accounts for investments in affiliates in which it has the ability to exercise significant influence over the operating and financial policies, using the equity method of accounting in accordance with the requirements of Accounting Principle Board 18, "The Equity Method of Accounting for Investments in Common Stock" ("APB No. 18"). Profits on inter-company sales, not realized outside the Group, are eliminated. An other-than-temporary impairment on an affiliate was recorded in the consolidated statements of operations, in the year ended 2004, 2005 and 2006 in the amount of \$0, \$2,400, and \$0, respectively. In addition, \$1,405 on cost to maintain holdings in investment was recorded in 2006.

(l) **Property and equipment:**

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

Computers and peripheral equipment	25-33%
Office furniture and equipment	6-15%
Leasehold improvements and facility	By the shorter of the term of the lease or the life of the assets

(m) **Goodwill and other intangible assets:**

Goodwill reflects the excess of the purchase price of a business acquired over the fair value of net assets acquired.

Goodwill is not amortized for financial reporting purposes. Instead, the Company is required, annually (or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable) to test for impairment of goodwill using a two-phase process. The first phase screens for impairment; while the second phase (if necessary) measures impairment. In the first phase of impairment testing, goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. An impairment loss is recognized if the carrying amount of goodwill exceeds its implied fair value.

Intangible assets are being amortized using the straight-line method over their estimated useful life as follows:

	Amortization period in years
Acquired technology	5-7
Customer agreements and distribution networks	7

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

(n) **Impairment of long-lived assets other than goodwill:**

The Company and its subsidiaries' long-lived assets are reviewed for impairment in accordance with SFAS No. 144 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of by way of sale are reported at the lower of the carrying amount or fair value less costs to sell. As for impairment losses of property and equipment recognized in 2004, see Note 1e. During 2004, 2005 and 2006, no impairment losses were recognized in continuing operations. During 2004, an impairment loss from acquired technology amounting to \$9,574 was included in discontinued operations.

(o) **Income taxes:**

The Company and its subsidiaries account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This Statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value. As of December 31, 2006, a full valuation allowance was provided by the Company.

(p) **Revenue recognition:**

The Company and its subsidiaries generated revenues in 2005 and 2006 mainly from sales of GSM and GPRS mobile-phones and from licensing the rights to use their software products, from sales of hardware systems and microchips, software licenses that require significant customization, development agreements and from royalties due to integration and customization services. The Company and its subsidiaries also generate revenues from maintenance, support and training.

Revenues from product sales are recognized in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation exists, and collectibility is probable.

The Company also applies Emerging Issues Task Force ("EITF") 99-19, "Reporting Revenues Gross as a Principal versus Net as an Agent" ("EITF 99-19"), regarding arrangements where the Company provides third party equipment or activities of connecting proscibes to networks and reports revenues gross as a principal. In 2005, a certain type of revenues from a UK based subsidiary, previously reported net, was reclassified and reported in the comparative figures of 2005 in gross amounts. This reclassification increased the revenues and cost of sales, reported for 2005, by \$11,976.

The Company and certain subsidiaries implement Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP No. 97-2"), as amended. Revenues from software arrangements are recognized upon delivery of the software product, when collection is probable, the product fee is otherwise fixed or determinable and persuasive evidence of an arrangement exists. SOP No. 97-2 requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. The Company and its subsidiaries have also adopted SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions," for all transactions entered into after January 1, 2000. The Company and its subsidiaries' Vendor Specific Objective Evidence ("VSOE") used to allocate the sales price to maintenance, support and training is based on renewal rate and the price charged when these elements are being sold separately.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

SOP No. 98-9 requires that revenue be recognized under the “residual method” when (1) VSOE of fair value exists for all undelivered elements and no VSOE exists for the delivered elements, and (2) all revenue recognition criteria of SOP No. 97-2, as amended, are satisfied. Under the residual method any discount in the arrangement is allocated to the delivered elements.

Maintenance and support revenue included in multiple element arrangements and when sold separately is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement.

Revenues from software licenses that require significant customization and from development agreements are recognized based on SOP No. 81-1, “Accounting for Performance of Construction Type and Certain Production Type Contracts”, using contract accounting on a percentage of completion method based on the relationship of actual costs incurred to total costs estimated to be incurred over the duration of the contract. A provision for estimated losses on uncompleted contracts is recorded in the period in which such losses are first identified, in the amount of the estimated loss on the entire contract. As of December 31, 2006, no provision for losses has been identified.

The Company and its subsidiaries are entitled to royalties from revenue sharing and from royalty arrangements upon the sublicensing or selling of the products to end users. Royalties out of revenue sharing and royalty arrangements are recognized when such royalties are reported to the Company and its subsidiaries, and their collection is probable.

The Company and its subsidiaries do not grant a right of return to their customers.

Deferred revenue includes unearned amounts received under maintenance and support contracts, and amounts received from customers but not recognized as revenues.

(q) **Research and development costs:**

Research and development costs, net of grants received, are charged to the statement of operations as incurred.

Statement of Financial Accounting Standards No. 86, “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed” (“SFAS No. 86”) requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company’s and its subsidiaries product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company and its subsidiaries between completion of the working model and the point at which the product is ready for general release has been insignificant. Therefore, all research and development costs have been expensed.

(r) **Concentrations of credit risks:**

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, short-term and long-term bank deposits, marketable securities and trade receivables.

Cash, cash equivalents, short-term and long-term bank deposits are invested in U.S. dollars with major banks in the United States, Israel and United Kingdom. Such deposits may be in excess of insured limits and are not insured in other jurisdictions. 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.

Marketable securities include investments in debentures of corporations, U.S. government agencies and foreign governments. Management believes that those corporations and governments are financially sound, the portfolio is well diversified, and accordingly, minimal credit risk exists with respect to these marketable debt securities.

Trade receivables are mainly derived from sales to customers located in Europe, the Far East and in North America. The Company and its subsidiaries perform ongoing credit evaluations of their customers. During 2005 and 2006, the Company recorded expenses of \$560 and \$1,314 against doubtful accounts, respectively.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

(s) Accounting for stock-based compensation:

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options under the Company's stock plans based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Stock-based employee compensation cost was recognized in the statements of operations for the years ended December 31, 2005 and 2004, for all options granted under those plans with an exercise price higher than market value of the underlying Common stock on the date of grant.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognized in the year ended December 31, 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). As required by the modified prospective method results for prior periods have not been restated.

The Company recognized compensation expenses for the value of these awards, which has straight-line vesting, over the requisite service period of each of the awards.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's loss before taxes and net loss for the year ended December 31, 2006 is \$558 lower than if it had continued to account for share-based compensation under APB 25. Basic and diluted loss per share for the year ended December 31, 2006 is less than \$0.01 lower than if the Company had continued to account for share-based compensation under APB 25.

The Company estimates the fair value of stock options granted until 2004, using the Black-Scholes-Merton option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending at the date of grant, based on the expected option term. The expected option term represents the period that the Company's stock options are expected to be outstanding and was determined based on the simplified method, which is the average of the vesting terms and original contractual terms of the stock options. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term.

Since 2005, the Company believes that the Binomial method of stock-based valuation is preferable because it is more likely to produce a better estimate of fair value.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

Pro forma information regarding net income (loss) and earnings (loss) per share was required by SFAS 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant, using the Black-Scholes Option valuation model through the beginning of 2005 and the Binomial model for options granted thereafter, with the following weighted-average assumptions for, 2004: risk-free interest rate of 3.1%; dividend yields of 0%, volatility of 0.576, a weighted-average expected life of the option of one year after the vesting period which is one to four years in 2004. The underlying assumptions for the 2005 and 2006 grants, under the Binomial option valuation model: risk-free interest rates of 4.3% and 4.9%, expected volatility of 0.53-0.61 and 0.31-0.41, early exercise multiple of 1.5 and early exercise profit of USD 0.8, annual forfeiture rates of 20.8% and 8.75%.

Weighted average fair value of options at their grant dates in 2004, 2005 and 2006 was \$0.91, \$0.66 and \$0.53, respectively. Generally, options were granted with an exercise price equal to the fair market value at the date of grant, except for options that were granted in 2002 by the Company and in 2005 by Emblaze Mobile to certain employees with an exercise price of NIS 0.01, which is less than the share market price at the grant date.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods, on a straight line method.

Pro forma information under SFAS No. 123:

	2004	2005
Net loss as reported	(23,163)	(21,074)
Add: share-based compensation expense included in reported net loss	211	248
Deduct: share-based compensation expense determined under fair value method	(4,524)	(3,018)
Pro forma net loss	(27,476)	(23,844)
Basic and diluted net loss per share as reported	(0.17)	(0.15)
Pro forma basic and diluted net loss per share	(0.20)	(0.18)

See also Note 15.

(t) **Grants:**

The Company received non-royalty-bearing grants from several European funds and from the Israeli Ministry of Industry and Trade for its participation in the "Magnet" program. These grants were recognized at the time the Company is entitled to such grants on the basis of the costs incurred, and included as a reduction of research and development costs.

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company's subsidiaries are entitled to such grants, on the basis of the costs incurred and included as a reduction of research and development costs. During 2004, 2005 and 2006, grants recognized amounted to \$848, \$1,067, and \$27, respectively.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

(u) **Severance pay:**

The Company and its Israeli based subsidiaries' liabilities for severance pay are calculated pursuant to Israeli Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company and its Israeli subsidiaries' liabilities for all of their employees are fully provided by monthly deposits with insurance policies and by an accrual.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation, pursuant to Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

(v) **Fair value of financial instruments:**

The following methods and assumptions were used by the Company and its subsidiaries in estimating the fair value of financial instruments:

The carrying amount reported in the balance sheet of cash and cash equivalents, short-term bank deposits, trade and other receivables, restricted deposits, short-term loans and trade other payables approximate their fair value due to the short-term maturity of such instruments.

The fair values of long-term bank deposits are estimated by discounting the future cash flows using current interest rates for deposits of similar terms and maturities. The carrying amounts of the long-term bank deposits approximate their fair value.

The fair value of marketable securities is based on quoted prices (see Notes 3 and 6).

(w) **Advertising expenses:**

Advertising expenses are charged to the statements of operations, as incurred. Advertising expenses for the years ended December 31, 2004, 2005 and 2006 were \$939, \$453 and \$356, respectively.

(x) **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 year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128").

The total weighted average number of shares relating to the outstanding options excluded from the calculations of diluted net loss per share because these securities are anti-dilutive was 11,072,014, 934,007 and 2,509,776 for the years ended December 31, 2004, 2005 and 2006, respectively.

(y) **Derivatives and hedging activities:**

Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not designated as part of a hedged transaction must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company uses derivatives to hedge certain cash flow foreign currency exposures, in order to further reduce the Company's exposure to foreign currency risks.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

2 Significant accounting policies (continued)

(z) Impact of recently issued accounting standards:

1. In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties.

FIN 48 is effective for fiscal years beginning after December 15, 2006. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is currently assessing the effect of the adoption of the provisions of FIN 48 on its financial position and results of operations.

2. In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of SFAS 157 will have on its financial position and results of operations.
3. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The Standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The Company is currently evaluating the impact that SFAS No. 159 will have on its consolidated financial statements.

(aa) Reclassification:

In 2006, certain amounts from prior years have been reclassified to conform with the current year's presentation. The reclassification had no effect on previously reported net loss, or shareholders' equity.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

3 Short-term marketable securities

	2005				December 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Available-for-sale securities – mature within one year:								
Corporate debentures	10,056	–	(50)	10,006	18,287	–	(174)	18,113
Foreign government debt	12,794	–	(129)	12,665	24,973	–	(244)	24,729
Auction Rate Securities (“ARS”)	2,401	–	–	2,401	700	–	–	700
Other marketable securities	7,000	243	–	7,243	11,483	723	(6)	12,200
	32,251	243	(179)	32,315	55,443	723	(424)	55,742
Trading								
Other marketable securities	–	–	–	–	807	–	–	807
	32,251	243	(179)	32,315	56,250	723	(424)	56,549

The Company does not consider the unrealized losses to be other-than-temporarily impaired as of December 31, 2006.

Presented in the balance sheet:

Short-term marketable securities	30,797
Restricted short-term marketable securities	25,752
Total	56,549

* The restricted marketable securities are to secure bank credit lines, payable in May 2007.

4 Other receivables and prepaid expenses

	December 31,	
	2005	2006
Government authorities	8,013	1,373
Prepaid expenses	1,210	1,121
Employees	124	202
Receivable from related party (see Note 2j)	2,000	–
Other	1,081	1,548
	12,428	4,244

5 Inventories

	December 31,	
	2005	2006
Raw materials	810	600
Finished products	3,726	6,463
Total	4,536	7,063

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

6 Long-term marketable securities

	December 31,				December 31,			
	2005			Market value	2006			Market value
	Amortized cost	Gross unrealized gains	Gross unrealized losses		Amortized cost	Gross unrealized gains	Gross unrealized losses	
Available-for-sale – matures after one year through three years:								
U.S. Government and agencies debt	53,554	–	(1,032)	52,522	19,522	2	(204)	19,320
Corporate debentures	47,048	–	(686)	46,362	13,234	–	(180)	13,054
Others	–	–	–	–	3,000	–	(152)	2,848
	100,602	–	(1,718)	98,584	35,756	2	(536)	35,222
Available-for-sale – matures after three years through five years:								
U.S. Government and agencies debts	21,000	–	(433)	20,567	4,500	–	(33)	4,467
Corporate debentures	8,000	–	(78)	7,922	–	–	–	–
Others	9,634	–	(43)	9,591	12,850	15	(103)	12,762
	38,634	–	(554)	38,080	17,350	15	(136)	17,229
	139,236	–	(2,272)	136,964	53,106	17	(672)	52,451
Trading – matures after three years:								
Corporate debentures	2,959	–	–	2,959	–	–	–	–
Others	973	–	–	973	–	–	–	–
	3,932	–	–	3,932	–	–	–	–
Available-for-sale – equity securities								
Equity securities	4,302	–	–	4,302	3,057	–	–	3,057

The Company does not consider the unrealized losses to be other-than-temporarily impaired as of December 31, 2006.

The Company realized net gains (losses) of \$1,267, \$140 and \$(41) from sales of marketable securities in 2005 and 2006, respectively.

Presented in the balance sheet:

Long-term marketable securities	30,151
Restricted long-term marketable securities *	25,357
Total	55,508

* The restricted marketable securities are to secure bank credit lines, payable in May 2007.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

7 Other long-term investments

	December 31,	
	2005	2006
Investments in Formula (see note 1b.(8))	–	83,940
Others	3,990	2,595
	3,990	86,535

8 Property and equipment, net

(a) Composed as follows:

	December 31,	
	2005	2006
Cost:		
Computers and peripheral equipment	10,008	10,423
Office furniture and equipment	3,436	3,209
Leasehold improvements	2,978	3,295
	16,422	16,927
Accumulated depreciation:		
Computers and peripheral equipment	8,570	9,110
Office furniture and equipment	3,120	2,822
Leasehold improvements	2,766	2,603
	14,456	14,535
Depreciated cost	1,966	2,392

(b) Depreciation expenses amounted to \$2,493, \$956 and \$1,274 for the years ended December 31, 2004, 2005 and 2006, respectively.

9 Goodwill

	IPTV	GSM, GPRS	Others	Total
Balance as of January 1, 2006	1,493	67	150	1,710
Changes in 2006, net	–	1,783	186	1,969
Balance as of December 31, 2006	1,493	1,850	336	3,679

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

10 Intangible assets, net

(a) Intangible assets:

	December 31,	
	2005	2006
Cost:		
Acquired technology	1,225	1,225
Customer agreements and distribution networks	1,760	1,979
	2,985	3,204
Accumulated amortization:		
Acquired technology	87	331
Customer agreements and distribution networks	34	303
	121	634
Amortized cost	2,864	2,570

(b) Amortization expense of intangible assets amounted to \$0, \$121 and \$512 for the years ended December 31, 2004, 2005 and 2006, respectively.

(c) Estimated amortization expense for the years ended December 31:

	2007	2008	2009	2010	2011
	512	512	512	512	512

11 Short-term bank loans

The bank loans bear an average annual interest rate of 5.85%.

12 Other payables and accrued expenses

	December 31,	
	2005	2006
Employees and payroll accruals	4,559	4,919
Accrued expenses	4,639	1,935
Short-term restructuring accrual	1,363	2,600
Tax authorities	2,761	4,622
Advance payment on account of shares of subsidiary *	-	9,190
Other	2,129	4,299
	15,451	27,565

* The amount was refunded during 2007.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

13 Long-term liabilities

	December 31,	
	2005	2006
Long term restructuring accrual	2,582	–
Long-term liabilities of discontinued operations	15,316	–
Government grants	688	847
	18,586	847

14 Commitments and contingent liabilities

(a) **Operating leases:**

The Company and its subsidiaries rent their offices under operating lease agreements, which expire on various dates. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2006, are as follows:

2007	1,003
2008	237
2009	237
2010	243
2011 and thereafter	1,900
	3,620*

* Net of an amount of \$2,600 accrued and expensed as restructuring charge and included in the restructuring accruals as of December 31, 2006.

Total rental expense for the years ended December 31, 2004, 2005 and 2006, amounted to \$2,533, \$2,382 and \$1,754, respectively.

(b) **Royalties to the Office of the Chief Scientist (“OCS”):**

Under the research and development agreements of the Company’s subsidiaries with the OCS and pursuant to applicable laws, the Company’s subsidiaries are required to pay royalties at the rate of 3%-5% of sales of products developed with funds provided by the OCS, up to an amount equal to 100%-120% of the OCS research and development grants received, linked to the U.S. dollar plus interest on the unpaid amount received based on the 12 month LIBOR applicable to dollar deposits. The Company’s subsidiaries are obligated to repay the Israeli Government for the grants received only to the extent that there are sales of the funded products.

The Company’s subsidiaries paid or accrued royalties in the amount of \$143, \$72 and \$1,457 for the years ended December 31, 2004, 2005 and 2006, respectively, relating to the repayment of such grants. The royalties were recorded in the “Cost of Sale” in the statement of Operation”.

As of December 31, 2006, the Company’s subsidiaries had a contingent obligation to pay royalties in the amount of \$4,553.

(c) **Charges:**

The Company pledges bank deposits and marketable securities in the amount of \$56,258 to cover bank guaranties in respect of an office rental agreement, and in respect of credit lines. See Notes 3, Note 6 and Note 7.

Notes to the Consolidated Financial Statements

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

14 Commitments and contingent liabilities (continued)

(d) **Legal:**

1. On March 7, 2001, Malam Systems Ltd. filed a claim against Geo Interactive Media Group Ltd. (now Emblaze Ltd.) and against its founding directors demanding approximately 29% of the Company's issued share capital (which is 50.1% of the shares held by the founding directors prior to any dilution). According to the Company's legal advisors, this claim and its results should not have any adverse effect on the Company or its operations. The legal advisors of the Company and the founding directors are of the opinion that there are no merits to the claim and the possibility that it shall prevail is extremely unlikely.
2. GTD is involved in a dispute with Her Majesty Revenue and Customs (the British Revenue & Customs) ("the HMRC") regarding a decision made by the HMRC to withhold VAT reclaims and raise an assessment relating to GTD's VAT return in the sum of approximately £8.8 million (\$16,160). These actions taken by the HMRC are not specifically targeted at GTD but rather represent a part of general measures applied by the HMRC in its battle against VAT fraud exposed within the mobile telephone handset sector in which GTD operates.

As a result, pursuant to the requirements of SFAS 5 "Accounting for Contingencies", the Company provided an allowance in the full amount of \$16,160 which was recorded in the "other expenses" line item in the consolidated statement of operations.

3. Some of the Company's subsidiaries are involved in various legal disputes within the ordinary course of business. The Company's management is of the opinion that it had provided a sufficient reserve should any of these disputes materialize to actual claims.

15 Shareholders' equity

(a) **Ordinary shares:**

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends, and the right to a share in excess assets upon liquidation of the Company.

(b) **Treasury stock:**

1. In 2006, the district court in Israel approved a share buyback program of the Company's Ordinary shares, in an amount of up to £40 million pursuant to which the Company may repurchase Ordinary shares of the Company.
2. In 2004 the Israeli court has approved the Company's request to repurchase up to an aggregate of 17,500,000 Ordinary shares of the Company in the total amount of up to £43.5 million.
3. On June 29, 2006, the extraordinary shareholders' meeting of the Company approved to provide the Company's CEO at the time, Mr. Eli Reifman ("the Former CEO"), a bridge loan in an amount of \$70,000 ("the Loan"). Upon the maturity of the Loan, the Company repurchased from the Former CEO 25,597,439 of Emblaze shares that were required in order to allow for a full repayment of the Loan and its accrued interest, in the total amount of \$70,953. The shares were repurchased at a price per share of 149 pence.
4. During 2006, as part of an EVC and ZONE-IP business combination transaction, the Company re-issued 1,082,935 shares (see also Note 1b(4)). In addition, 115,500 shares, held in treasury stock, were re-issued as part of employees' exercise of options.

Accordingly, the Company repurchased in 2004, 2005 and 2006 a total of 1,800,000, 0 and 25,597,439 of the Company's Ordinary shares at a cost of \$3,539, \$0 and \$70,953, respectively. During 2005 and 2006, the Company re-issued 792,572 and 1,198,435 Ordinary shares, respectively.

As of December 31, 2005 and 2006 the outstanding treasury stock amounted to 4,705,463 and 29,104,467 shares, respectively.

Notes to the Consolidated Financial Statements

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

15 Shareholders' equity (continued)

(c) **Employee's stock option plans:**

In 1998, the Company implemented the 1999 employee stock option plan ("the 1999 Plan"). Under the 1999 Plan, 12,000,000 options to purchase Ordinary shares have been reserved for issuance. These options may be granted to officers, directors and employees and vest evenly each year over a period of four years after the date of grant and, if not exercised, the options will expire on the tenth anniversary of the date of grant. Generally the exercise price of these options may not be less than the fair market price of the share at the date of grant. Any options which are canceled or forfeited before expiration become available for future grants.

In 2001, the Company implemented the 2001 Global Stock Option Plan ("the 2001 Plan"). Under the 2001 Plan, 10,000,000 options to purchase Ordinary shares have been reserved for issuance. These options may be granted to the Company's employees, directors and consultants and vest evenly mainly every year or half a year in equal portions mainly over a period of two-four years commencing on the date of grant and, if not exercised, the options will expire on the tenth anniversary of the date of grant. Generally, the exercise price of these options may not be less than the fair market price of the shares at the date of grant. Any options which are cancelled or forfeited before expiration become available for future grants.

On June 9, 2003, the Company's shareholders' meeting resolved to consolidate the 1999 Plan with the 2001 Plan, so as to treat shares reserved for allotment under the 1999 Plan as being served for allotment under the 2001 Plan, but without prejudice to the actual terms and conditions of each grant previously made under the 1999 Plan.

On August 31, 2006 the Company's shareholders' resolved to increase the reserve of stock for issuance under the Company's 2001 Plan by an additional 13,000,000 shares.

Total number of options available for future grants as of December 31, 2006, amounted to 10,295,267.

The following is a summary of the Company's stock options granted among the various plans:

	2004		Year ended December 31, 2005		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	12,191,897	4.47	9,343,889	3.93	7,108,394	2.89
Granted	1,572,740	2.38	373,760	2.98	13,000,000	4.89
Exercised	(1,263,542)	1.31	(792,572)	2.11	(115,500)	2.13
Canceled or forfeited	(3,157,206)	7.60	(1,816,683)	6.43	(2,439,159)	5.46
Outstanding at the end of the year	9,343,889	3.93	7,108,394	2.89	17,553,735	2.13
Exercisable at the end of the year	5,748,944	4.81	5,924,809	3.00	5,615,396	1.47

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

15 Shareholders' equity (continued)

The following table summarizes information about options outstanding and exercisable as of December 31, 2006:

Range of exercise price	Options outstanding as of December 31, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2006	Weighted average exercise price of options exercisable
\$0.0023 – 1.6871	51,000	2.16	0.93	51,000	0.93
\$1.7655 – 2.3737	840,861	4.91	2.25	698,672	2.25
\$2.408 – 2.5895	4,342,500	6.17	2.59	4,332,250	2.59
\$2.7072 – 6.2776	12,170,375	9.31	4.81	384,475	4.48
\$7.1603 – 38.205	148,999	3.24	11.43	148,999	11.43
	17,553,735		2.13	5,615,396	1.47

- (d) In 2001, Orca implemented its employee option plan. Under the option plan, 3,000,000 options to purchase Ordinary shares have been reserved for issuance which represents approximately 7.8% of the shares on a fully diluted basis. These options may be granted to Orca's employees, directors and consultants and mainly vest each year over a period of four years after date of grant. The exercise price of these options may not be less than the fair market value of the Ordinary shares at the date of grant. Any options which are cancelled or forfeited before expiration become available for future grants. Orca approved in 2005 an increase of 1,136,000 Ordinary shares reserved for option grants under the plan. In the year ended December 31, 2006, the Company recorded employee benefit expense in respect of options in the amount of \$176.

The total number of Ordinary shares available for future grants as of December 31, 2006, mounted to 1,421,085.

- (e) In 2002, Emblaze Mobile implemented its employee option plan. Under the option plan, as amended in 2003 and 2005, 3,000,000 options to purchase Ordinary shares have been reserved for issuance. These options generally may be granted to Emblaze Mobile's employees, directors and consultants and vest evenly mainly each year over a period of four years after date of grant. The exercise price of these options may not be less than the fair market value of the Ordinary shares at the date of grant. Any options which are cancelled or forfeited before expiration become available for future grants. Total number of options available for future grants as of December 31, 2006 amounted to 2,659,750.

During 2005, Emblaze Mobile granted 810,000 options with an exercise price of NIS 0.01, which is less than the market price at the date of grant. The grant resulted in a total compensation of \$1,669. During 2005 and 2006 the Company recorded \$248 and \$379 as compensation expenses. The total compensation of \$1,669 was calculated base on the binomial model.

- (f) On December 20, 2006 Emoze granted 3,806,500 options with exercise prices of \$0.0741 and \$0.037. The grant resulted in a total compensation of \$30 which was calculated using the binomial model. During 2006, no compensation expenses relating to stock options, were recorded.

- (g) **Acceleration of options held by the Company's Former CEO:**

On July 5, 2005, the Board of Directors and the Remuneration Committee resolved to immediately vest 1,500,000 options, which all comprised of the unvested options held by the Former CEO. The above acceleration was approved by the shareholders of the Company.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

15 Shareholders' equity (continued)

(h) Grant of options to the Former CEO:

On August 31, 2006 the shareholder of the Company approved to grant 13,000,000 share options to the Company's Former CEO, Mr. Eli Reifman. The exercise price of the stock options is at the range of £2 to £3 while the fair market value of the shares at the date of grant was £1.4.

The share options vest quarterly over a period of four years until August 2010. The Board decided to implement performance criteria over the vesting of the options for each of the fiscal years until 2010. In the event that the Company fails to achieve the performance criteria, the respective number of share options shall immediately be forfeited.

The total compensation expense of the share options at the date of grant was \$6,362. As of December 31, 2006, the performance criteria determined in the share option certificate was not met and therefore 1,625,000 share options were forfeited. The Company did not record any compensation expenses in the year 2006 related to these share options.

(i) Debt security of related party:

During 2005, the Company invested in a debt security issued by a related party which was fully paid in June 2006.

(j) Dividends:

Dividends, if any, may be paid by the Company only out of the Company's earnings and other surpluses in NIS as determined in the Israeli Companies Law as of the end of the most recent fiscal year or as accrued over a period of the last two years, whichever is higher. Such dividends will be paid in NIS. Dividends paid to shareholders outside Israel may be converted to U.S. dollars on the basis of the exchange rate prevailing at the date of the conversion. The Company does not intend to pay cash dividends in the foreseeable future.

16 Income taxes

(a) Israeli income taxes:

1. Measurement of taxable income:

Commencing with the taxable year 2002, the Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Accordingly, commencing in taxable year 2002, results for tax purposes are measured in terms of earnings in dollar.

2. Tax rates:

On July 25, 2005, the Knesset (Israeli Parliament) approved the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 – 31%, in 2007 – 29%, in 2008 – 27%, in 2009 – 26% and in 2010 and thereafter – 25%.

3. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company's subsidiaries, Orca, and EVC ("Company's subsidiaries") submitted applications for "Approved Enterprise" status under the above Law. The main benefit arising from such status is the reduction in tax rates on income derived from "Approved Enterprises". Consequently, the Company's subsidiaries are entitled to two years of a tax exemption and five years of a reduced tax rate on income from its "Approved Enterprises" beginning from the time that they first have taxable income. The period of tax benefits (except for the first two years in which the Company is tax exempt) is subject to limits of 12 years from the commencement of production, or 14 years from the approval date, whichever is earlier. The benefit periods have not yet commenced.

The entitlement to the above benefits is conditional upon fulfilling the conditions stipulated by the above law, regulations published there under, and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and Company's subsidiaries may be required to refund the amount of the benefits, in whole or in part, including interest.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

16 Income taxes (continued)

As of 31 December 2006, the Company's subsidiaries had not utilized any of the aforementioned tax benefits. The Company's board of directors has determined that the Company will not distribute any amounts of its undistributed tax exempt income as dividend. The Company intends to reinvest its tax-exempt income and not to distribute such income as a dividend. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Approved Enterprise program as the undistributed tax exempt income is essentially permanent in duration.

If tax-exempt profits are distributed to shareholders they would be taxed at the corporate tax rate applicable to such profits

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

On April 1, 2005, an amendment to the Capital Investments Law came into effect ("the Amendment") and has significantly changed the provisions of the Capital Investments Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a privileged Enterprise, such as provisions generally requiring that at least 25% of the privileged Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Capital Investments Law so that companies no longer require Investment Center approval in order to qualify for tax benefits. Under the new law the tax liability are not to be transferred to the shareholders.

4. Net operating loss carryforwards:

The Company and its Israeli subsidiaries have accumulated losses for tax purposes as of December 31, 2006, in the amount of approximately \$229,000, which may be carried forward and offset against taxable income in the future for an indefinite period.

The Company's foreign subsidiaries have accumulated losses for tax purposes as of December 31, 2006, in the amount of approximately \$23,000.

(b) Income tax provision:

The Company's tax expense for the years 2005 and 2006 derives from GTD's taxable income.

(c) Deferred income taxes:

Significant components of the Company's and its subsidiaries' deferred tax liabilities and assets are as follows:

	December 31,	
	2005	2006
Operating loss carryforward	101,053	74,926
Reserves and allowances	3,419	(1,435)
Net deferred tax asset before valuation allowance	104,472	73,491
Valuation allowance	(104,472)	(73,491)
Net deferred tax asset	-	-

The Company and its subsidiaries have provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforwards and other differences. Management currently believes that since the Company and its subsidiaries have a history of losses it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary differences will not be realized in the foreseeable future.

(d) Reconciliation of the theoretical tax expense (benefit) to the actual tax expense (benefit):

In 2004, 2005 and 2006, the main reconciling item between the statutory tax rate of the Company and its subsidiaries and the effective tax rate (0%) is carryforward tax losses and other temporary difference for which a full valuation allowance was provided.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

17 Segments, customers and geographic information

(a) **General:**

The Company's reportable operating segments have been determined in accordance with the Company's internal management reporting structure, which is organized based on operating activities (see Note 1a for a brief description of the Company's business). The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The Company and its subsidiaries present their reportable operating segments in accordance with the requirements of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131").

The Company's reportable segments are as follows:

The "GSM and GPRS" segment focuses, in 2005 and 2006, on the business of trading in handsets through the Company's two UK based subsidiaries, Mobility Solutions Ltd. and Global Telecom Distribution plc. In the financial statements for 2004, this segment presented the activities of Innostream which were discontinued in 2005 and focused on development, manufacturing and marketing of handsets.

The "IPTV" segment focuses on providing Interactive protocol television ("IPTV") middleware for video on demand (VOD) and broadcast services. This segment is operated by the Company's subsidiary, Orca.

The "VOIP Conference call" segment focuses on the development and deployment of Video over-IP Conferencing Solutions. This segment is operated by the Company's subsidiary, EVC.

The "Corporate and other" segment focuses primarily on revenues the Company derived from IPO services it rendered to other companies and capital gains and losses from its investments, including other-than-temporary impairment losses.

In the financial statements for 2004 and 2005, the "Transcoding" segment presented the activities of the Company's subsidiary of Adamind which were discontinued in 2006, and focused on content adaptation for wireless operations. See also Note 1c.(4).

(b) **The following is information about operational segment gains, losses and assets:**

	GSM and GPRS	IPTV	VOIP Conference call	Corporate and other	Total consolidated
Year ended December 31, 2006:					
Revenues from external customers	343,155	3,251	6,575	(1,452)	351,529
Depreciation and amortization	953	282	551	-	1,786
Segment operating income (loss)	(24,213)	(6,212)	(5,315)	(9,278)	(45,018)
Segment assets as of December 31, 2006 ¹	23,349	23,038	12,362	190,914	249,663

(1) Including intangible assets and goodwill.

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

17 Segments, customers and geographic information (continued)

	GSM and GPRS	IPTV	VOIP Conference call	Corporate and other	Total consolidated
Year ended December 31, 2005:					
Revenues from external customers	109,259	5,325	4,532	6,882	125,998
Depreciation and amortization	221	289	219	352	1,081
Adjustment of restructuring charges	–	–	–	(720)	(720)
Segment operating income (loss)	(7,944)	(3,804)	(891)	2,348	(10,291)
Segment assets as of December 31, 2005 ¹	33,927	25,933	7,700	223,160	290,720 ²
	GSM and GPRS	IPTV	Corporate and other	Total consolidated	
Year ended December 31, 2004:					
Revenues from external customers		–	4,273	13,782	18,055
Depreciation amortization and write off of in-process research and development		–	(382)	(2,111)	(2,493)
Restructuring, other charges and impairment of property and equipment		–	–	(6,338)	(6,338)
Segment operating loss		–	(2,775)	(11,306)	(14,081)
Segment assets as of December 31, 2004 ¹		–	28,467	321,816	350,283 ²

(1) Including intangible assets and goodwill.

(2) Including unallocated financial assets and assets of discontinued operations.

(c) **Summary information about geographic areas:**

The following table presents revenues according to end customers' location for the years ended December 31, 2004, 2005 and 2006, and long-lived assets, as of December 31, 2004, 2005 and 2006:

	2004		2005		2006	
	Revenues	Long-lived assets	Revenues	Long-lived assets	Revenues	Long-lived assets
Europe	3,352	–	113,636	1,791	347,037	3,526
The Far East	3,666	–	1,250	–	3,375	–
North America	53	–	4,466	–	4,149	–
Israel	10,984	3,315	6,646	4,749	(3,032)	5,115
	18,055	3,315	125,998	6,540	351,529	8,641

(d) **Revenues from major customers:**

	Year ended December 31,		
	2004	2005	2006
GSM and GPRS:			
Customer A	–	19%	12%
Customer B	–	16%	23%
Customer C	–	–	20%
Customer D	–	–	10%

Notes to the Consolidated Financial Statements

U.S. dollars in thousands

18 Financial income (expenses), net

	Year ended December 31,		
	2004	2005	2006
Financial income:			
Interest, net	10,091	8,890	8,731
Income from related party debt (see Note 2j)	–	2,000	214
Net gain on sales of long-term marketable securities	1,267	140	–
Foreign currency translation differences, net	28	76	303
	<u>11,386</u>	<u>11,106</u>	<u>9,248</u>
Financial expenses:			
Bank charges	(216)	(297)	(1,403)
Net loss on sales of long-term marketable securities	–	–	(1,364)
Amortization of marketable debt securities premiums and accretion of discounts, net	(1,669)	(612)	(556)
	<u>(1,885)</u>	<u>(909)</u>	<u>(3,323)</u>
	<u>9,501</u>	<u>10,197</u>	<u>5,925</u>

19 Subsequent events

On March 30, 2007 the Company exercised its right (which was granted on February 2007) to purchase from President and a director of Formula 325,000 ordinary shares of Formula Systems (1985) Ltd. for a purchase price of \$16.00 per share.

On March 30, 2007 Emblaze completed a special tender offer for the purchase of 695,780 Ordinary shares of Formula, constituting approximately 5.3% of the issued and outstanding share capital of Formula, at a price per share of \$13.30.

As a result of the above, Emblaze's holding in Formula as of March 30, 2007 increased to 50.1%.

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