

Ki-Bi Mobile Technologies Ltd.

Consolidated Financial Statements

as of 31 December 2005

Consolidated Financial Statements

AS OF 31 DECEMBER 2005

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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

Ki-Bi announces its results for the year ended 31 December 2006. Revenues increased by 16 per cent. to \$913,000 in 2005 compared with the previous year (\$787,000), while operating loss rose to \$4.8 million (2004: \$1.6 million). At 31 December 2006, Ki-Bi had net cash, cash equivalents and available-for-sale marketable securities amounting to \$12.4 million.

2005 was a mixed year for Ki-Bi. It raised £8.9 million (net of expenses) through a share placing and admission to the AIM market of the London Stock Exchange in May 2005. With this the Company was able to invest in marketing and sales and R&D to increase market penetration with next generation Ki-Bi cards. Ki-Bi signed significant agreements with network operators and retailers throughout the globe. However, these agreements only saw a small number of cards being ordered and did not translate into large orders.

On 4 January 2006, the shareholders of Ki-Bi terminated the appointment of Dr Ingo Pothoff as a director and appointed David Leichner, Naamit Salomon, Tal Barnoach, Eli Reifman and Guy Bernstein to its Board, in addition to Shimon Laor and Dr. Hans Wagner, the chairman. At that time, Ehud Levy, Eli Gendler, Rob Genesier and Zippi Dekel were also directors but have since ceased to serve as directors. During February 2006, Emblaze increased its shareholding in the Company to 29.95 per cent. of the existing Ordinary Shares by acquiring 5 per cent. through a special tender offer. On 30 May 2006, Eli Reifman resigned as a director of the Company.

Following the Company's announcement during February 2006 of its intention to effect a reorganisation in the Company's business, the Directors have considered the future strategy of the Company, taking into account the reorganisation, with a view to providing an appropriate return on investment to Shareholders and the Company scaled down its historic business, including terminating the employment of a vast majority of its employees and effecting a significant reduction in the Company's activities. As part of this reorganisation, the Company has engaged two third parties (and may engage other third parties in the future) for the purpose of facilitating the sale by the Company of the Company's inventory of acoustic cards and/or intellectual property or alternatively granting to third parties exclusive rights to use and/or distribute the Company's intellectual property.

The Company intends to fulfil its existing trading contracts relating to the cards business until February 2007 and to dispose of the existing inventory, either by training suitable personnel or by engaging the services of a third party.

The Board of Ki-Bi also announces today that it has entered into a conditional agreement to acquire the entire issued share capital of Emblaze V CON for a consideration of such number of Ordinary Shares that will constitute 60 per cent. of the enlarged issued share capital of the Company following completion of the acquisition. As at 30 May 2006 (being the most recent practicable date prior to the publication of this document), the closing mid-market price of an Ordinary Share was 35.5 pence, valuing Emblaze V CON at approximately £7.24 million and the Company at approximately £10.86 million. There is no cash consideration to be paid as part of the terms of the Acquisition. Further details about Emblaze V CON are set out in the separate announcement and the AIM Admission document being sent to shareholders later today.

In conjunction with the acquisition of Emblaze V CON, the Company proposes to change its name to Zone-IP Ltd.

An annual general meeting of the Company will be convened to be held on 12 July 2006 to approve the necessary resolutions, inter alia, to effect the acquisition and the change of name.

Yours faithfully

Dr. Hans Wagner

Chairman

31 May 2006

Board of Directors

Dr Hans Wagner – Independent Chairman

Dr. Wagner (75) has been Chairman of the Company since its admission to AIM in May 2005. He has served as deputy chairman of M-Systems since November 2002. Since 2003 Dr Wagner has been chairman of Bamboo Multicasting, an Israeli company in the area of Mobile Infrastructure-Media equipment and in April 2006 became chairman of Eyesquad GmbH, a German company in the area of optical improvement of cameras for mobile phones. Dr. Wagner was senior partner of Omega Partners Ltd., a telecommunications consultancy firm, of which he was a founder in 1977. Dr. Wagner also founded and serves as vice chairman of Ozone Ltd., a manufacturer of ozone generators founded in 1996, and was chairman and founder of Pelikon Ltd., a developer and manufacturer of electro-luminescent displays. From 1995 to 2000, Dr. Wagner served as a strategic adviser to the management of Ericsson Mobile. From 1984 to 1992, Dr. Wagner was a founder and served as chairman of Technophone, a mobile telephone manufacturer which was the worldwide number three in sales prior to its acquisition by Nokia in 1991. From 1973 to 1977, Dr. Wagner served as the assistant secretary general of the UNDP. From 1969 to 1973, Dr. Wagner served as the chief executive officer of SONAB AB, then Sweden's second largest communication equipment manufacturer. From 1963 to 1969, Dr. Wagner served as the chief operating officer of Incentive AB, then Sweden's largest technical conglomerate.

Shimon Laor – Non-Executive Director

Mr. Laor (39) will be Finance Director with effect from Admission of the Company and will devote not less than four days per month to his duties as such. He served as the Chief Financial Officer of Emblaze until August 2000. 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 director of Orca Interactive Ltd. and Visual Defence Inc., partly-owned subsidiaries of Emblaze. Prior to joining Emblaze in August 1995, he was an economist at the Head Office Foreign Currency Division of the First International Bank of Israel.

David Leichner – Independent Non-Executive Director

Mr. Leichner (43) is chief marketing officer at Telrad Networks, a leading provider of products and solutions for the implementation of next generation networks. At Telrad, David is responsible for developing and executing the company's marketing and product strategy. Prior to Telrad, David was a vice-president of marketing at Unipier Ltd., a provider of service delivery solutions to the mobile telecoms industry. Mr. Leichner joined Unipier Ltd. from Magic Software Enterprises Ltd. (NASDAQ: MGIC), where he was vice president of Worldwide Marketing from 1998 to 2004. Prior to Magic, Mr. Leichner held various international marketing management and technical positions at Emultek, Information Builders, Bezeq Communications, TRW Space and Defense Systems and Salomon Brothers. Mr. Leichner holds a BA in Computer Science and a MBA in International Business, from the City University of New York.

Naamit Salomon – Independent Non-Executive Director

Ms. Salomon (42) has been the vice president, Finance of Formula Systems Ltd. since August 1997. Ms. Salomon also serves as a director of Magic Software Enterprises Ltd., Sapiens International and BluePhoenix Solutions Ltd. From 1990 to August 1997, Ms. Salomon was a controller of two large, privately held companies in the Formula Group. Ms. Salomon holds a BA degree in economics and business administration from Ben Gurion University and an LL.M. degree from the Bar-Ilan University.

Tal Barnoach – Independent Non-Executive Director

Mr. Barnoach (42) is an expert in the areas of enterprise software and the Internet. Since 1994 Mr. Barnoach has served as chief executive officer & chairman of S.E.A Multimedia and led that company's IPO in London in 1996. In 1999, Mr. Barnoach was appointed chairman of Orca Interactive Ltd., a public company traded on AIM since October 2004. From 2000 and until 2003, Mr. Barnoach was the chairman of Icognito and Dotomi. In 2002 he cofounded BeInSync, a company that developed a secure peer to peer synchronisation solution and he is serving as the chief executive officer of that company. Mr. Barnoach holds a BA in economics from the University of Tel-Aviv.

Guy Bernstein – Non-Executive Director

Mr. Bernstein (38) was appointed chief financial officer of Emblaze in April 2004. Prior to joining Emblaze Ltd., Mr. Bernstein served as chief financial and operations officer of Magic Software Enterprises (NASDAQ: MGIC) ("Magic"), a position he had 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 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.

Corporate Governance

The Financial Reporting Council published its new Combined Code in July 2003, which was implemented on 1 November 2003. It incorporated the major recommendations of the Higgs review and also of Sir Robert Smith's review of audit committees. It also repeated the requirements to comply with the Directors Remuneration Report Regulations and the Internal Control guidance of the Turnbull Report. The new Combined Code of July 2003 (the "Code") supersedes and replaces the Combined Code issued by the Hampel Committee in June 1998.

The Code's overall aim is to "enhance Board effectiveness and to improve investor confidence by raising standards of corporate governance."

Incorporated in Israel, Ki-Bi Mobile Technologies Ltd. is listed on the AIM Market of the London Stock Exchange and the Board of directors of Ki-Bi (the "Board") has therefore decided, as a matter of best corporate practice, that the Company should seek to comply with the main provisions of the Code, insofar as possible and appropriate given the Company's size, the constitution of the Board and taking into account the Corporate Governance Guidelines on AIM companies published by the Quoted Companies Alliance in July 2005

The Board

During the year ended December 2005, the Board comprised the following:

Dr. Hans Wagner, the independent non-executive Chairman

Ehud Levy, the Chief Executive Officer

Eli Gendler, the Chief Financial Officer

Shimon Laor, a non-executive director

Dr. Ingo Potthof, a non-executive director

Zippora Dekel, an independent non-executive director

W. Robert Genieser, an independent non-executive director

Following the Extraordinary General Meeting of the shareholders held on January 4, 2006, Dr. Ingo Potthof left the Board and the following persons joined the Board:

David Neil Leichner, an independent non-executive director

Naamit Salomon, an independent non-executive director

Eli Reifman, a non-executive director

Guy Shimon Bernstein, a non-executive director

Tal Barnoach, an independent non-executive director

During February, 2006, Ehud Levy, Eli Gendler, Zippora Dekel, W. Robert Genieser all resigned from the Board.

On 30 May 2006, Eli Reifman resigned as a director of the Company.

During the year ended December 2005, the Board consisted of a non-executive Chairman, a Chief Executive Officer, a Chief Financial Officer and four non-executive directors, two of whom, Zippora Dekel and W. Robert Genieser, are external directors.

As of the date hereof, the Board consists of a non-executive Chairman, two non-executive directors and three independent non-executive directors, two of whom, Naamit Salomon and David Neil Leichner, are external directors.

The Chairman, Dr. Hans Wagner, is acting as a non-executive Chairman and he does not receive any remuneration, which illustrates his independence.

The Chairman and Chief Executive Officer (until his departure from the Board in February, 2006) were appointed separately and there has existed a clear distinction between their respective responsibilities.

Corporate Governance

CONTINUED

Shimon Laor, Eli Reifman (until his departure from the Board in May 2006), Guy Shimon Bernstein and Dr. Ingo Pottthof (until his departure from the Board in January 2006) are appointees of significant shareholders of the company and they would therefore not be deemed to be independent. The Board believes that the relationship these directors have with certain shareholders does not affect their independence and considers the integrity and independence of character of these directors to be beyond doubt. In addition, their experience and understanding of the cellular market enables them to provide a valuable and unique contribution to the Board. The directors have a range of international business, technological and financial expertise, which together with the frequent meetings, ensure appropriate discharge of their functions in relation to the development and achievement of strategic objectives.

The Chairman and non-executive directors have service contracts with the Company. Details of their respective terms are set out in the Report on Directors' Remuneration.

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 information on the performance and progress of the Company since the last Board meeting as well as background material related to the issues for discussion at the meeting itself.

There is in place a procedure under which the directors, in furtherance of their duties, are able to take professional advice, if necessary, at the Company's expense.

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 an additional three-year period. Zippora Dekel and W. Robert Genieser were appointed as the External Directors at the Extraordinary General Meeting held on April 21, 2005 until the conclusion of the Annual General Meeting to be held in 2008, but both resigned from the Board in February, 2006. Naamit Salomon and David Neil Leichner, were appointed as External Directors at the Extraordinary General Meeting held on January 4, 2006 until the conclusion of the Annual General Meeting to be held in 2009.

Except for the External Directors, directors are subject to re-election at every Annual General Meeting.

Board Committees

The Board has established Audit, Remuneration and Nomination Committees. The duties of these committees are set out clearly in formal terms of reference, which are available for inspection upon request.

Audit Committee

During the year ended December 2005, the Audit Committee was chaired by Zippora Dekel. The other members were Shimon Laor and W. Robert Genieser. On 5 April, 2006, the Board appointed Naamit Solomon and David Leichner to serve on the Audit Committee, with Naamit Solomon as the chairperson. On May 16, 2006 the Board appointed the third member of the Audit Committee, Tal Barnoach, as required by Israel law. Under 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. The Audit Committee also reviews the Company's internal control and risk management as well as the company's cash investment policy.

The Company's Chairman and Chief Financial Officer may attend meetings 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 has met on numerous occasions during 2005 to monitor the Company's activities and assist the Company into moving into its new status as a publicly traded Company. The Board has undertaken to appoint an internal auditor to allocate some of the supervision after the IPO.

Corporate Governance

CONTINUED

Remuneration Committee

During the year ended December 2005, the Remuneration Committee was chaired by Dr. Hans Wagner and the other members were Zippora Dekel and W. Robert Genieser. On 5 April, 2006, the Board appointed Dr. Hans Wagner, Naamit Solomon and David Leichner to serve on the Remuneration Committee, with Dr. Hans Wagner as the chairman.

The Remuneration Committee approves the remuneration of all senior executives in the Company 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, but the non-executive directors do not participate in Board discussions or vote on matters relating to their own fees.

Nomination Committee

The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. During the year ended December 2005, the Nomination Committee was chaired by Dr. Ingo Potthof and its other members were Zippora Dekel and W. Robert Genieser. On 5 April, 2006, the Board appointed Dr. Hans Wagner, David Leichner and Shimon Laor to serve on the Nomination Committee, with Dr. Hans Wagner as the chairman. On 30 May 2006, Guy Bernstein was appointed to serve on the Nomination Committee and Shimon Laor stepped down. The Nomination Committee leads the process for Board appointments and makes recommendations to the Board.

Relations with shareholders

The Company welcomes dialogue with its shareholders and communicates with them through its interim and annual reports.

At the Annual General Meeting, shareholders can raise questions with the directors. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration. Resolutions include the approval of the annual report and accounts. Proxy votes are announced after each resolution has been dealt with by a show of hands.

Notice of the Annual General Meeting and related documentation are sent to shareholders at least 35 days in advance.

Independent Auditors' Report

to the shareholders of Ki-Bi Mobile Technologies Ltd.



We have audited the accompanying consolidated balance sheets of Ki-Bi Mobile Technologies Ltd. ("the Company") as of 31 December 2005 and 2004 and the related consolidated statements of operations, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 give a true and fair view of the consolidated financial position of the Company as of 31 December 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Kost Forer Gabbay & Kasierer

A Member of Ernst & Young Global

Tel-Aviv, Israel

31 May 2006

Consolidated Balance Sheets

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

	2004	31 December 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	132	3,899
Short term available-for-sale marketable securities (Note 3)	–	2,035
Trade receivables	–	469
Other accounts receivable and prepaid expenses (Note 4)	54	102
Inventories	265	295
Total current assets	451	6,800
LONG-TERM AVAILABLE-FOR-SALE MARKETABLE SECURITIES (Note 5)	–	6,438
PROPERTY AND EQUIPMENT, NET (Note 6)	183	272
Total assets	634	13,510
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	3	53
Trade payables	244	592
Deferred revenues	–	125
Other accounts payable and accrued expenses (Note 7)	363	231
Total current liabilities	611	1,001
EQUITY: (Note 9)		
Share capital –		
Series A Convertible Preferred shares of NIS 0.01 par value –		
Authorized: 1,740,784 and 0 shares at 31 December 2004 and 2005,		
respectively; Issued and outstanding: 2,611,176 and 0 shares at		
31 December 2004 and 2005, respectively		
	4	–
Series A-1 Preferred shares of NIS 0.01 par value –		
Authorized: 528,050 and 0 shares at 31 December 2004 and 2005;		
Issued and outstanding: 520,576 and 0 shares at 31 December 2004		
and 2005, respectively		
	1	–
Series B Convertible Preferred shares of NIS 0.01 par value –		
Authorized: 1,006,926 and 0 shares at 31 December 2004 and 2005,		
respectively; Issued and outstanding: 606,414 and 0 shares at		
31 December 2004 and 2005, respectively		
	1	–
Ordinary shares of NIS 0.01 par value – Authorized: 6,724,238		
and 30,000,000 shares at 31 December 2004 and 2005, respectively;		
Issued and outstanding: 3,025,281 and 20,395,101 shares at		
31 December 2004 and 2005, respectively		
	4	43
Additional paid-in capital	2,395	20,218
Net unrealized loss reserve	–	(18)
Accumulated deficit	(2,382)	(7,734)
Total equity	23	12,509
Total liabilities and equity	634	13,510

31 May 2006

Date of approval of the financial statements

Guy Bernstein

Director

The notes on pages 12 to 20 are an integral part of the consolidated financial statements.

Consolidated Statements of Operations

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

	Year ended 31 December	
	2004	2005
Revenues (Note 11)	787	913
Cost of revenues (Including write down of inventory in the amount of \$805 in 2005)	741	1,614
Gross profit/(loss)	46	(701)
Operating expenses:		
Research and development (Note 12a)	668	1,642
Sales and marketing (Note 12b)	461	1,727
General and administrative (Note 12c)	436	768
Total operating expenses	1,565	4,137
Operating loss	(1,519)	(4,838)
Financial income	15	286
Financial expenses	-	(800)
Net loss	(1,504)	(5,352)
Basic and diluted net loss per share	\$(0.50)	\$(0.43)
Weighted average number of shares used in computing basic and diluted loss per share	3,025,281	12,433,930

The notes on pages 12 to 20 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

	Share capital	Additional paid-in capital	Net unrealized loss reserve	Accumulated deficit	Total	Total recognized expenses
Balance as of 1 January 2004	8	1,505	–	(878)	635	
Issuance of Preferred B shares, net**	1	540	–	–	541	
Issuance of Preferred A-1 shares	1	350	–	–	351	
Net loss	–	–	–	(1,504)	(1,504)	(1,504)
Balance as of 31 December 2004	10	2,395	–	(2,382)	23	(1,504)
Issuance of Preferred A-1 shares*	–	97	–	–	97	
Exercise of warrants to Preferred B shares	1	811	–	–	812	
Issuance of Preferred C shares, net of issuance expenses	1	491	–	–	492	
Share based compensation related to options issued to employees	–	15	–	–	15	
Bonus shares effected as share split	8	(8)	–	–	–	
Issuance of Ordinary shares, net of issuance expenses**	23	16,417	–	–	16,440	
Net losses on available-for-sale financial assets	–	–	(18)	–	(18)	(18)
Net loss	–	–	–	(5,352)	(5,352)	(5,352)
Balance as of 31 December 2005	43	20,218	(18)	(7,734)	12,509	(5,370)

*Represents an amount less than \$ 1.

**Net of issuance expenses of \$ 11 and \$ 2,452 in 2004 and 2005, respectively.

The notes on pages 12 to 20 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

	Year ended 31 December	
	2004	2005
Cash flows from operating activities:		
Net loss	(1,504)	(5,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	32	44
Share-based compensation	–	15
Decrease/(increase) in trade receivables, other accounts receivable and prepaid expenses	110	(517)
Increase in inventories	(209)	(30)
Increase in trade and other accounts payable and accrued expenses	417	215
Increase in deferred revenues	–	125
Net cash used in operating activities	(1,154)	(5,500)
Cash flows from investing activities:		
Investment in short-term available-for-sale marketable securities	–	(2,039)
Investment in long-term available-for-sale marketable securities	–	(6,452)
Purchase of property and equipment, net	(99)	(133)
Net cash used in investing activities	(99)	(8,624)
Cash flows from financing activities:		
Short-term bank credit, net	(19)	50
Proceeds from issuance of shares and warrants, net	892	17,841
Net cash provided by financing activities	873	17,891
Increase/(decrease) in cash and cash equivalents	(380)	3,767
Cash and cash equivalents at the beginning of the period	512	132
Cash and cash equivalents at the end of the period	132	3,899
Supplemental disclosure of cash flows activities:		
Cash received during the year for:		
Interest	15	286

The notes on pages 12 to 20 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

1 General

Ki-Bi Mobile Technologies Ltd. ("the Company") was incorporated on 29 August 2002 in Israel. The Company is a developer and manufacturer of applications and technologies related to mobile data and content distribution. The focus of the Company is on hardware and software solutions and services and applications for the mobile content market.

In May 2005, the Company's Ordinary shares were admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange. Concurrently the Company completed an Initial Public Offering ("IPO") and issued 10,204,076 Ordinary shares to institutional and other investors at a price of £ 0.98 per share, raising \$ 18,892 (before issuance expenses of \$ 2,452).

In April 2006, the Company's Board of Directors decided to scale down the current Kibi cards operations. As part of the decision, the employment of 17 employees including the Company's CEO and CFO was terminated.

2 Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), a historical cost bases.

The significant accounting policies applied in the financial statements, on a consistent basis, are as follows:

(a) Functional and presentation currency

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

Transactions in non-U.S. dollar currencies are translated into U.S. dollars at the exchange rate at the transaction date. Monetary assets and liabilities in non-U.S. dollar currencies are translated into U.S. dollars at the exchange rate on balance sheet date. All translation differences are recorded in financial expenses.

Data regarding exchange rates of new Israeli shekel ("NIS") and the Great British Pound ("GBP) in relation to U.S. dollar are as follows:

As of	Exchange rate of one U.S. dollar to NIS	Exchange rate of one U.S. dollar to GBP
31 December 2005	NIS 4.603	GBP 0.581
31 December 2004	NIS 4.308	GBP 0.562

(b) Principles of consolidation

In June 2005, the Company established a wholly-owned subsidiary in the U.K., Ki-Bi Mobile Technologies (UK) Ltd. This subsidiary is engaged in the marketing of the Company's products.

In December 2005, the Company established a wholly-owned subsidiary in the Hong Kong, Ki-Bi Mobile Technologies (HK) Limited. This subsidiary is inactive.

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

(c) Cash equivalents

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

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

2 Significant Accounting Policies (continued)

(d) **Marketable securities**

The Company accounts for investments in debt securities in accordance with International Accounting Standard No. 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). Management determines the appropriate classification of its investments in marketable debt securities at the time of purchase. Debt securities that are designated as available-for-sale are stated at fair value, with unrealized gains and losses reported as a separate component of equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the statement of operations. The fair value of marketable securities is determined by reference to quoted market prices on balance sheet date.

(e) **Trade receivables**

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

(f) **Inventories**

Inventories consist of components and are stated at the lower of cost or net realizable value. Cost is determined based on specific identification. In 2004 and 2005, the Company wrote down inventories in the amount of nil and \$ 805, respectively, which is included in cost of revenues.

(g) **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 at the following annual rates:

	Per cent.
Computers and peripheral equipment	25-33
Office furniture and equipment	6-15
Leasehold improvements	Over the term of the lease

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the higher of the net selling price and value in use. As of 31 December 2004 and 2005, no impairment losses have been identified.

(h) **Revenue recognition**

The Company generates revenues mainly from the sales of its product. The Company also generates revenues from application development and from revenue sharing from over the air downloads.

Revenues from product sales are recognized to the extent that it is probable that the economic benefits will flow to the company and the revenues can be reliably measured.

In cases where the Company has granted a right of return to its customers or there is no assurance as to collectibility, revenue is recognized upon collection.

Revenues from application development services are recognized when performed.

Income from revenue sharing is recognized based on actual usage.

Deferred revenue includes unearned amounts received from customers but not recognized as revenues.

Revenue from interest is recognised as accrues.

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

2 Significant Accounting Policies (continued)

(i) **Research and development**

Research and development costs are charged to operations as incurred.

(j) **Income taxes**

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

(k) **Basic and diluted net loss per share**

Basic net loss per share has been computed using the weighted average number of Ordinary shares outstanding during each year. Diluted net loss per share is computed based on the weighted average number of Ordinary shares outstanding during each period, plus the effect of potential Ordinary shares considered outstanding during the period, except if the effect of such potential Ordinary shares is anti-dilutive.

(l) **Fair value of financial instruments**

The carrying amounts of cash and cash equivalents, short-term bank credit, trade and other accounts receivable, and trade and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

The fair value of short and Long-term marketable securities with quoted market prices is based on quoted market prices (see note 3 and note 5).

(m) **Concentrations of credit risk**

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

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

Trade receivables are mainly derived from sales to customers primarily located in the United Kingdom and in the USA. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses.

The Company's marketable securities include mainly investments in debentures of corporations. Management believes that these corporations are financially sound and the portfolio is well diversified, and accordingly, minimal credit risk exists with respect to these marketable debt securities.

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

2 Significant Accounting Policies (continued)

(n) Share-based payment transactions

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

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

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

The effect of the initial adoption of IFRS 2 on the year ended 31 December 2004 (retrospective application) was immaterial.

3 Short-term available-for-sale marketable securities

	Amortized cost	31 December 2005 Unrealized losses	Market value
Mature within one year:			
Corporate debentures	2,053	(18)	2,035

4 Other accounts receivable and prepaid expenses

	31 December	
	2004	2005
Government authorities	17	16
Interest receivable	–	51
Prepaid expenses and other	37	35
	54	102

5 Long-term available-for-sale marketable securities

	Amortized cost	31 December 2005 Unrealized losses	Market value
Mature after one year through three years:			
U.S. Government and Agency debt	400	(5)	395
Corporate debentures	419	(4)	415
Municipal debt	800	–	800
Foreign bonds	4,819	9	4,828
	6,438	–	6,438

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

6 Property and equipment

	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements	Total
Cost:				
Balance at January 1, 2004	106	16	6	128
Additions during the year	50	39	10	99
Balance at December 31, 2004	156	55	16	227
Additions during the year	122	11	–	133
Balance at December 31, 2005	278	66	16	360
Accumulated depreciation:				
Balance at January 1, 2004	11	1	–	12
Additions during the year	29	2	1	32
Balance at December 31, 2004	40	3	1	44
Additions during the year	38	4	2	44
Disposals during the year				
Balance at December 31, 2005	78	7	3	88
Depreciated cost at December 31, 2005	200	59	13	272
Depreciated cost at December 31, 2004	116	52	15	183

7 Other accounts payable and accrued expenses

	31 December	
	2004	2005
Employees and payroll accruals	125	212
Accrued expenses	238	19
	363	231

8 Commitments

Operating leases

The Company leases office facilities and motor vehicles under operating leases for periods of up to three years, terminating in 2008.

Future minimum commitments under non-cancellable operating lease agreements as of 31 December 2005 are as follows:

2006	97
2007	73
2008	46
	216

Total rental expense for the years ended 31 December 2004 and 2005, amounted to \$42 and \$41, respectively.

The motor vehicle lease expenses for the year ended 31 December 2004 and 2005 amounted to nil and \$26, respectively.

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

9 Equity

(a) Ordinary shares

In May 2005, the Company's Ordinary shares were admitted to trading on AIM, a market that is operated by the London Stock Exchange. Concurrently, the Company completed an initial public offering ("IPO") of its Ordinary shares. The Company issued 10,204,076 shares at a price of £ 0.98 per share, before underwriting discount and other issuance expenses. The net proceeds from the IPO amounted to \$16,440.

(b) Convertible Preferred shares

In July and September 2004, the Company effected a private placement and issued 606,414 Series B Convertible Preferred shares in consideration of \$ 552. In addition, the Company issued to the investors 632,784 warrants to purchase Convertible Preferred B shares, at an exercise price of \$ 0.91 per share. The warrants expire upon the earlier of an IPO or January 2015.

On 13 January 2005, the Company effected a private placement, and issued 412,087 Series C Convertible Preferred shares in consideration of \$ 492. In addition, the Company issued to the investors 271,192 warrants to purchase Convertible Preferred B shares, at an exercise price of \$ 0.91 per share. The warrants expire upon the earlier of an IPO or 15 May 2005.

In March and April 2005, prior to the IPO, 892,329 warrants to purchase Series B Convertible Preferred shares were exercised for a consideration of \$ 812.

In May 2005, all Preferred Convertible shares were converted into the Company's Ordinary shares at a ratio of one to one. In addition, all the authorized shares of the Company were converted into Ordinary shares.

(c) Bonus shares

In April 2005, subject to the consummation of the Company's IPO in May 2005, the Board of Directors resolved to issue to the shareholders of the Company one bonus share for each two issued and outstanding shares and to adjust the number of shares and exercise price underlying each outstanding share option accordingly.

All share capital data included in these financial statements for all periods presented have been retroactively adjusted to reflect the bonus share.

(d) In November 2003, one of the Company's investors signed an agreement with the Office of the Chief Scientist ("OCS") of the Ministry of Industry, Trade and Labor in Israel, according to which, the Company will issue to the OCS up to 792,075 Series A-1 Preferred shares for a total consideration of \$721. The number of shares to be issued is based on the qualifying research and development expenditures made by the Company over a two-year period ending in June 2005. During 2003 and until 2005, the Company received \$571 from the OCS, and issued 626,893 Preferred A-1 shares which were then converted with all of the outstanding Preferred A-1 shares into Ordinary shares at a ratio of one to one.

(e) Share options

In 2004, the Company implemented the 2004 Stock Option Plan ("the Plan"). Under the plan, 900,000 options to purchase Ordinary shares have been reserved for issuance. These options which may be granted to consultants, directors and employees will generally vest over a period of up to four years from the date of grant, and if not exercised, the options expire on the tenth anniversary of the date of grant. The exercise price of these options may be less than 100% of the fair value of the share at the date of grant. Any options which are cancelled or forfeited before expiration become available for future grants. The total amount of options available for future grants as of 31 December 2005, amounted to 262,500.

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

9 Equity (continued)

A summary of the Company's stock activity and related information is as follows:

	Year ended 31 December			
	2004			2005
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	–	–	447,000	\$0.09
Granted	447,000	\$0.09	306,000	\$0.86
Exercised	–	–	–	–
Cancelled or forfeited	–	–	(115,500)	\$1.11
Outstanding at the end of the year	447,000	\$0.09	637,500	\$0.27
Exercisable at the end of the year	26,250	\$0.05	114,721	\$0.11

The weighted average fair value of the options granted during 2005 was approximately \$ 0.14.

The fair value of the share options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

The following are the inputs to the model used for the year ended 31 December 2005: risk-free interest rates of 4.5%, dividend yield of 0%, a volatility factor of the expected market price of the Company's Ordinary shares of 62.63%; and a weighted average expected life of the option in the range of 5.25-6 years.

10 Income taxes

(a) **Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985**

Results for tax purposes in Israel are measured in terms of earnings in NIS after certain adjustments for increases in Israel's Consumer Price Index ("CPI").

(b) **Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Law")**

The Company's production facilities in Israel have been granted "Approved Enterprise" status for its investment program under the above Law. The main benefit arising from such status is the reduction in tax rates on income derived from "Approved Enterprises". The Company's income from the "Approved Enterprise" is tax-exempt for a period of two years commencing with the year it first earns taxable income and to a reduced tax rate of 10% to 25% for an additional period of five to eight years (depending on the level of foreign investment in the Company beginning from the year that the Company first has taxable income). As the Company has no taxable income, the benefits have not yet commenced.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from the approval date.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder 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 cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of 31 December 2005, the Company had not utilized any of the aforementioned tax benefits.

If tax-exempt profits are distributed to shareholders they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently 25% for an "Approved Enterprise".

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

10 Income taxes (continued)

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 1 April 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment 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 Beneficiary Enterprise, such as provisions generally requiring that at least 25% of the Beneficiary 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 Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits. However, the Investment Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval.

(c) **Net operating loss carryforward**

The Company has accumulated losses for tax purposes as of 31 December 2005, of approximately \$6,900. These losses may be carried forward and offset against taxable income in the future for an indefinite period.

Since management believes that it is not probable that the tax loss carryforward will be utilized in the foreseeable future, no deferred tax assets have been recorded in respect thereof.

(d) **Tax rates**

On 25 July 2005, the Knesset (Israeli Parliament) passed 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: 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26% and 2010 and thereafter – 25%.

11 Revenues by geographic areas and major customers

The Company manages its business on the basis of one reportable segment. The Company's operations are located primarily in Israel.

(a) **Revenues classified by geographical destinations based on the customer location**

	Year ended 31 December	
	2004	2005
United Kingdom	378	202
United States	75	145
Canada	–	420
Mexico	264	31
Other	70	115
	787	913

(b) **Information about major customers**

Customer A	42%	–
Customer B	34%	3%
Customer C	–	46%

Notes to the Consolidated Financial Statements

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE AND PER SHARE DATA)

12 Supplementary information to the statements of operations

(a) Research and development expenses

	Year ended 31 December	
	2004	2005
Salaries and related benefits	403	726
Subcontractors	160	449
Depreciation	22	19
Travel	29	82
Communication	29	138
Other expenses	25	228
	668	1,642

(b) Selling and marketing expenses

Salaries and related benefits	233	392
Depreciation	5	14
Travel and exhibitions	61	168
Subcontractors	39	745
Content	33	155
Other expenses	90	253
	461	1,727

(c) General and administrative expenses

Salaries and related benefits	201	427
Rent	58	17
Depreciation	5	11
Travel	10	84
Professional fees	46	124
Communication	62	24
Office expenses	24	35
Other expenses	30	46
	436	768

13 Subsequent events

In February 2006, the Company announced that it had entered into a conditional agreement to acquire Emblaze V CON Ltd for the issuance of 60% (post acquisition) of the shares of the Company.

The completion of the agreement is conditional upon the approval of Shareholders at the Annual General Meeting of the Company since due to the size of Emblaze V CON in relation to the size of the Company the acquisition will constitute a reverse takeover under the AIM Rules and therefore require the prior approval of the AGM.

Following this agreement with Emblaze V CON, in April 2006, the Board decided to cease the current Ki-Bi cards operations. As part of the decision, the employment of 17 employees including the Company's CEO and CFO was terminated.

