



Annual Report 2006

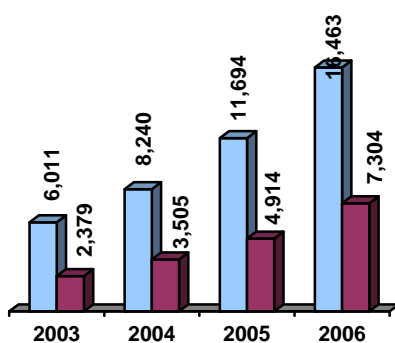


Company Overview

MTI is a developer and manufacturer of sophisticated antennas and antenna systems, including antennas that are sold for use in WiMAX compliant systems. The Company produces antennas ranging in frequency from 100KHz to 40GHz, for both military and commercial applications and has an international customer base. MTI's business has grown rapidly in recent years as wireless broadband technology has increasingly become an established global commodity. Over 80% of the Company's sales are in the fixed wireless communications market, predominantly for broadband systems. The Directors estimate that the Company has captured a 25% global market share in the FBWA antenna market largely, via a number of leading OEMs who are MTI's customers. The company decided to penetrate into the RFID readers' antenna market several years ago and in 2006 a lot of effort was spent in the development of antennas and business relations with Tier 1 customers. The Company is based in Israel and employs (as of 15th of February 2007) 77 employees.

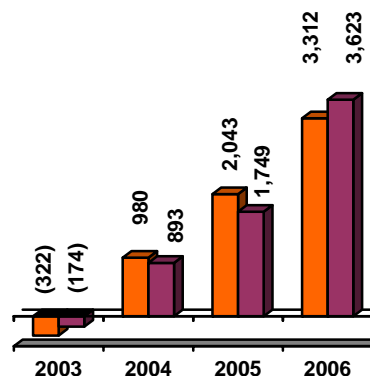
Revenue & Gross Profit 2003 – 2006
(US dollar in thousands)

- Revenue
- Gross Profit



Operating & Net Profit 2003 – 2006
(US dollar in thousands)

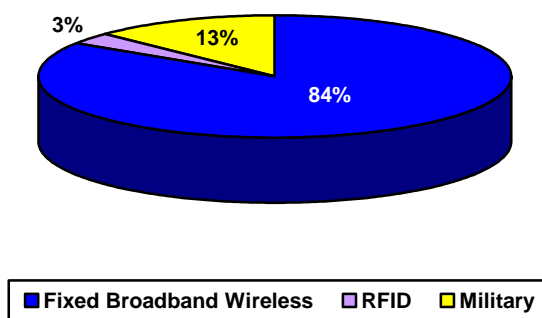
- Operating Profit (Loss)
- Net Profit (Loss)



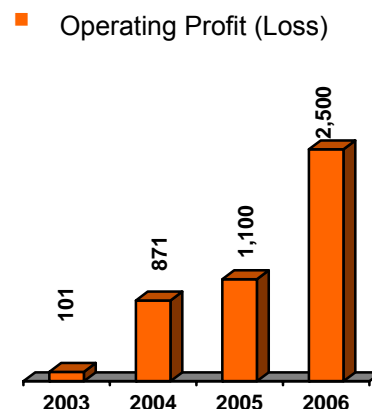
2006 Highlights

- Successful admission to AIM in March 2006, raising £7M gross (US \$12.2M), including £1M of replacement capital.
- 2006 revenue of \$16.5M, increase of 41% over 2005.
- Gross Profits of \$7.3M, increase of 49% over 2005.
- Profit before tax \$3.8M, increase of 100% over 2005.
- Net Profit of \$3.6M, representing EPS of 7.36c, increase of 100% and 33%, respectively over 2005.
- Net cash generated from continuing operations in 2006 reached \$2.5M; Net cash at the year end of \$13.2M equivalent to 12.5 pence per share;
- Dividend of 1.67 ¢ per share declared - total of \$900K
- Strengthened strategic partnership with Alvarion to keep 25% worldwide market share
- Strong initial penetration into the radio frequency identification ("RFID") readers market including the registration of a patent pending for near field antenna.

Revenue by segments – 2006



Operating Cash Flow 2003 – 2006
 (US dollar in thousands)



Chairman's letter to Shareholders

Dear Shareholders,

I'm pleased to report for the first time as the chairman of MTI Wireless Edge Ltd. on its successful results for the financial year ended 31st December 2006, achieving 16 continuous quarters of revenue and profit growth.

Since its foundation and subsequent acquisition by MTI Computers in 1994, the Company has undergone significant development and changes from a purely military antenna company to a largely commercial entity that is operating within one of the most exciting wireless markets – the fixed broadband wireless access ("FBWA"). Over the past few years, and particularly since 2003, the Company's focus on flat antenna technology has delivered continuous outstanding growth in both revenue and profits and has positioned the company as a highly reputable antenna manufacturer among leading vendors.

During 2006 a new board of directors of the company was elected as part of the public offering and I would like to take this opportunity and thank all board members, previous ones and current for their support and efforts during the past years.

The business enters 2007 in good health and with excellent opportunities for further growth.. Winning a large military project early into the first quarter, together with penetration to RFID customers provides us with a wider product offering for 2007, although the FBWA will continue to be dominant and it is our belief that this market should again provide us with material revenue prospects in due course.

The board has decided to distribute a dividend of 1.67 cents per share as we strongly believe it is in the interest of shareholders to receive a yearly yield on their investment, while the company is managing its growth not only in terms of profits but also in cash generation. The dividend will be payable on 15 March 2007 to shareholders on the register as at 2 March 2007.

I would like to thank all the employees for their hard work, dedication and creativity that had enabled the improvement in the business. I further would like to acknowledge with thanks the employees' families for their continued support.

Finally, on behalf of MTI Wireless Edge I would like to thank our shareholders for their confidence and continued support and we look forward to a long mutual beneficial association.

Zvi Borovitz
Chairman, Non Executive Director

Chief Executive's Review

On behalf of management, I am delighted to report revenue growth of 40% for the fourth consecutive year. 2006 revenues of \$16.5m were up 40%, and normalized PBT of \$3.8m up 100% on 2005. The final quarter of 2006 was the sixteenth consecutive period of quarter on quarter growth. MTI's successful IPO in March 2006 provided not only a stronger balance sheet with the consequent increased financial flexibility, but also strengthened the Company's standing with its partners and customers. Finally, we have been delighted by the interest and support we have received from the Company's new shareholders ahead of and since the IPO.

Crucial to MTI's success has been, and will continue to be, the hard work and dedication of its staff and their families' support. It is their commitment to maintaining and expanding the Company's leadership position that is propelling MTI forward at such a rate. I would like to thank them for their continuous contribution and their dedication to the company's success.

The Company remains focused on the growth of the business and on further developing its position as a leader in the antenna markets for fixed wireless communication. Having captured a significant market share of 25% in the fixed broadband wireless access, we have learned that in order to achieve solid and stable leadership positioning it is imperative to manage the growth of the company in each of its fields of activities.

Our strategy aims to deliver not only top-line growth, but comprehensive, cross-company, managed growth in terms of geography, technology, range of competences and customer base within our selected markets. We aim to strengthen the Company's leadership standing within its markets of operation, and maintain our position as a first choice partner for antennas. We were able to achieve these goals in 2006 by gaining some additional original equipment manufacturer ("OEM") customers as well as developing our distribution channels, which grew by approximately 70% over 2005. Our penetration into Europe, partly through our partnerships, continued to increase and our sales to this continent represented 22% of our revenues in 2006.

In the past year leading companies such as Sprint, Clearwire, Alcatel, Siemens Motorola and Intel have chosen Wimax as their solution for future wireless services and solutions for 4G. Although this is only a starting point for adoption of mobile Wimax, which is only in trials and will continue to be so in 2007, MTI is developing the base station antennas for such application to assure MTI enjoys this growth when it occurs.

Although RFID is only in its initial stages we believe in the potential of this market and have made some important steps to position the Company as a key antenna provider. We were able to penetrate Tier 1 customers, participate in the key trials and provide a full range of reader's antennas for portals, forklift and near field antennas. We foresee 2007 as a next step in key trials and plan to be involved to ensure that MTI is well positioned to enjoy success once this market enters the deployment stage.

Our military segment grew 32% in 2006. With the new naval contract win announced several weeks ago we enter 2007 with a significant backlog for military orders and hope to maintain this momentum and grow this segment by penetrating new markets and by utilizing new technologies.

Looking ahead, management is optimistic that the current positioning in fixed broadband wireless access and expansion into new markets such as RFID through this year, will deliver significant contribution to revenue and profit over the next 12 months.

We anticipate that establishing an operational set-up outside of Israel will result in a solid foundation for continual growth for years to come. As always, our pipeline orders reflect several weeks, but the forecast for the year is built from long term relationships with our leading customers and is based on their view of the market. The current pipeline comprises both military applications and commercial ones and includes expansion of MTI's activities with both existing and new customers, as well as of several wider-scale, innovative opportunities.

Dov Feiner
Chief Executive Officer

Our Board

Zvi Borovitz – Chairman
Non Executive Director
Age 68

Zvi founded MTI in the early 70's together with his late wife Aya. He has more the 40 years of experience in development and management of high tech companies. Zvi holds an MS in Electrical Engineering from Polytechnic Institute of Brooklyn.

Dov Feiner – Chief Executive
Executive Director
Age 51

Dov has planned and implemented the Company's entry into the commercial antenna market. Prior to joining the Company, Prior to joining MTI, Dov served for 12 years in the research and development division of the Israeli Defense Force. Dov holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University where he graduated with honors.

Moshe (Moni) Borovitz – Finance Director
Executive Director
Age 36

Moni, the son of Zvi Borovitz, is also Co-Chief Executive Officer of MTI Computers. He was a consultant with Ernst & Young's Israeli affiliate Kost Forer & Gabbay, a leading Israeli certified public accountancy firm. Moni is a certified public accountant with a B.A. in Computer Science from Tel Aviv University, and has an MBA from Ben Gurion University.

Hanna (Hani) Lerman

Non Executive Director

Age 34

Hani is the Chief Financial Officer of Storewiz, prior to that she served as the CFO of SunGard Business Integration Ltd., a subsidiary of SunGard Data Systems Inc., a global leader in software and processing solutions for financial services, and of Insider Online. Prior to that Hani managed the department of professional practice at KPMG Israel. Hani is a certified public accountant and holds a B.A. in Economics and Accounting, and an MBA majoring in Finance from Tel Aviv University.

Stewart Millman - Non Executive Director

Chairman of the Remuneration and Audit Committee

Age 58

Stewart has over 30 years' experience in finance and the financial markets. He was an institutional fund manager for 10 years and a corporate financier for 20 years, including managing director roles at Barclays de Zoete Wedd, NatWest Markets and HSBC Investment Bank. His corporate finance experience includes transactions involving major telecoms operators and various IT companies. Since 2002, he has been self-employed, is currently non-executive chairman of Patsystems plc, a company traded on AIM, and acts as an adviser to, and/or non-executive director of, various companies in the UK, Israel and elsewhere.

Frank Lewis

Non-executive Director

Age 61

Frank has over 25 years of experience in both listed and private companies. He has held a number of board positions as Chairman and non executive director both in the UK and internationally with growing, mid-market companies. He is currently a non executive director of a number of AIM listed companies including Teleset Networks Public Company Limited, a Cypriot holding company for a Russian telecommunication group, Formjet PLC, a distributor of alternative software products worldwide and Polymer Logistics NV, a provider of logistics solutions to retailers and suppliers. Frank is a fellow of the Institute of Chartered Accountants of England and Wales and a member of the South African Institute of Chartered Accountants.

Corporate Governance

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

The board is responsible for the Company's corporate governance policy, and recognize the importance of high standard of integrity, and consistently seeks to apply the principles set out in the Combined Code of on Corporate Governance (the "Code") to the extent they are appropriate for, and applicable to, a company of MTIs' size quoted on the Alternative Investment Market ("AIM").

Directors

Pursuant to the provisions of the Israeli Companies Law, the Company has nominated Stewart Millman and Hanna Lerman as external directors. As such their initial term of an external (independent) director is three years and this may be extended for one additional three-year term. The external (independent) director has to serve on the Audit committee and serves on the Remuneration committee. The rest of the board members are elected annually in the share holders meeting. Mr. Frank Lewis, an independent non executive director also serves in both committees.

All the directors have access to the advice and services of the Company Secretary and may, in furtherance of their duties, take independent legal and financial advice at the Company's expense. They also have access to the minutes of the Board, in which any concerns expressed by them regarding matters pertaining to the Company are recorded. While there is no formal process, the performance and effectiveness of each director, including the non-executive directors, is assessed on an on-going basis by the other members of the Board. All members of the board are free to bring any matter to the attention of the Board, at any time.

Board Meetings

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The board generally meets five times a year and at such other times as required, and receives regular reports on a wide area of key issues including operational performance, risk management and corporate strategy, budget and corporate actions etc and other areas which are either required by law or deemed relevant by the management.

Committees

The Audit Committee and the Remuneration Committee meet at least twice a year.

Audit Committee

The audit committee is chaired by Stewart Millman. The other members are Hanna Lerman and Frank Lewis. The external auditors, together with the financial director, are invited to attend these meetings as and when required.

In accordance with its terms of reference the principal function of this committee is to determine the appropriateness of accounting policies to be used in the Company's annual results. In addition the Committee is responsible for assessing the Company's audit arrangements and the Company's system of internal controls, and for reviewing the quarterly and annual results before publication. The responsibilities of the Audit Committee include all matters required to be covered by the Combined Code and the Israeli Companies Law.

The Israeli Companies Law requires the Company to have an internal auditor appointed by the Board. The internal auditor is responsible for examination of the Company's internal controls and reviewing their effectiveness and reports to the Audit Committee.

Remuneration Committee

The Remuneration Committee is chaired by Stewart Millman. The other members are Hanna Lerman and Frank Lewis. In accordance with its terms of reference the committee reviews the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The committee should also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme. The remuneration arrangements of the non-executive directors are determined by the Board as a whole and, in accordance with the Israeli Companies Law, approved in the Annual General Meeting of its Shareholders.

Relations with Shareholders

The Board welcomes the views of shareholders.

The Annual General Meeting (AGM) is used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's AGM in order to take advantage of the opportunity to ask questions of the directors.

Shareholders may also contact the Company in writing or via its website, which is regularly updated. Additional information is supplied through the circulation of the Quarterly Report and the Annual Report and Accounts. During the year the Company issued a series of announcements to the Stock Exchange. The Chief Executive, Finance Director and the Chairman from time to time meet individual and institutional shareholders and provide such information as is permissible in order to facilitate a better understanding of the Company's business and operations.

Internal Control

The Board of Directors has overall responsibility both for the Company's system of internal controls, which includes internal financial controls and for reviewing their effectiveness. The directors recognize that no system of internal control can provide absolute assurance. The Company's systems are designed to manage the risk of failure to achieve business objectives and therefore can only provide the directors with reasonable assurance against material misstatement or loss.

The key elements of the Company's internal control system, which have been operational since the Company's flotation in March 2006, are as follows:

Management Structure

The Board has overall responsibility for the Company and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive director has been given responsibility for specific aspects of the Company's affairs.

Monitoring Systems used by the Board

The Board receives regular reports on the financial and business performance of the Company. The Board is regularly advised through these reports on the financial performance relative to the Company's approved budget and update on the backlog and pipeline status.

Internal Audit

The Board has, in accordance with the Israeli Companies Law, appointed Mr. Meir Hershtein as its internal auditor.

Going Concern

The Directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement

Corporate Governance procedures are subject to regular review by the Board. Throughout the year the Company has complied with the provisions as set out in Section 1 of the Code, to the extent that they are appropriate for, and applicable to, a company of MTI's size quoted on AIM.

Report on Directors Remuneration

Remuneration Committee

The Remuneration Committee, which comprises all of, and only, only non-executive independent directors, determines Company remuneration (including bonuses and options) of executive directors.

Policy on Company Remuneration

The Company operates in the telecommunication industry. Accordingly, in setting remuneration, the board has to be mindful of competitive pressures from the market, and at the same time controlling its fixed cost base where a high proportion of the Company's expenses are staff related.

The Company maintains a balance between remaining market-competitive and ensuring that some element of total staff remuneration is related to the financial performance of the Company as a whole.

Policy on Senior Executive Remuneration

It remains the Company's policy to set the remuneration of senior executives (including executive directors) at a level to attract and retain executives of appropriate ability, experience and integrity to manage the affairs of the Company. In formulating its remuneration policy, the Remuneration Committee considers pay and employment conditions throughout the Company.

Director's Remuneration

Name	Total Company cost (including bonuses)	Shares held by each Director
Dov Feiner	\$207K	3,189,000
Moshe Borovitz*	\$149K **	210,000
Zvi Borovitz*	**	873,000
Hanna Lerman	£10,000	38,461
Frank Lewis	£10,000	38,461
Stewart Millman	£10,000	38,461

(*) Each of Zvi and Moshe Borovitz also has an interest in 25 per cent. of Mokirei Aya Ltd. which controls 39.20 per cent. of the issued share capital of MTI Computers (37.26 per cent. on a fully diluted basis), as of 31 December 2006, which has an interest in 47.7 per cent. of the issued share capital of the Company.

(**) Zvi and Moshe Borovitz are providing management services to the company through a company controlled by them (the "Management Company"). These management services will consist of the services of Mr. Zvi Borovitz who serves as a non-executive chairman of the Company and Mr. Moshe Borovitz who serves as the financial director of the Company. The total cost to the company for these services accumulated to \$ 149K in 2006.

Service Contracts

The Company has a service agreement with the Management Company as above, in respect of the services of Messrs Zvi and Msohe Borovitz. The initial term of this agreement is for a period of 2 years from the date of Admission and will be automatically renewed for successive 2 year periods, unless terminated earlier by either party on 90 days' advance written notice.

Dov Feiner has a service contract with a notice provision in excess of six months.

All Non Executive Director besides the Chairman are entitled for a fee of £10,000 per annum for the first year of appointment. In addition, on Admission to the AIM market the Company agreed to issue to each of them 38,461 Ordinary Shares, representing £15,000. In the second and any subsequent years of her appointment, each of these non executive directors shall be entitled to a fee of £20,000 per annum. All cash remuneration is paid quarterly.

These fees are 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 be reimbursed for reasonable out-of-pocket expenses in line with the policy applied to the Company's employees.

Financial Statements

M.T.I WIRELESS EDGE LTD.

Report and Financial Statements

Year Ended

December 31, 2006



Ziv & Haft.
Certified Public Accountants (Isr.)

M.T.I WIRELESS EDGE LTD.

(An Israeli Corporation)

FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT AUDITORS	3
FINANCIAL STATEMENTS:	
Income Statement	4
Statement of changes in equity	5
Balance sheet	6-7
Cash flow statement	8-9
Notes forming part of the financial statements	10-34

The amounts are stated in U.S. dollars (\$).

Report of the independent auditors

To the shareholders of M.T.I Wireless Edge Ltd.

Report on the financial statements

We have audited the accompanying financial statements of M.T.I Wireless Edge Ltd.(hereafter- "the company"), which comprise of the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 2006, and of its financial performance, its cash flows and its equity for the year then ended in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel February 18, 2007

Ziv Haft
Certified Public Accountants (Isr.)
BDO Member Firm

M.T.I Wireless Edge Ltd.**Income statement for the year ended December 31, 2006**

	Notes	Year ended December 31,	
		2006	2005
		\$'000	\$'000
Revenues	2, 5	16,463	11,694
Cost of sales		<u>9,159</u>	<u>6,780</u>
Gross profit		7,304	4,914
Research and development expenses		1,121	855
Distribution costs		1,783	1,237
General and administrative expenses, net		<u>1,088</u>	<u>779</u>
Profit from operations	3	3,312	2,043
Finance cost	6	102	355
Finance income	6	<u>574</u>	<u>191</u>
Profit before tax		3,784	1,879
Tax on profit from ordinary activities	7	<u>161</u>	<u>130</u>
Profit for the year		<u>3,623</u>	<u>1,749</u>
Earnings per share			
Basic (dollars per share)	8	<u>0.0736</u>	<u>0.0556</u>
Diluted (dollars per share)		<u>0.0708</u>	<u>0.0461</u>

The prior year number of shares was modified due to split of the Company's ordinary share in a ratio of 3,000 new shares for each 1 ordinary share, prior to the IPO in the AIM.

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

M.T.I Wireless Edge Ltd.

Statement of changes in equity for the year ended December 31, 2006

	Share capital	Additional paid in capital	Retained earnings	Total
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Balance at January 1, 2005	2	7,488	(1,375)	6,115
Changes in equity for 2005:				
Profit for the year	-	-	1,749	1,749
Surplus arising from options granted to employees	-	73	-	73
Balance at December 31, 2005	<u>2</u>	<u>7,561</u>	<u>374</u>	<u>7,937</u>
Changes in equity for 2006:				
Profit for the year	-	-	3,623	3,623
Issuance of share capital**	*	79	-	79
Share capital as a result of split	80	(80)	-	-
Additional capital raised in AIM listing ***	33	8,797	-	8,830
Dividend distributed	-	-	(2,000)	(2,000)
Balance at December 31, 2006	<u>115</u>	<u>16,357</u>	<u>1,997</u>	<u>18,469</u>

* Less than 1 thousands dollar.

** Excise of employees to shares, grant of options to directors and investors.

*** Net of issuance expenses in the amount of \$1,631 thousand.

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

M.T.I Wireless Edge Ltd.

Balance sheets

	Notes	As at December 31,		As at December 31,	
		2006	2006	2005	2005
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Non-current assets:					
Property, plant and equipment (PPE)	10	1,435		1,441	
Intangible assets	11	406		406	
Financial assets	12	32		26	
Deferred tax assets	22	69		51	
Total non-current assets			1,942		1,924
Current assets:					
Inventories	13	1,724		1,008	
Trade and other receivables	14	5,360		3,663	
Other financial assets	15	11,133		-	
Cash and cash equivalents	16	2,167		3,980	
Total current assets			20,384		8,651
LIABILITIES					
Current Liabilities:					
Trade and other payables	17	3,517		2,268	
Other financial liabilities	18	87		87	
Total current liabilities			3,604		2,355
Non-current liabilities:					
Financial liabilities	19	22		109	
Employee benefits	21	231		174	
Total Non-current liabilities			253		283
Total liabilities			3,857		2,638
TOTAL NET ASSETTS			18,469		7,937

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

M.T.I Wireless Edge Ltd.

Cash flow statement for the year ended December 31, 2006

	For the year ended December 31,		For the year ended December 31,	
	2006	2006	2005	2005
	\$'000	\$'000	\$'000	\$'000
Operating Activities:				
Net profit from ordinary activities	3,623		1,749	
Adjustments for:				
Compensation expenses resulting from options granted to employees	-		73	
Depreciation and amortization	281		272	
Gain from short-term investments	(340)		(58)	
Income tax expense	161		130	
Issuance of share capital	<u>79</u>		<u>-</u>	
Operating profit before changes in working capital and provisions		3,804		2,166
Decrease (increase) in inventories	(716)		309	
Increase in trade receivables	(1,749)		(1,178)	
Decrease (increase) in other accounts receivables for short and long term	43		(21)	
Increase (decrease) in trade payables	789		(128)	
Increase (decrease) in other accounts payables	283		(50)	
Severance pay, net	<u>57</u>		<u>12</u>	
		(1,293)		(1,056)
Cash generated from operations		2,511		1,110
Income taxes paid		<u>11</u>		<u>10</u>
Cash flows from operating activities carried forward		<u>2,500</u>		<u>1,100</u>

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

M.T.I Wireless Edge Ltd.

Cash flow statement for the year ended December 31, 2006 (Cont.)

	For the year ended		For the year ended	
	December 31,		December 31,	
	2006	2006	2005	2005
	\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities				
brought forward		2,500		1,100
Investing Activities:				
Sale (purchase) of short-term investment	(10,793)		2,095	
Purchase of PPE	<u>(263)</u>		<u>(112)</u>	
		(11,056)		1,983
Financing Activities:				
Dividend paid to shareholders equity	(2,000)		-	
Issue of ordinary shares	8,830		-	
Repayment of bank borrowing	<u>(87)</u>		<u>(87)</u>	
		<u>6,743</u>		<u>(87)</u>
Increase (decrease) in cash and cash				
equivalents		<u><u>(1,813)</u></u>		<u><u>2,996</u></u>

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

M.T.I Wireless Edge Ltd.

Notes forming part of the financial statements for the year ended December 31, 2006

The directors of the Company are responsible for the financial information set out below.

1 Accounting policies

General

M.T.I Wireless Edge Ltd. (hereafter - the Company) is an Israeli corporation. It was incorporated on December 30, 1998 as a wholly- owned subsidiary of M.T.I Computers & Software Services (1982) Ltd. (hereafter - the Parent Company) and commenced operations on July 1, 2000.

The Company is engaged in the development, design, manufacture and marketing of antennas.

Certain rental, operational and administrative services are provided from the Parent Company to the Company.

Definitions

In these financial information:

The Company	-	M.T.I Wireless Edge Ltd.
Related parties	-	As defined in IAS 24.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

1 Accounting policies (Cont.)

Revenue recognition

1. Revenues from services are recognized as follows:

In fixed fee contracts - according to International Accounting Standard No. 11 "Construction - Type Contracts pursuant to which revenues and costs are reported by the "percentage of completion" method.

The percentage of completion is determined by dividing actual completion costs by the anticipated completion costs.

In cases where a loss from a project is anticipated, a provision is made in the period in which it first becomes evident, for the entire loss anticipated until completion, as assessed by the Company's management.

2. Revenues from sales of products are recognized when delivery occurred, provided no significant vendor obligations remain.
3. Revenues from maintenance services are recognized based on the proportionate share of the maintenance services under the contract to be provided in each year of account.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalized as an intangible asset with any impairment in carrying value being charged to the income statement.

From the beginning of the 2005 financial year, the Company adopted the precepts of International Accounting Standard 38 and International Financial Reporting Standard 3. Previously, the Company was amortizing its goodwill over a 10 year period on the straight line basis. The new policy requires that goodwill be tested on an annual basis and written down when impaired.

In accordance with the transitional rules of IFRS3, the Company has applied the revised accounting policy prospectively from the beginning of its first annual period beginning on or after 31 March 2004, i.e. 1 January 2005. No amortization has been charged in the years 2005 and 2006.

1 Accounting policies (Cont.)

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on December 31. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of The Company's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognized in the statement of recognized income and expense. During the years 2006 and 2005 no impairment charges of non-financial assets were required.

Functional and reporting currency

The majority of the revenues of the Company are generated in U.S. dollars. In addition, a substantial portion of the Company's costs is incurred in U.S. dollars. The Company's management believe that the U.S. dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the U.S. dollar.

Foreign currency

Transactions entered into by the company in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognized immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

1 Accounting policies (Cont.)

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship (see below), the Company's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement. The Company does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and trade receivables, but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that The Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost, with changes through the income statement. As of December 31, 2006, no such assets are held by the Company.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise The Company's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement. As of December 31, 2006, no such assets are held by the Company.

1 Accounting policies (Cont.)

Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalized if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- The Company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalized development costs are amortized over the periods The Company expects to benefit from selling the products developed. The amortization expense is included within the cost of sales line in the income statement. Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred.

Development costs are recognized in the statement of income seeing as the Company does not meet the abovementioned conditions.

Deferred taxation

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortization is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where The Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilized.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax balances are not discounted.

1 Accounting policies (Cont.)

Taxes on income

Tax-exempt income derived from “approved enterprises” will be subject to tax in the event of distribution of dividends out of such income. Such additional tax has not been provided for in the financial information, since the current policy of the Company is not to distribute dividends incurring additional tax.

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognized within provisions. Depreciation is computed by the straight line method, based on the estimated useful lives of the assets, as follows:

	<u>Rate of depreciation</u>
Machinery and equipment	6 - 20 %
Leasehold improvements	15 %
Computers	10 - 33 %
Office furniture and equipment	6 - 15 %

Leasehold improvements are depreciated over the term of the lease including optional extension, or over the estimated useful lives of the improvements, whichever is shorter.

Cash and cash equivalents

Cash equivalents are considered by the Company to be highly-liquid investments, including, inter alia, short-term deposits with banks, the maturity of which did not exceed three months at the time of deposit and which are not restricted.

Estimates and Assumptions in the Financial information

The preparation of financial information in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial information and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

1 Accounting policies (Cont.)

Share options

From the beginning of the 2005 financial year, the Company adopted the precepts of International Financial Standard No. 2 which applies to its share option plan. This standard requires that the granting of options with a vesting period are to be expensed over the relevant vesting period:

In 2005 the amount expensed was \$72,363. In 2006 this had no impact to the income statement as all the options are fully vested.

In accordance with IFRS2, this standard was retroactively applied and the amounts in prior years have accordingly been restated.

Provision for warranty

Based on past experience, the Company does not record any provision for warranty of its products and services.

Transactions with controlling parties

Transactions with controlling shareholders are disclosed in conformity with the provisions of the International Accounting Standard 24 (related party disclosures and transactions).

Earnings per Share (EPS)

Earnings per Share is determined and presented in accordance with IAS 33.

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

1 Accounting policies (Cont.)

Segment reporting

The principal activities of The Company and its primary segments are:

- Antennas produced for commercial market.
- Antennas produced for the military market.

The secondary segments of The Company are:

- Sales in Israel.
- Sales abroad.

Segment revenue and segment costs include items that are attributable to the relevant segments and items that can be distributed among segments. Non-distributed items include the Company's financial income and expenses and tax.

2 Revenues

	For the year ended December 31,	
	2006	2005
	\$'000	\$'000
Revenues arise from:		
Sale of goods	16,463	11,694

	For the year ended December 31,	
	2006	2005
	\$'000	\$'000
<i>Revenues</i>		
Customer A	5,197	3,308
Customer B	857	657
Customer C	64	893
Customer D	1,087	515
Others	9,258	6,321
	16,463	11,694

3 Profit from operations

	For the year ended	
	December 31,	
	2006	2005
	\$'000	\$'000
Staff costs(see note 4)	3,243	2,814
Deprecation of property, plant and equipment	282	272
Material and subcontractors	7,539	5,419
Operating lease expense	349	235
Plant, Machinery & Usage	568	266
Travel & Exhibition	376	245
Advertising & Commissions	228	105
Consultants	318	217
Others	248	78
	<u>13,151</u>	<u>9,651</u>

4 Staff costs

	For the year ended	
	December 31,	
	2006	2005
	\$'000	\$'000
Staff costs comprise:		
Wages and salary	<u>3,243</u>	<u>2,814</u>
	<u>3,243</u>	<u>2,814</u>

5 Segments

1. Segment information

The Company's primary reporting format for reporting segment information is business segments.

	<u>Commercial</u>	<u>Military</u>	<u>Total</u>
	<u>2006</u>	<u>2006</u>	<u>2006</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<i>Revenue</i>			
External	14,293	2,170	16,463
Total	<u>14,293</u>	<u>2,170</u>	<u>16,463</u>
<i>Profit</i>			
Continuing operations	2,646	666	3,312
Total	<u>2,646</u>	<u>666</u>	<u>3,312</u>
<i>Other</i>			
Depreciation, amortisation and other non-cash expenses	<u>192</u>	<u>89</u>	<u>281</u>

The Company's primary reporting format for reporting segment information is business segments.

	<u>Commercial</u>	<u>Military</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<i>Revenue</i>			
External	10,044	1,650	11,694
Total	<u>10,044</u>	<u>1,650</u>	<u>11,694</u>
<i>Profit</i>			
Continuing operations	1,690	353	2,043
Total	<u>1,690</u>	<u>353</u>	<u>2,043</u>
<i>Other</i>			
Depreciation, amortisation and other non-cash expenses	<u>185</u>	<u>87</u>	<u>272</u>

M.T.I Wireless Edge Ltd.**Notes forming part of the financial statements for the year ended December 31, 2006****5 Segments (Cont.)**

1. Segment information (cont.)

The Company's secondary reporting format for reporting segment information is geographic segments.

	External revenue by location of customers	
	2006	2005
	\$'000	\$'000
Israel	7,996	5,666
North America	3,738	3,422
Europe	3,548	1,902
Asia	1,029	476
Other	152	228
	<u>16,463</u>	<u>11,694</u>

6 Finance income and expense

	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<i>Finance income</i>				
Bank interest received	<u>27</u>		<u>25</u>	
		27		25
<i>Finance expense</i>				
Bank borrowings	10		26	
Foreign exchange	46		305	
Bank charges	<u>46</u>		<u>24</u>	
		102		355
<i>Other</i>				
Gains from marketable securities	<u>547</u>		<u>166</u>	
		547		166
		<u>472</u>		<u>(164)</u>

7 Tax expense

A. Tax Laws in Israel:

1. Law for the Encouragement of Capital Investments, 1959:

Pursuant to the provisions of the said law, the Company is eligible for tax benefits resulting from implementation of programs for investment in assets, in accordance with the letters of approval they received (“approved enterprises”), which grant the Company the right to exemption from tax for a period of two year and subsequent to such period - to tax at a reduced rate of 25% on income derived from the approved enterprise, subject to fulfilment of the conditions stipulated in the letter of approval.

The period in which the Company will enjoy the tax exemption or reduced tax rate is limited in each letter of approval to seven years from the first year in which taxable income is earned. If the percentage of a Company’s share capital held by foreign shareholders exceeds 25%, the Company will be entitled to reduced tax rates for a further five years.

If the Company distributes dividends out of the income of the approved enterprise, the Company will be subject to tax at the rate of 25% on the distributed income.

2. Tax rates:

In July 2005, due to new tax legislation, the reduction in the tax rate for Israeli Companies was accelerated. On July 1, 2004 and in 2005, the Corporate tax rate was reduced to 35% for 2004 tax year, 34% for the 2005 tax year, 31% for the 2006 tax year, 29% for the 2007 tax year , 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter.

3. Taxation under inflationary conditions:

The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985, which instituted the measurement of the results for tax purposes on a real (inflation-adjusted) basis. The various adjustments required under this law are intended to adjust the nominal results for tax purposes to NIS of the end of the year (according to the changes in the Index).

B. Income tax assessments:

The Company has final tax assessments through the year 2002.

M.T.I Wireless Edge Ltd.

Notes forming part of the financial statements for the year ended December 31, 2006

7 Tax expense (Cont.)

B. Income tax assessments (cont.):

	<u>2006</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
<i>Current tax expense</i>				
Israeli income tax on profits for the year	<u>174</u>	174	<u>181</u>	181
<i>Deferred tax expense</i>				
Origination and reversal of temporary differences	<u>13</u>	13	<u>51</u>	51
Total tax charge		<u><u>161</u></u>		<u><u>130</u></u>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in Israel applied to profits for the year are as follows:

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Profit before tax	3,784	1,879
Expected tax charge based on the standard rate of corporation tax in Israel of 31% (2005 - 34%)	1,173	639
Expenses not deductible for tax purposes	15	85
Income not subject to tax	(70)	(58)
Losses and temporary differences for which deferred taxes were not recorded	(407)	(200)
Tax benefit ascribed to approved enterprise	(566)	(506)
Other	<u>16</u>	<u>170</u>
Total tax charge	<u><u>161</u></u>	<u><u>130</u></u>

M.T.I Wireless Edge Ltd.**Notes forming part of the financial statements for the year ended December 31, 2006****8 Earnings per share**

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Earnings used in basic EPS	3,623	1,749
Earnings used in diluted EPS	3,623	1,749
Weighted average number of shares used in basic EPS	49,262,202	31,470,000
Effects of:		
employee share options	1,920,376	6,462,000
	<u>1,920,376</u>	<u>6,462,000</u>
Weighted average number of shares used in diluted EPS	<u>51,182,578</u>	<u>37,932,000</u>
Basic net EPS	<u>0.0736</u>	<u>0.0556</u>
Diluted net EPS	<u>0.0703</u>	<u>0.0461</u>

The prior year number of shares was modified due to split of the Company's ordinary share in a ratio of 3,000 new shares for each 1 ordinary share, prior to the IPO in the AIM.

9 Dividends

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Final dividend of 5.2 cents per ordinary share proposed and paid during the year relating to the previous year's results	<u>2,000</u>	<u>-</u>
	<u>2,000</u>	<u>-</u>

The directors are proposing a final dividend of 1.67 cents per share totaling US\$ 900 thousands. This dividend has not been accrued at the balance sheet date.

10 Property, plant and equipment

	Machinery & equipment	Office furniture & equipment	Leasehold Improvements	Computer equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<i>At 31 December 2005</i>					
Cost	2,764	203	164	736	3,867
Accumulated depreciation	<u>1,509</u>	<u>141</u>	<u>96</u>	<u>680</u>	<u>2,426</u>
Net book value	<u>1,255</u>	<u>62</u>	<u>68</u>	<u>56</u>	<u>1,441</u>
<i>At 31 December 2006</i>					
Cost	2,920	214	170	838	4,142
Accumulated depreciation	<u>1,715</u>	<u>151</u>	<u>107</u>	<u>734</u>	<u>2,707</u>
Net book value	<u>1,205</u>	<u>63</u>	<u>63</u>	<u>104</u>	<u>1,435</u>
<i>Year ended 31 December 2005</i>					
Opening net book value	1,315	68	79	95	1,557
Additions	137	3	-	16	156
Amortization	<u>197</u>	<u>9</u>	<u>11</u>	<u>55</u>	<u>272</u>
Closing net book value	<u>1,255</u>	<u>62</u>	<u>68</u>	<u>56</u>	<u>1,441</u>
<i>Year ended 31 December 2006</i>					
Opening net book value	1,255	62	68	56	1,441
Additions	156	11	6	102	275
Amortization	<u>206</u>	<u>10</u>	<u>11</u>	<u>54</u>	<u>281</u>
Closing net book value	<u>1,205</u>	<u>63</u>	<u>63</u>	<u>104</u>	<u>1,435</u>

M.T.I Wireless Edge Ltd.

Notes forming part of the financial statements for the year ended December 31, 2006

11 Intangible assets

	<u>Goodwill</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
<i>At 31 December 2005</i>		
Cost	678	678
Accumulated depreciation	<u>272</u>	<u>272</u>
Net book value	<u>406</u>	<u>406</u>

<i>At 31 December 2006</i>		
Cost	678	678
Accumulated depreciation	<u>272</u>	<u>272</u>
Net book value	<u>406</u>	<u>406</u>

<i>Year ended 31 December 2005</i>		
Opening net book value	406	406
Additions	-	-
Amortization	<u>-</u>	<u>-</u>
Closing net book value	<u>406</u>	<u>406</u>

<i>Year ended 31 December 2006</i>		
Opening net book value	406	406
Additions	-	-
Amortization	<u>-</u>	<u>-</u>
Closing net book value	<u>406</u>	<u>406</u>

12 Financial assets (non-current)

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Long-term prepaid expenses	<u>32</u>	<u>26</u>

M.T.I Wireless Edge Ltd.**Notes forming part of the financial statements for the year ended December 31, 2006**

13 Inventories

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Raw materials and consumables	1,341	702
Work-in-progress	7	10
Finished goods and goods for resale	<u>376</u>	<u>296</u>
	<u>1,724</u>	<u>1,008</u>

14 Trade and other receivables - current

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Trade creditors	4,306	3,113
Other tax and social security taxes	81	52
Other creditors	37	-
Unbilled revenues	811	292
Prepaid expenses	<u>125</u>	<u>206</u>
	<u>5,360</u>	<u>3,663</u>

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Balance as of		
Customer A	1,707	1,301
Customer B	250	99
Customer C	8	240
Customer D	119	188
Others	<u>2,222</u>	<u>1,285</u>
	<u>4,306</u>	<u>3,113</u>

15 Other financial assets

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Fair value through profit or loss	<u>11,133</u>	<u>-</u>
	<u>11,133</u>	<u>-</u>

The other financial assets consist of marketable securities.

M.T.I Wireless Edge Ltd.

Notes forming part of the financial statements for the year ended December 31, 2006

16. Cash and cash equivalents

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
In New Israeli Shekels		
Cash on hand and in banks	33	152
Deposits	<u>153</u>	<u>-</u>
	<u>186</u>	<u>152</u>
In U.S. dollars		
Deposits with banks	<u>1,981</u>	<u>3,828</u>
Total	<u>2,167</u>	<u>3,890</u>

17 Trade and other payables - current

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Trade Creditors	2,101	1,348
Employees and other wage and salary related liabilities	521	273
Other Creditors	10	20
Accrued expenses	359	313
Other tax and social security taxes	254	114
Related parties	<u>272</u>	<u>200</u>
	<u>3,517</u>	<u>2,268</u>

18 Other current financial liabilities

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Current portion of long-term liabilities to banks	<u>87</u>	<u>87</u>
	<u>87</u>	<u>87</u>

19 Non-current financial liabilities

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Total long-term liabilities to banks	22	109
	<u>22</u>	<u>109</u>

Maturity dates:

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
First year (current maturities)	87	87
Second year	22	87
Third year	-	22
	<u>109</u>	<u>196</u>

Under the Facility Agreement and the terms of the Company's long-term loans, the Company is committed to financial ratios and covenants as follows:

1. The total Tangible Shareholder's Equity of the Company should be no less than 12 million NIS, linked to the Index for the month of November 2000, and its capital should be no less than 45%, of the Company's total Balance.
2. As of 1 January 2002, the Company's net income should be positive, although this condition was waived by the bank in respect of the year ended 31 December 2003.
3. As of 31 December, 2006, the Company continues to abide by the above commitments.

20 Financial instruments - Risk Management

The Company is exposed through its operations to one or more of the following financial risks:

- Foreign currency risk
- Credit risk

Foreign currency risk

Foreign exchange risk arises when Company operations enter into transactions denominated in a currency other than their functional currency. Management does not mitigate that risk.

20 Financial instruments - Risk Management (Cont.)Credit risks

Financial instruments which have the potential to expose the Company to credit risks are mainly cash and cash equivalents, bank deposit accounts, trade receivables, other receivables and long term debts.

The Company holds cash and cash equivalents and deposit accounts at large banks in Israel and in the Switzerland, thereby substantially reducing the risk of loss.

With respect to trade receivables, the Company believes that there is not a material credit risk in light of the large number of customers, it is the Company's policy to assess the credit risk of new customers before entering contracts.

Moreover, the Company evaluates trade receivables on a day to day basis and adjusts the allowance for doubtful accounts accordingly.

21 Employee benefits

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
Liabilities for employee benefits comprise:		
Accrued severance pay	231	174
	<u>231</u>	<u>174</u>
Categorized as:		
Due in more than one year	231	174
	<u>231</u>	<u>174</u>

Supplementary information

1. The Company liability for severance pay pursuant to Israeli law is fully provided for. The liability is computed on the basis of the employees' most recent salaries as of the balance sheet date, and in compliance with labour agreements and Israeli law.
2. The amounts accrued in managers' insurance funds are registered under the name of the employees, and therefore such amounts are not stated in the financial information as liability for termination of employee-employer relationships or amounts funded.
3. The amounts funded displayed above include amounts deposited in severance pay funds with the addition of accrued income. According to the Severance Pay Law, the aforementioned amounts may not be withdrawn or mortgaged as long as the employer's obligations have not been fulfilled in compliance with Israeli law.

22 Deferred Tax

Deferred tax is calculated on temporary differences under the liability method using the tax rate of 31% at the year the deferred tax assets are recovered.

The movement on the deferred tax account is as shown below:

	<u>2006</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>
At 1 January	51	-
Exchange difference	<u>18</u>	<u>51</u>
At 31 December	<u><u>69</u></u>	<u><u>51</u></u>

Deferred tax assets have been recognized in respect of all differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Details of the deferred tax amounts charged to reserves are as follows:

	Charged to reserves 2006 <u>\$'000</u>
Accrued severance pay	58
Other temporary and deductible differences	<u>11</u>
	<u><u>69</u></u>

	Charged to reserves 2005 <u>\$'000</u>
Accrued severance pay	44
Other temporary and deductible differences	<u>7</u>
	<u><u>51</u></u>

M.T.I Wireless Edge Ltd.

Notes forming part of the financial statements for the year ended December 31, 2006

23 Share capital

	Authorized			
	2006	2006	2005	2005
	Number	NIS	Number	NIS
Ordinary shares of NIS 0.01 each	100,000,000	1,000,000	**9,600,000	96,000
Series A shares *	-	-	2,000	2,000

	Issued and fully paid			
	2006	2006	2005	2005
	Number	NIS	Number	NIS
<i>Ordinary shares of NIS 0.01 each at beginning of the year</i>	28,200,000	282,000	**28,200,000	282,000
Employee share options exercised	6,462,000	64,620	-	-
Shares issued in relate with conversion of series A shares	3,618,000	36,180	-	-
Shares issued to directors***	115,383	1,154	-	-
Other issued for cash during the year (IPO)	15,384,615	153,846	-	-
At end of the year	<u>53,779,998</u>	<u>537,800</u>	<u>**28,200,000</u>	<u>282,000</u>

<i>Series A shares of NIS 1 each at beginning of the year</i>	1,090	1,090	1,090	1,090
Conversion to ordinary shares	(1,090)	(1,090)	-	-
At end of the year	<u>-</u>	<u>-</u>	<u>1,090</u>	<u>1,090</u>

* On December 28, 2000, the Company reclassified 2000 old shares into series A shares.

On February 9, 2006, each of the series A shares were reclassified into ordinary shares.

** Restated due to split of the Company's ordinary share in a ratio of 3,000 new shares for each 1 ordinary share, prior to the IPO in the AIM.

*** On Admission, the company has issued a total of 115,383 shares to 3 non- executive directors.

24 Share-based payment

The Company operates one employee Share Option Plan. Under the plan, option vesting period is 4 years. In December 31, 2005, the Company accelerated the remaining vesting period of all options under the plan. All accelerated expense charged to income statement.

	<u>2006</u> weighed average exercise	<u>2006</u> Number	<u>2005</u> weighed average exercise	<u>2005</u> Number
Outstanding at beginning of year	*	6,462,000	*	**6,411,000
Granted during the year		-	*	**51,000
Forfeited during the year		-		-
Exercised during the year ***	*	(6,462,000)		-
Lapsed during the year		-		-
Outstanding at the end of the year	-	-	-	**6,462,000

* The exercise price of options is the ordinary share per value (NIS 0.01).

** Restated due to split of the Company's ordinary share in a ratio of 3,000 new shares for each 1 ordinary share, prior to the IPO in the AIM.

*** Exercised prior to IPO (the weighted average share price as date of exercise was 39 pence).

The weighted average fair value of each option granted during the year 2005 was \$0.79.

25. Commitments and guarantees

A. Royalty commitments

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. Under the terms of Company's funding from the Israeli Government, royalties of 2%-3.5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received, including amounts received by the Parent Company through July 1, 2000.

The maximum royalty amount payable by the Company at December 31, 2006 is US\$470,000. During the year 2006 the Company did not pay any royalties.

B. Guarantees

The Company has guarantees in favour of customers in the amount of US\$276,491. The guarantees are mainly to guarantee advances received from customers.

25. Commitments and guarantees (Cont.)

C. Contingent liability

On July 3, 2005, Mars Antenna RF Systems Ltd. ("Mars") filed a complaint (Civil Case No. 05/1867) in the District Court of Tel Aviv-Yafo against the Company.

The lawsuit relates to certain printed circuits in three models of antennas that the Company sells to one of its customers. Mars claims that the printed circuits are an infringement of Mars' rights in its antennas, raising causes of action under copyright, passing off, unjust enrichment, negligence, breach of statutory duty and the Law for Protection of Integrated Circuits.

The lawsuit seeks monetary damages in the nominal sum of 100,000 NIS (which it reserves the right to modify in the future) and a permanent injunction, collection of the accused antennas, appointment of a receiver and an accounting of profits. In addition, Mars petitioned for provisional remedies prior to final judgment, including preliminary injunction, temporary receivership, and collection of the accused antenna. The Company answered the claims, stating that Mars does not own the copyright in the relevant circuits, that the Law for Protection of Integrated Circuits does not apply to the antennas, that consumers are not confused by any similarity, and other defences.

On 22 December 2005, the District Court partially granted Mars' petition for Provisional remedies and preliminarily enjoined the Company from manufacturing and selling the relevant antennae. On 26 December 2005, the Company moved for a stay of enforcement of the preliminary injunction until the Supreme Court's decision on the Company's anticipated petition for interlocutory appeal. On 26 October 2006, the Supreme Court acknowledge, in part, the company's claim and cancelled the petition with regard to a specific client for which the antennas were sold.

In addition, on November 3, 2005, the Company filed a complaint against Mars (Civil Case No. 05/2422) in the District Court of Tel Aviv-Yafo for infringement of the Company's design of its radome covers for antennas and its mounting kit. The lawsuit seeks monetary damages in the nominal sum of 500,000 NIS (which it reserves the right to modify in the future) and a permanent injunction. In its answer, filed January 5, 2006, Mars defended against the Company's claim, itself issuing a counter-claim, stating that the legal action taken by the Company presents improper usage of the legal procedures and therefore is entitled to compensation as a result of damages caused by unfounded claims. On July 2, 2006, the court confirmed the Company's request to combine the two law-suits that were filed. The court also ruled that the hearings will begin on May 9, 2007.

25. Commitments and guarantees (Cont.)

C. Contingent liability (cont.)

The Company's legal counsels' opinion is such that at this time the chances of Mars Antennas to win its law-suites cannot be assessed, seeing as the legal issues arising during the procedure are cumbersome and have not been addressed in similar procedures before.

26. Transactions with related parties

The parent company and other related party provides certain services to the company. During 2006, the company paid \$537,000 (2005: \$625,000) to the parent company and other related party, for these services.

As of December 31, 2006 the company owes to related party 272 thousand dollars (2005: 200 thousand dollars).

27. Subsequent events

Following the balance sheet date, the Company declared a dividend in a total of 900,000 US\$ to its shareholders.