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This document is an admission document for the purposes of the AIM Rules and has been drawn up in accordance with the AIM Rules. Any offer of Ordinary Shares is being made only to qualified investors for the purposes of and as defined in Section 86 of FSMA and accordingly this document does not constitute and the Company is not making an offer to the public within the meaning of sections 85 and 102B of FSMA. Therefore this document is not an approved prospectus for the purposes of and as defined in section 85 of FSMA, has not been prepared in accordance with the Prospectus Rules and has not been approved by FSA or by any other authority which could be a competent authority for the purposes of the Prospectus Directive.

The directors of the Company with effect from Admission, whose names appear on page 4 of this document under the heading "Directors" and the Company accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Company, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

Application has been made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings will commence in the Ordinary Shares on 16 March 2006. The Ordinary Shares are not dealt in or on any other recognised investment exchange and no other such applications have been made.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not traded on the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.**

**YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART II OF THIS DOCUMENT.**

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## **MTI WIRELESS EDGE LTD.**

*(Incorporated and registered in the State of Israel under the Israeli Companies Ordinance with registered number 51-271930-3)*

### **Placing of 15,384,615 new Ordinary Shares and 2,564,103 Existing Ordinary Shares at 39p per share Admission to trading on AIM Nominated Adviser and Broker:**



#### **Share capital on Admission**

<i>Registered</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
100,000,000	NIS 1,000,000	Ordinary shares of NIS 0.01 each	53,779,998	NIS 537,799.98

The Placing is conditional, *inter alia*, on Admission taking place on or before 31 May 2006. All of the Ordinary Shares will, upon Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions declared, made or paid in respect of the Ordinary Shares after Admission.

This document should not be copied or distributed by recipients and, in particular, should not be distributed by any means, including electronic transmission, in, into or from Canada, Australia, the Republic of Ireland, Japan or the United States of America, their possessions or territories or to any citizens thereof, or to any corporation, partnership or other entity created or organised under the laws thereof.

The distribution of this document outside the UK may be restricted by law and therefore persons outside the UK into whose possession this document comes should inform themselves about and observe any such restrictions as to the placing of the Placing Shares and the Sale Shares or the distribution of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements on the Company or Corporate Synergy. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act 1933, as amended, or under the securities legislation of any state of the United States or under the securities legislations of any province or territory of Canada or of Australia, the Republic of Ireland or Japan. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States, Canada, Australia, the Republic of Ireland or Japan or offered or sold to, or for the account or benefit of, a person within the United States or a resident of Canada, Australia, the Republic of Ireland or Japan.

In the State of Israel this document may be distributed only to, and may only be directed at, investors listed in the First Addendum (the "Addendum") to the Israel Securities Law, 5728-1968, namely joint investment funds, provident funds, insurance companies, banks, portfolio managers, investment advisers, members of the Tel Aviv Stock Exchange purchasing for themselves, underwriters, venture capital funds and corporations with a shareholder equity in excess of NIS 250 million, each as defined in the Addendum (collectively "Institutional Investors"). Institutional Investors may be required to submit written confirmation that they fall within the scope of the Addendum. The Company will not distribute and direct this document to investors in the State of Israel who do not fall within one of the definitions in the Addendum.

This document has not been and will not be distributed to the public in France. Any offer, sale or distribution of Ordinary Shares may only be made in France on the condition that, in compliance with applicable laws and regulations pertaining to a public offering (and in particular, Articles L.411-1, L.411-2, L.412-1 and L.621-8 of the French Code Monétaire et Financier and the General Regulation of the Autorité des Marchés Financiers), it shall never be deemed as constituting a public offering and shall never trigger the obligation to publish a prospectus.

Corporate Synergy, which is authorised and regulated by the Financial Services Authority, is acting as nominated adviser and broker to the Company in connection with the Placing and Admission. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any director of the Company or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by Corporate Synergy Plc as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Corporate Synergy Plc will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisition of shares in the Company.

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## **PLACING STATISTICS**

Placing Price	39 pence
Number of Placing Shares	15,384,615
Number of Sale Shares	2,564,103
Gross proceeds of the placing of the Placing Shares	£6 million
Estimated net proceeds of the placing of the Placing Shares	£5.05 million
Number of Ordinary Shares in issue immediately following Admission	53,779,998
Approximate market capitalisation at Admission at the Placing Price	£20.97 million
Approximate percentage of the Enlarged Share Capital represented by the Placing Shares	28.61 per cent.
AIM symbol	MWE
ISIN number	IL0010958762

## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Publication of this document	7 March 2006
Admission effective and dealings commence on AIM	16 March 2006
CREST accounts credited with depository interests (where applicable)	16 March 2006
Share certificates in respect of Placing Shares to be despatched (where applicable)	30 March 2006

All times in this document are London times, unless otherwise stated.

## **EXCHANGE RATES**

Throughout this document, unless otherwise indicated, the following exchange rates have been used:

£1 : \$1.75

£1 : NIS 8.2

## DIRECTORS AND ADVISERS

<b>Directors:</b>	Zvi Borovitz, <i>Non-executive Chairman</i> Dov Feiner, <i>Chief Executive Officer</i> Moshe Borovitz, <i>Finance Director</i> Frank Lewis, <i>Non-executive Director</i> (with effect from Admission) Hanna Lerman, <i>Non-executive Director*</i> (with effect from Admission) Stewart Ian Millman, <i>Non-executive Director*</i> (with effect from Admission)  *External Director (for the purposes of the Companies Law)
<b>Company Secretary:</b>	Moshe Borovitz
<b>Registered Office:</b>	11 Hamelacha Street Afek Industrial Park Rosh Ha'ayin 48091 Israel
<b>Nominated Adviser and Broker:</b>	<b>Corporate Synergy Plc</b> 30 Old Broad Street London EC2N 1HT
<b>Auditors and Reporting Accountants:</b>	<b>Ziv Haft</b> (a BDO member firm) Amot Bituach House Building B 46-48 Menachem Begin Road Tel Aviv 66184 Israel
<b>Solicitors to the Company as to English law:</b>	<b>Halliwells LLP</b> 1 Threadneedle Street London EC2R 8AW
<b>Solicitors to the Company as to Israeli law:</b>	<b>Haim Samet, Steinmetz, Haring &amp; Co.</b> 23 Menachem Begin Road Tel Aviv 66184 Israel
<b>Solicitors to the Placing:</b>	<b>Speechly Bircham</b> 6 St Andrew Street London EC4A 3LX
<b>Financial PR Adviser:</b>	<b>Shared Value</b> 30 St James's Square London SW1Y 4JH
<b>Registrars:</b>	<b>Computershare Investor Services plc</b> PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH

## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Act”	Companies Act 1985, as amended
“Admission”	admission of the Enlarged Share Capital to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange relating to AIM, as amended from time to time
“Articles” or “Articles of Association”	the articles of association of the Company adopted on 5 March 2006, conditional on Admission
“Board”	the board of directors of the Company with effect from Admission, including a duly constituted committee of the Board
“Combined Code”	the Principles of Good Governance and the Combined Code on Corporate Governance, published in July 2003 by the Financial Reporting Council
“Company” or “MTI”	MTI Wireless Edge Ltd., a company incorporated under the laws of the State of Israel with registered number 51-271930-3
“Corporate Synergy”	Corporate Synergy Plc, nominated adviser and broker to the Company on Admission
“Companies Law”	Israeli Companies Law 5759 – 1999 as amended and the regulations promulgated thereunder
“Companies Law Amendment”	amendment number 3 to the Companies Law, which came into effect on 17 March 2005
“CREST”	the electronic settlement system to facilitate the holding and transfer of title to shares in uncertificated form operated by CRESTCo
“CRESTCo”	CRESTCo Limited, a company incorporated under the laws of England and Wales and the operator of CREST
“CREST Regulations”	Uncertificated Securities Regulations 2001 (SI 2001 No. 01/3755)
“DI” or “Depository Interest”	a dematerialised depository interest representing underlying Ordinary Shares
“Directors”	the directors of the Company on Admission, whose details are set out on page 4 of this document under the heading “Directors”
“Elbit”	Elbit Systems Ltd.
“Enlarged Share Capital”	the Existing Ordinary Shares and the Placing Shares
“Existing Ordinary Shares”	the 38,395,383 Ordinary Shares in issue conditional on Admission not including the Placing Shares
“External Directors”	Hanna Lerman and Stewart Millman

“Frost & Sullivan”	Frost & Sullivan – world RFID-based applications markets A686-11 (2004)
“FSA”	the UK Financial Services Authority
“FSMA”	Financial Services and Markets Act 2000, as amended
“Israeli Companies Ordinance”	Israeli Companies Ordinance (New Version) 5743-1983
“Lock- In”	the conditional agreements dated 7 March 2006 between the Company, the Directors, Corporate Synergy and the Lock-In Persons (as applicable), details of which are set out in paragraphs 13.11 and 13.12 of Part V of this document
“Lock in Persons”	MTI Computers and Menashe Mani
“London Stock Exchange”	London Stock Exchange plc
“Maravedis”	Maravedis Inc. – WiMAX, NLOS and broadband wireless access (sub 11GHz) worldwide market analysis 2004-2008 (February 2004)
“Mars”	Mars Antennas and RF Systems Ltd.
“MTI Computers”	MTI Computers & Software Services (1982) Ltd.
“NIS”	New Israeli Shekels, the lawful currency of the State of Israel
“Official List”	the official list of the UK Listing Authority
“Old Ordinary Shares”	ordinary shares of NIS 1 each in the capital of the Company
“Options Shares”	the 2,154 Old Ordinary Shares (equivalent to 6,462,000 Ordinary Shares) to be issued to certain employees of the Company immediately prior to Admission following the exercise of options under the Share Option Plan
“Ordinary Shares”	ordinary shares of NIS 0.01 each in the capital of the Company
“Placee”	a person to whom Ordinary Shares are issued pursuant to the Placing
“Placing”	the conditional placing of the Placing Shares and the Sale Shares by Corporate Synergy pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 7 March 2006 between the Company (1), the Directors (2), Corporate Synergy (3) and the Selling Shareholder (4) relating to the Placing, further details of which are set out in paragraph 13.1 of Part V of this document
“Placing Price”	39 pence per Ordinary Share
“Placing Shares”	the 15,384,615 new Ordinary Shares proposed to be issued pursuant to the Placing
“Prospectus Directive”	directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading
“Prospectus Rules”	rules made by the FSA pursuant to sections 73A(1) and (3) of FSMA, as defined in section 417(1) of FSMA

“Registrar”	Computershare Investor Services plc
“Roth Capital”	Roth Capital Partners – WiMAX and the broadband wireless industry (10 February 2005)
“Sale Shares”	the 2,564,103 Existing Ordinary Shares owned by the Selling Shareholder, which are to be sold at the Placing Price pursuant to the Placing
“Selling Shareholder”	MTI Computers
“Series A Shares”	series A shares of NIS 1 each in the capital of the Company
“Shareholders”	holders of Ordinary Shares
“Share Option Plan”	MTI – Employee Share Option Plan 2000, details of which are contained in paragraph 11 of Part V of this document
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	a division of the FSA acting as a competent authority for the purposes of Part IV of FSMA
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“United States”, “US” or “USA”	the United States of America, its territories and possessions and any state of the United States or the District of Columbia and all other areas subject to its jurisdiction
“\$” or “US \$”	US dollars, the lawful currency of the United States

## GLOSSARY OF TERMS

“COMJAM”	communication jamming
“CPE”	customer premises equipment
“DF Systems”	direction finding systems
“DSL”	digital subscriber line
“ESM”	electronic surveillance measure
“EW Systems”	electronic warfare systems
“FBWA”	fixed broadband wireless access
“GHz”	gigahertz
“ISP”	internet service provider
“KHz”	kilohertz
“Last Mile”	the final leg of delivering communications connectivity to a customer
“MHZ”	megahertz
“NLOS”	non-line of sight
“OEM”	original equipment manufacturer
“RFID”	radio frequency identification
“SIGINT”	signal intelligence
“SME”	small or medium enterprise
“SOHO”	small office and / or home office
“UAV”	unmanned aerial vehicles
“UHF”	ultra high frequency
“UWB”	ultra wide band
“VHF”	very high frequency
“VOD”	video on demand
“VOIP”	voice over internet protocol
“WiFi”	wireless fidelity
“WiMAX”	worldwide interoperability for microwave access

## **FORWARD LOOKING STATEMENTS**

This document includes “forward-looking statements” which includes all statements other than statements of historical facts, including, without limitation, those regarding the Company’s financial position, business strategy, plans and objectives of management for future operations and any statements preceded by, followed by or that include forward-looking terminology such as the words “targets”, “believes”, “estimates”, “expects”, “aims”, “intends”, “can”, “may”, “anticipates”, “would”, “should”, “could” or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company’s control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Among the important factors that could cause the Company’s actual results, performance or achievements to differ materially from those in forward-looking statements include those factors in Part II entitled “Risk Factors” and elsewhere in this document. These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. As a result of these factors, the events described in the forward-looking statements in this document may not occur.

# PART I

## Information on MTI

### 1. INTRODUCTION

MTI is a developer and manufacturer of sophisticated antennas and antenna systems, including antennas that are sold for use in WiMAX compliant systems. Antennas transmit and receive electromagnetic waves wirelessly. 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 per cent. 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 per cent. global market share in the FBWA antenna market largely, via a number of leading OEMs who are MTI's customers.

The Directors anticipate that the global FBWA market will continue to grow over the coming years. In order to take advantage of the opportunities that will arise from this increase and from business opportunities to apply the Company's technology in other sectors, the Company is proposing to raise £6 million, before expenses, by way of the placing of the Placing Shares and is simultaneously applying for admission of all its Ordinary Shares to trading on AIM.

### 2. KEY STRENGTHS

The Directors believe that the Company has the following strengths:

- it is a market leader in the manufacture of antennas for fixed broadband wireless applications using flat panel antennas, a technology that the Directors believe can be adapted to serve other wireless applications, for example RFID;
- it has developed a diverse global customer base, supplying flat panel antennas to leading OEMs for their end users, who are spread across developed and developing countries;
- it is able to leverage its military technologies into commercial applications, as military projects help maintain the Company's technological development;
- it possesses innovative technology and patented products that are based on over 35 years of military antenna development and has an engineering department with a combined experience of over 150 years in the antenna market; and
- it operates in a growing market. Maravedis estimates that the FBWA market will grow from \$430 million in 2003 to more than \$1.6 billion by the end of 2008.

### 3. BACKGROUND AND HISTORY

In 1994, MTI Computers, a company whose shares are traded on the Tel Aviv Stock Exchange, acquired Elbit's antenna department, which then operated solely in the military arena. In December 1998 the Company was incorporated as a wholly-owned subsidiary of MTI Computers to carry on this business.

The Company's antenna technology was originally developed for military markets, including missile guidance systems. This technology was developed to function to high performance specifications in demanding operating environments, including at high temperatures and in confined spaces. This led to the development by the Company of flat antennas that could be 'wrapped' around projectiles. The technology has now been applied by the Company to commercial applications, especially in the FBWA market. These panels are up to 60cm square and 28mm to 50mm in depth, providing an alternative to 2ft diameter dish antennas.

In recent years, the Company has experienced strong growth as the FBWA market has stimulated demand for the Company's commercial antennas which in 2005 accounted for 86 per cent. of the Company's turnover whilst the sale of military antennas represented approximately 14 per cent. of the Company's turnover in 2005. Military projects help create and drive the Company's technological development, which historically has led to successful commercial applications for the Company.

#### **4. THE BUSINESS**

MTI's principal business is the development, manufacturing and marketing of antenna and antenna systems for both commercial and military applications.

#### **PRODUCTS**

The Company offers more than 200 varieties of antennas for the FBWA market, as well as antennas for other markets and uses.

In 2005 the Company sold more than 220,000 antennas, the overwhelming proportion of which were outdoor flat panel antennas for the FBWA market. MTI supplies antennas to a large number of leading providers of wireless broadband connectivity solutions for integration in their solution offerings, which in turn are sold across developed and developing countries. The Company's antennas are typically mounted externally on base stations and end-user premises and act as the enabling technology for wireless communications for those users.

The Directors believe that flat panel antennas are the best design solution for the FBWA market because they are: (i) compact; (ii) can be integrated into a radio; (iii) offer reduced transport costs compared to comparable parabolic antennas; (iv) are less obtrusive than conventional dishes; (v) have a higher wind load tolerance; and (vi) offer a viable solution for WiMAX and fixed wireless integrated CPE.

Wireless technology, which relies on communication antennas, offers many advantages over traditional fixed line/DSL technology, including:

- faster deployment than wired systems (no need to install cable to every user);
- higher bandwidth;
- satisfying the demand for fundamental data and voice telecom services in un-served areas where wired infrastructure cannot do so;
- lower upfront capital and maintenance costs (build out can be scaled both in terms of area coverage and capacity – each installed base station can support many subscribers);
- it is ideal for developing countries and Last Mile access in cities;
- true remote working (no need for fixed phone link cabling);
- familiarity: WiFi is available to consumer lap-tops and is already user-friendly; and
- multiple services using a single network.

#### **Commercial**

The Company specialises in flat panel antennas, principally for fixed wireless communication and also seeks to apply its technology for use in other markets.

#### *Fixed Wireless Communication*

The Company's flat panel antennas incorporate proprietary technology, which is partly protected by several patents registered in the US and Israel. Other patents are pending in Europe, Israel, the US and Canada.

In the FBWA market, the Company's antennas are used in systems that provide wireless broadband data and voice services for subscribers in the Last Mile. MTI's antennas can operate in licensed and licence-free bands ranging from 700MHz to 18GHz in conformity with industry standards.

In addition to these core products, the Company sells antenna mounting kits and enclosures which allow OEMs to introduce a low-cost system solution.

### *RFID*

In 2005, the Company achieved its first sales of antennas for readers for emerging RFID applications.

RFID is a technology used to track assets in a variety of different applications, including those related to supply chain management as an alternative to bar code technology. Very small RFID transponders or tags containing a unique identifier are placed on assets, for example pallets, cases, or individual items and these tags communicate with the RFID readers. The Company has recently entered the market for RFID readers, which use several flat panel antennas. RFID requires very accurate antennas to support complex logistics management systems. The Directors believe that the Company is well-placed to accelerate production of its RFID product range. RFID sales accounted for revenue of \$0.15 million in 2005.

### **Military**

The Company has over 35 years experience in developing, designing, manufacturing, testing and marketing specialised antennas in high frequency to millimetre wave bands. These antennas are used for a wide range of systems including communication, COMJAM, SIGINT, EW Systems (passive and active) and spectrum monitoring. The Company also provides a range of antenna arrays for DF Systems, ESM antennas for submarines and UAV special antennas.

Military antenna development keeps the Company at the forefront of antenna technology, strengthening company research and development. The resulting knowledge is applied to commercial as well as military antenna designs.

The Company's antennas have been installed on various airborne, ground, naval and submarine applications. The Company began targeting markets outside Israel several years ago and has succeeded in penetrating Asia, Europe and North America with several types of antennas.

The Company is also a supplier of military antennas to the Israeli defence industry and foreign defence establishments. The Directors expect the Company to maintain its market position for the foreseeable future, as it continues to benefit from and strengthen its long-standing ties with the defence industry.

Military sales accounted for revenue of \$1.65 million in 2005.

## **TECHNOLOGY**

The Company's product development expertise is applied to both off-the-shelf products and contract engineering, for commercial and military applications.

### *Materials Engineering*

Whilst designing military antennas, MTI's engineering staff developed significant expertise in identifying and manipulating materials to optimise antenna function. This expertise enables the Company to use a wide range of materials in innovative ways to enhance the performance and durability of its commercial antenna range. It also enables the Company to use less expensive materials to reduce product costs, while maintaining performance.

### *High Gain*

These antennas amplify relatively weak radio signals, traditionally through geometric focusing of radio waves by means of a horn or parabolic dish to a central feed point. The Company has developed innovative means of amplifying signals that enable it to produce smaller, lower profile antennas with gain equivalent to traditional parabolic antennas.

### *Wideband Matching*

The Company produces antennas for a wide range of frequencies which can be used in systems transmitting and receiving on multiple, but not necessarily contiguous, channels. In addition, wideband antennas enable a standard off-the-shelf product to be used by service providers transmitting on a wide range of assigned frequencies.

### *Development*

The Company has control processes in place to track development time and costs throughout the product development cycle. These controls provide timely warning of time or cost deviations and allow management to address and correct potential problems at an early stage.

## **CUSTOMERS**

In the FBWA market, the Company is focussed on OEMs and is currently working with a number of leading OEMs as a first or second source for their antennas. Among these OEMs are Alvarion Ltd., Redline Communications Inc. and Radwin Ltd.. Many of these OEMs are developing WiMAX compliant systems and the Directors believe that the Company is well-positioned to supply antennas for integration into these WiMAX systems. The Company also supplies other OEMs including Airspan Network Inc., Orthogon Systems, Vcom Inc. and others.

In 2005, MTI's five largest customers accounted for approximately 53 per cent. of its sales. The Company's top 15 commercial customers accounted for some 74 per cent. of its sales.

Alvarion Ltd. accounted for some 30 per cent. of the Company's sales in 2005. Alvarion is the global leader in the FBWA market, with a 30 per cent. share of the world market. Alvarion is a NASDAQ quoted company, that has reported global sales of telecoms equipment to network operators (telecom carriers and service providers) in 2005 of over \$195 million either directly or via international distributors. It has reported that it has an installed base of some 2 million systems units worldwide and has in place over 130 WiMAX commercial/trial installations. The Company has a strong relationship with Alvarion Ltd. and was regarded by it as its leading supplier of antennas in 2005.

In mid-2004, Huber & Suhner started selling, under a private label, two of the Company's standard 5.8GHz antennas. Huber & Suhner is a Swiss quoted group of companies active in the electrical and optical interconnectivity sector. It develops and manufactures antennas for WiMAX and WiFi, RFID and other specialist antennas. In November 2005, Huber & Suhner extended the relationship by entering into an agreement with the Company. This agreement aims to promote the joint development, production and distribution of antennas for RFID, as well as for fixed wireless broadband.

## **SUPPLIERS AND PRODUCTION**

The Company works with a limited number of suppliers for each component in order to develop strong relationships to take advantage of economies of scale.

One of the most important raw materials in producing flat panel antennas is material substrate which is suitable in each case for a specific range of frequencies, gain and efficiency in which the antennas operate. In the low frequency range, there are many suppliers for these material substrates, whereas in the high frequency range there are far fewer suppliers for these substrates, with the Company preferring to work with only two.

The bulk of the Company's production is carried out by sub-contractors, with the final assembly and product tests conducted by the Company's employees and other staff hired on a daily basis from sub-contractors.

## 5. THE MARKET

### COMMERCIAL

#### *Broadband*

Maravedis have forecast that the sub-11GHz fixed broadband wireless system market, will grow from \$430 million in 2003 to more than \$1.6 billion by the end of 2008. The Directors believe that on average, the antenna market is 5-7 per cent. of this system market.

Growth of the wireless broadband market is currently driven by demand for broadband connectivity. The Directors believe that increasing deregulation is opening up the telecommunications / internet access markets to new suppliers. As more countries enable carriers and service providers to operate on a variety of frequencies, new broadband access markets are opening. Unlike the built-in delivery systems of wireline infrastructure to transfer voice and data, wireless technology requires the use of frequencies contained within a given spectrum.

Wireless broadband technology offers opportunity and growth potential to carriers targeting emerging market sectors, such as SOHO, SME and many parts of the residential market because of its bandwidth, low capital and operating costs and the ability to use the technology to deliver sophisticated data and voice services. Roth Capital have forecast that the WiMAX systems are expected to lead the growth of the FBWA market from \$560 million in 2004 to over \$2 billion by 2010, led by residential and SOHO market segments. The Asia Pacific region is expected to be the dominant region for WiMAX systems. Intel states that 2006 "is the year 150 million more people will become part of the wireless world". Intel is the leading player in WiMAX technology, which is helping extend the FBWA market. The Directors believe that the FBWA market is experiencing dramatic growth in subscriber levels, yet is still at an early stage of take-up, and that the WiMAX standard will be a key driver for future growth. The Company supplies antennas that are integrated into WiMAX compliant systems and intends to supply its products for use in base stations that serve WiMAX compliant mobile devices. The Directors believe that wireless broadband products provide attractive solutions for carriers seeking to compete in a deregulated telecoms environment.

The Directors also believe that demand for user bandwidth and availability of competitively priced solutions has increased. DSL and cable modem rollout continues in many areas throughout the world and telecom operators are upgrading central offices and deploying broadband solutions. However, in areas where DSL and cable modems cannot fulfil the demand for broadband, the wireless broadband solution is an effective alternative to meet this demand. In developed countries, government programmes for complete broadband coverage increase the demand for FBWA in rural and suburban areas. In developing countries, government programmes for fundamental telephony services increase demand for FBWA in urban areas, where infrastructure is poor or does not exist.

#### *RFID*

Firms and retailers ship hundreds of billions of units of goods annually. Technology analysts believe that RFID may become the tracking methodology of choice for an increasingly large percentage of that volume. Frost & Sullivan have forecast that there should be considerable upside for RFID despite many companies' reluctance to spend on new initiatives (particularly those involving new technology). The RFID market has grown at an estimated compound annual growth rate of 27 per cent. since 2000. Frost & Sullivan have forecast that in 2010, the RFID reader market (for all uses) should reach approximately \$2 billion.

The RFID system consists of readers and tags. The reader reads the information on the tag, which stores basic information about an item. The Company has designed and started to deliver antennas for the reader part of the RFID solution as it believes that the technological capabilities of its antennas are well suited for this application. These readers require flat antenna, similar to the ones developed for the FBWA market and therefore the Company can manufacture RFID antennas at competitive prices. The market for readers was estimated by Frost & Sullivan to be 25 per cent. of the overall RFID market. The Directors believe that the antenna market (i.e. the Company's market) is approximately 5 to 7 per cent. of the reader market.

## MILITARY

The global military spend is projected by Cobham plc, a UK quoted company, to increase over the next few years. There are two major reasons for this increase: first, the expected upgrades of existing command and control systems and second the introduction of new communications systems.

## 6. SUMMARY FINANCIAL INFORMATION

The following information has been extracted without adjustment from the financial information set out in Part III of this document and summarises the financial performance of the Company for the 3 years ended 31 December 2005 and so far as the Directors are aware (and are able to ascertain from the information contained in the financial information), no facts have been omitted which would render such information below inaccurate or misleading. In order to make a proper assessment of the financial position of the Company, investors should not rely solely on the summary information set out below but should read the whole of this document, including the accountants' report set out in Part III of this document.

	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>Year ended 31 December 2005 \$'000</i>
Revenue	6,011	8,420	11,694
Cost of Sales	(3,632)	(4,915)	(6,780)
Gross Profit	<u>2,379</u>	<u>3,505</u>	<u>4,914</u>
Operating (Loss) /Profit	(322)	980	2,043
(Loss)/Profit before tax	(174)	893	1,879
Tax	–	–	130
Profit after tax	<u>(174)</u>	<u>893</u>	<u>1,749</u>

Further details of the financial performance of the Company are set out below and in Part III of this document.

The Company moved into profit in the year ending 31 December 2004 as its exploitation of the commercial market grew. The Company's growth between 2003 and 2005 was a result of it winning new customers and increased demand from existing customers with turnover increasing by approximately 95 per cent. during this period.

## 7. CURRENT TRADING AND PROSPECTS

Since 31 December 2005, the Company has performed in line with the Board's expectations and the Directors believe that this will continue to be the case for the remainder of the financial year. The Directors believe that the Company is well-positioned to achieve its strategic aims and to grow its operating activities and look to the future with confidence.

## 8. COMPETITION

The Directors believe that the Company's revenue attributable to the sale of FBWA antennas is the largest in that market. Competitors include a number of companies such as European Antennas Ltd., Mars, SmartAnt Telecom Co Ltd. and PCTEL Antenna Products Group Inc.. The Directors believe that all of these companies are significantly smaller than the Company in its target market, but in some cases are part of much larger companies. The Directors believe that the Company's competitive advantages are:

- it offers a wide variety of antennas for the FBWA market and is a "one stop shop" for its customers;
- it has a rapid prototyping capability to provide customers with new solutions;
- it has a close long-term relationship with leading customers in the fixed broadband wireless market; and
- it has a leading position in the antenna market – antennas are a critical element that are rarely replaced unless, for example, the vendor fails to support the customer adequately.

## 9. STRATEGY

### *International expansion in the FBWA equipment market*

The Directors intend to continue to grow the Company's sales by establishing offices in certain key locations where the Company's leading customers are located in order to strengthen the Company's relationship with them.

### *Penetration into the RFID market*

The Directors believe, based on their estimation that the antenna market is approximately 5-7 per cent. of the reader market by value, that the RFID market could potentially be worth more, in sales terms, than the FBWA market. They therefore intend to focus on penetrating this market.

### *International expansion in the Military Market*

The Directors intend to continue to grow the Company's sales of military antennas in the international market.

## 10. DIRECTORS

Brief biographical details of each of the Directors are set out below:

### *Zvi Borovitz, Non-executive Chairman (age 67)*

Mr Borovitz is the founder of the Company and MTI Computers. Prior to this he worked at Elta Electronics Industries Ltd., a subsidiary of Israeli Aircraft Industries, where he gained experience in microwave systems and communications and was part of the team to develop the first Israeli airborne radar. During his time at Elta he also managed an airborne electronic warfare programme. Mr Borovitz has an MS in Electrical Engineering from the Polytechnic Institute of Brooklyn.

### *Dov Feiner, Chief Executive Officer (age 49)*

Mr Feiner has planned and implemented the Company's entry into the commercial antenna market. Prior to joining the Company, Mr Feiner served for 12 years in the research and development division of the Israeli Defence Force. Mr Feiner holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University. Mr Feiner is responsible for the overall management of the Company and its international and domestic activities.

### *Moshe Borovitz, Finance Director (age 35)*

Mr Borovitz, 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. Mr Borovitz is a certified public accountant with a B.A. in Computer Science from Tel Aviv University, and has an MBA from Ben Gurion University. Mr Borovitz is responsible for the Company's financial activities as its finance director, assisted by a group of professionals.

### *Hanna Lerman, Non-executive Director (age 33)*

Hanna Lerman was Chief Financial Officer 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 Financial Services Ltd., a provider of online trading services in Israel and North America. Prior to that Ms. Lerman managed the department of professional practice at KPMG Israel. Ms. Lerman is a certified public accountant and holds a B.A. in Economics and Accounting, and an MBA majoring in Finance from Tel Aviv University.

### *Frank Lewis, Non-executive Director (age 60)*

Frank Lewis is a businessman with over 25 years of experience in both quoted and private companies. He has held board positions both in the UK and abroad with rapidly growing, mid-market companies. Quoted companies of which he was chairman include Lloyds British Testing Plc, an engineering services company, Jetcam International Holdings Limited, a software company and Yoomedia Plc (Executive Chairman), an interactive television company. Mr Lewis is a member of the Institute of Chartered Accountants of England and Wales and is also a member of The South African Institute of Chartered Accountants.

*Stewart Millman MA, FSI, Non-executive Director (age 57)*

Mr Millman 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, and held 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.

Hanna Lerman and Stewart Millman have been nominated as external directors according to the Companies Law as described in paragraph 17 of Part V of this document.

Further information on the Directors is set out in paragraphs 7, 8 and 9 of Part V of this document.

## **11. THE PLACING**

The Company is proposing to raise £6 million at the Placing Price (before expenses) by way of a conditional placing by Corporate Synergy with institutional and other investors of 15,384,615 new Ordinary Shares at 39 pence per share. The Placing Shares will represent approximately 28.61 per cent. of the Enlarged Share Capital at Admission. The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares, will rank in full for dividends and other distributions declared, made or paid following Admission and will be issued credited as fully paid. The Placing has not been underwritten.

The Selling Shareholder has agreed to sell 2,564,103 Ordinary Shares at the Placing Price. As a result of the Placing, the Selling Shareholder will own 25,635,897 Ordinary Shares at Admission (representing 47.67 per cent. of the Enlarged Share Capital). The Company will not receive any proceeds from the placing of the Sale Shares.

Application has been made for the Existing Ordinary Shares together with the Placing Shares to be admitted to AIM.

The Placing is conditional, *inter alia*, on:

- the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- Admission occurring by no later than 31 May 2006.

Further details of the Placing Agreement are set out in paragraph 13.1 of Part V of this document.

## **12. REASONS FOR ADMISSION AND USE OF PROCEEDS**

The Directors believe that an AIM listing and the Placing will assist the Company in its development by:

- raising its profile generally and within its sector with actual and potential customers and partners;
- helping to maintain the Company's position in the FWBA antenna market by enabling the Company to seek closer relationships with its existing leading customers;
- providing the resources required to target the RFID market with the aim of achieving a substantial market share; and
- providing the Company with additional financial resources and thereby strengthening its balance sheet to increase its credibility amongst suppliers and customers.

The net proceeds of the placing of the Placing Shares to be paid to the Company are approximately £5.05 million and it is anticipated that these will be used to provide working capital to support further growth by expanding the Company's distribution capabilities and sales channels through local offices to serve its leading customers and to enlarge the marketing and sales team so that the Company can target the RFID market.

### **13. ADMISSION, SETTLEMENT AND DEALINGS**

Application has been made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Ordinary Shares will commence on 16 March 2006.

Securities of certain non-UK incorporated companies, such as the Company, cannot be held or transferred in CREST, a computerised paperless share transfer and settlement system which allows shares and other securities to be held in electronic, rather than paper, form. However, to enable investors to settle such securities through CREST, a depository or custodian can hold the relevant securities and issue DIs representing the underlying securities, which are held on trust for the holders of the DIs. The Company's Articles of Association, which have been adopted conditional on Admission, permit it to issue DIs in uncertificated form.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. The Ordinary Shares will not themselves be admitted to CREST. Instead, the Registrar, acting as depository, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law, which may be held and transferred through CREST. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing.

The DIs will be created and issued pursuant to a deed poll entered into by the Registrar, which will govern the relationship between the Registrar as depository and the holders of DIs.

Application has been made by the Registrar for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Holders of Ordinary Shares in certificated form who wish to hold DIs through CREST may be able to do so and should contact the Registrar. Further information on settlement arrangements is set out in paragraph 19 of Part V of this document.

It is expected that, subject to the Placing Agreement becoming unconditional:

- where the Placee so elects, despatch of definitive share certificates (if applicable) will occur by post at the Placee's risk by 30 March 2006; or
- only if the Placee is a "system member" (as defined in the CREST Regulations) in relation to CREST, CREST accounts will be credited with DIs representing the Placing Shares subscribed for on 16 March 2006.

No temporary documents of title will be issued. All documents or remittances sent by or to a Placee, or as they may direct, will be sent through the post at their risk.

### **14. CONTROLLING SHAREHOLDER**

Immediately following Admission, MTI Computers will control 25,635,897 Ordinary Shares, representing 47.67 per cent. of the Enlarged Share Capital together with warrants to subscribe for 731,819 further Ordinary Shares, representing 1.27 per cent. of the issued share capital of the Company assuming exercise of all outstanding warrants. As such, MTI Computers (and its associates) will be regarded as a controlling shareholder of MTI. Mokirei Aya Ltd. controls 39.79 per cent. (36.98 per cent. on a fully diluted basis) of the issued share capital of MTI Computers. Mokirei Aya Ltd. is controlled by Zvi Borovitz (25 per cent.), Amalia Borovitz (25 per cent.), Moshe Borovitz (25 per cent.) and Alexander Borovitz (25 per cent.).

The Company is incorporated in Israel and its head office and place of central management is in Israel. Accordingly, transactions in shares of the Company are not subject to the provisions of the City Code on Takeovers and Mergers.

Following Admission, the Company will continue to receive services from, and provide services to, MTI Computers and its associates. Further details of these arrangements are set out in paragraphs 13.4, 13.5, 13.6 and 13.10 of Part V of this document.

The Directors (including the External Directors) are satisfied that MTI is capable of carrying on its business independently of MTI Computers (and its associates) and that all transactions and relationships between MTI and MTI Computers (and its associates) are, and will continue to be, at arm's length and on a normal commercial basis. MTI has, conditional on Admission, entered into a relationship agreement with MTI Computers. A summary of this agreement is set out in paragraph 13.3 of Part V of this document.

## **15. WARRANTS**

Pursuant to a share purchase agreement (the "Agreement") between MTI Computers, the Company, Catalyst Investments L.P. (in trust for Catalyst Fund, L.P., Catalyst Fund II, L.P. and Catalyst Fund III, L.P.) ("Catalyst"), Otto Capital GmbH ("Otto"), Alegra Ventures LLC ("Alegra"), The Investment Company of United Mizrahi Bank ("Mizrahi"), S. Rubin and A. Levi (Catalyst, Otto, Alegra, Mizrahi, S Rubin and A. Levi (or their permitted transferees) being collectively referred to as the "Investors") dated 31 December 2000, as amended, the Company has issued warrants, conditional on Admission, to the Investors and MTI Computers entitling them to purchase a total of 3,730,631 Ordinary Shares at a price per share equal to the Placing Price (representing 6.49 per cent. of the Enlarged Share Capital, assuming exercise of all such warrants). Each Investor is entitled to subscribe an amount of Ordinary Shares at this share price in an aggregate amount equivalent to 50 per cent. of that respective Investor's investment (being, in aggregate, 50 per cent. of \$4,093,376) and for MTI Computers this amount being 50 per cent. of MTI Computer's loan under this agreement (being 50 per cent. of \$998,934).

The Investors and MTI Computers are entitled to exercise the warrants within a period of 36 months from Admission.

## **16. LOCK-INS AND ORDERLY MARKET ARRANGEMENTS**

At Admission, the Directors will hold or be interested in, directly and indirectly, an aggregate of 4,387,383 Ordinary Shares, representing approximately 8.16 per cent. of the Enlarged Share Capital. The Lock-In Persons will be interested, in aggregate, in 25,845,897 Ordinary Shares, representing approximately 48.06 per cent. of the Enlarged Share Capital.

Each of the Directors (other than Zvi Borovitz and Moshe Borovitz) and the Lock-In Persons have undertaken to Corporate Synergy (whilst it is the nominated adviser and/or broker for the Company, or such other nominated adviser or broker engaged by the Company in place of Corporate Synergy) and to the Company not to dispose of any of the Ordinary Shares in which they are interested at Admission (subject to certain limited exceptions) within twelve months of Admission without the nominated broker's prior consent. Thereafter, until the second anniversary of Admission they have each undertaken neither to sell nor to dispose of any such Ordinary Shares other than through the nominated broker (subject to certain limited exceptions).

Each of Zvi Borovitz and Moshe Borovitz have undertaken to Corporate Synergy and to the Company not to dispose of any of the Ordinary Shares in which they are interested at Admission (subject to certain limited exceptions) within twelve months of Admission without the nominated broker's consent. For the period from the first anniversary until the third anniversary of Admission they will not dispose of such Ordinary Shares (subject to certain exceptions) without the nominated broker's consent or unless the average middle market closing price over any consecutive period of five trading days on AIM exceeds 120 per cent. of the Placing Price, in which case such restriction shall terminate. Until the second anniversary of Admission they have each undertaken neither to sell nor to dispose of any such Ordinary Shares other than through the nominated broker (subject to certain limited exceptions).

Further details of these arrangements are set out in paragraphs 13.11 and 13.12 of Part V of this document.

## **17. CORPORATE GOVERNANCE**

The Directors recognise the importance of sound corporate governance and intend that the Company will comply with the provisions of the Combined Code insofar as they are appropriate given the Company's size and stage of development. The Company intends to comply with all corporate governance regulations that will apply to it under Israeli law following Admission.

Pursuant to the provisions of the Companies Law, the Company has nominated Stuart Millman and Hanna Lerman as external directors. Further information on the role of an external director under the Companies Law is contained in paragraph 17 of Part V.

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. Following Admission, the Company intends to hold Board meetings at least five times each financial year and at other times as and when required.

The Company has established properly constituted audit and remuneration committees of the Board with formally delegated duties and responsibilities.

The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It will receive and review reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The audit committee will meet not less than twice in each financial year and will have unrestricted access to the Company's auditors. Members of the audit committee are Stewart Millman (Chairman), Hanna Lerman and Frank Lewis.

The remuneration committee will review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The committee will 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 in operation from time to time. The committee will meet at least twice in each financial year and as such as other times as the chairman of the committee shall require. In exercising this role, the Directors shall have regard to the recommendations put forward in the Combined Code. Members of the remuneration committee are Stewart Millman (Chairman), Hanna Lerman and Frank Lewis.

The Company has adopted a model code for directors and employee share dealings which, taking account of the fact that the Company is incorporated in Israel, is appropriate for a company whose securities are traded on AIM and is in accordance with Rule 21 of the AIM Rules.

## **18. DIVIDEND POLICY**

Under the Companies Law, dividends on the Ordinary Shares may only be paid out of the last two years' net profits or out of the Company's retained earnings whichever is higher. Under the Companies Law, the Board is authorised to declare dividends, provided that there is no reasonable concern that the dividend will prevent the Company from satisfying its existing and foreseeable obligations as and when they become due.

The Directors intend to pursue a dividend policy which will provide for the distribution of a proportion of the consolidated profit after tax of the Company, whilst continuing to retain the balance of the Company's earnings in order to facilitate the Board's strategy for the continued growth of the Company. Subject to satisfactory trading, the Directors intend to pay a final dividend in respect of the year ending 31 December 2006.

On 6 March 2006 the Company declared a dividend of \$2 million to be distributed to holders of Old Ordinary Shares immediately prior to Admission, conditional upon Admission.

## **19. TAXATION**

A general guide to the main UK and Israeli tax consequences that will apply to Shareholders who hold their Ordinary Shares as investments and are UK resident individuals or companies is set out in paragraph 18 of Part V of this document and your attention is drawn to this section. Persons who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their own professional advisers.

## **20. ADDITIONAL INFORMATION**

Your attention is drawn to the information included in the rest of this document. In particular, you are advised to carefully consider the risk factors contained in Part II of this document.

## **PART II**

### **Risk Factors**

**In addition to all other information set out in this document, the following specific risk factors should be considered carefully by potential investors in evaluating whether to make an investment in the Company. The investment described in this document may not be suitable for all of its recipients. Before making a final decision, investors in any doubt are advised to consult a person authorised under FSMA who specialises in advising on the acquisition of shares and other securities.**

You should carefully consider the risks described below and ensure that you have read this document in its entirety before making a decision to invest in the Company.

Prospective investors should be aware that an investment in the Company is speculative and involves a high degree of risk. In addition to the other information contained in this document, the Directors believe that the following risk factors are the most significant for potential investors and should be considered carefully in evaluating whether to make an investment in the Company. If any of the risks described in this document actually occur, the Company may not be able to conduct its business as currently planned and its financial condition, operating results and cash flows could be seriously harmed. In that case, the market price of the Ordinary Shares could decline and all or part of an investment in the Ordinary Shares could be lost. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect on the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements. The risks listed below are not set out in any particular order of priority.

#### **The market**

The future of the Company is dependent upon the growth in the market for fixed wireless telecommunications equipment and other equipment provided by the Company. The future size of this market and other potential markets for the Company's products, services and technologies is uncertain and may depend on a number of factors beyond the control of the Company. Failure of the markets to develop according to the Company's expectations would have a material adverse affect of the Company's business and financial condition. Further, the market may develop slower than anticipated if customers decide to wait for WiMAX certified products rather than purchase proprietary products, such as those produced by the Company.

#### **Dependence on customers**

The top five customers of the Company combined in the financial year ended 31 December 2005 accounted for approximately 53 per cent. of the Company's sales revenue. Any reduction in sales to, or the loss of, any of these customers would have an adverse impact on the financial condition and profitability of the Company.

#### **Dependence on suppliers**

The Company obtains a significant number of key components for its products from a limited number of suppliers and some of those components are custom-made for the Company. The Company does not have long term contracts with most of these suppliers. The Company could therefore be exposed to delays in the supply of components which may adversely affect the manufacture and delivery of products.

#### **Expansion into new markets**

The Company intends to penetrate new markets. However, there can be no guarantee that entry into these markets will generate commercially viable revenues and failure to do so could therefore negatively impact the Company's financial and management resources, diverting them away from other uses.

### **Management of growth**

The rapid growth of the Company to date has placed significant strain on the management and operational and financial resources of the Company. If the Company grows as intended, it must successfully increase and implement additional resources to support its operations. If growth cannot be managed effectively, the Company's business and financial condition could be adversely affected.

### **Continued product development and introduction**

The Company must continually develop and refine its products in order to maintain (or increase) its market position and this may require sizable investments by the Company, particularly if there are significant changes in technology in the future.

The development of new or enhanced products is a complex process and delays may be experienced due to difficulties encountered in the design and manufacturing processes, which could prevent or delay the introduction of new or enhanced products.

### **Rapid technological changes may impact the business**

The markets for the Company's products and the technologies utilised in the industry in which it operates evolve rapidly. The Company places significant reliance on certain key technologies, which may be replaced by other technologies or fail to gain wide acceptance in the market. Such changes in technology could result in the Company's products becoming obsolete or subject to significant competition.

### **Complex products**

Certain of the products produced by the Company are highly complex and are designed to be used in complex systems. Faults may be discovered and may arise as a result of non-compatibility with components produced by third parties. Failure to correct errors or other problems identified after deployment could result in loss of revenue, loss of customers, failure to achieve market acceptance of a product, loss of market share, diversion of resources away from product development, legal action and increased insurance costs, all of which could have a negative affect on the Company's business and financial condition.

### **Industry standards**

Industry standards adopted in the future may be different from those anticipated by the Company. This may result in the Company being unable to introduce products which comply with new standards in a timely manner.

Product standardisation may have the effect of lowering barriers to entry in the markets in which the Company operates and lowering average selling prices, which together with increased competition, could result in a reduction in the Company's gross profit and reduction in market share.

### **Regulation**

The Company's business is reliant on the availability of certain radio frequencies for two-way broadband communications. Radio frequencies are subject to extensive regulation under the laws of each country and international treaties. In the US, the Company's products are subject to the rules and regulations of the Federal Communications Commission. In other jurisdictions, a licence may be required to operate on a particular radio band and these may be subject to conditions. The Company does not and does not intend to hold such licences and relies on its customers, where so required, to hold licences. Regulatory changes, in particular in relation to the available frequency, may mean that the Company's products become non-compliant in that particular market, potentially reducing revenues and requiring re-design of affected products.

### **Export controls of military technology**

The Company is subject to Israeli export control laws and regulations in respect of its products and technologies with military application. The Company is subject to the risk that more stringent export controls

could be imposed in the future, which could adversely affect the ability of the Company to sell its products to civilian customers.

### **Competition**

The Company operates in a highly competitive market and it is expected that competition will increase in the future, both from established competitors and new entrants to the market. Some of the Company's competitors have greater financial, technological, manufacturing and marketing resources available than the Company and have a greater market presence. The Company may not be able to differentiate its products from those of competitors, or introduce new products that are less costly or offer better performance than those of its competitors. In addition, competitors may be able to offer their products as part of an integrated system to a greater degree than the Company.

### **Proprietary technology and intellectual property**

The Company is dependent on maintaining the proprietary rights in its technology and on rights licensed from third parties. The Company relies on trade secrets and copyright law and non-disclosure and assignment-of-invention agreements to protect its proprietary technology. Competitors of the Company may seek to bring actions against the Company for alleged third party infringements. It is possible that the Company's patents could be challenged by a third party and even if the challenge was not successful, it could have a significant impact on the Company's financial and management resources. Competitors may independently develop technologies substantially equivalent or superior to the Company's own technology. Third party patent applications filed earlier may block the Company's own patent applications. The Company's products may be sold in countries where there is less protection of intellectual property rights than under European, US or Israeli law and enforcement of the Company's intellectual property rights may be ineffective. The Company is involved in certain litigation matters, details of which are contained in paragraphs 15.1 and 15.2 of Part V of this document. If the Company is unsuccessful in these actions, this could have material adverse consequences for the Company and its financial position.

### **Risks relating to the Company's location in Israel**

The Company's operations in Israel may be subject to political, economic and security conditions affecting Israel that could increase operating expenses and disrupt its business.

The Company is incorporated under Israeli law and its offices, manufacturing and research and development facilities are located in the State of Israel. Accordingly, political, economic and military conditions in Israel directly affect the Company's operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and her Arab neighbours. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. The future of peace efforts between Israel and her Arab neighbours remains uncertain. Any future armed conflicts or political instability in the region could negatively affect business conditions and harm the Company's operations. Whilst the Company believes that it would be possible to relocate its activities in a relatively short timescale should it be considered necessary to do so, any relocation would have material implications for the Company's operations and tax position. The Company does not have insurance cover against the risk of terrorist attack.

The Company's operations could be disrupted by the absence for significant periods of one or more of its executive officers, key employees or a significant number of other employees because of military service. A number of the Company's executive officers and the majority of its male employees in Israel are obliged to perform military reserve duty, which accumulates annually from several days to up to two months in special cases and circumstances. The length of such reserve duty depends, among other factors, on an individual's age and prior position in the army. In addition, if a military conflict or war occurs, these persons could be required to serve in the military for extended periods of time. Any disruption in the Company's operations as the result of military service by key personnel could harm its business.

In the years ended 31 December 2004 and 2005, over 50 per cent. of the Company's sales were outside of Israel. The Company's products are marketed internationally and therefore may be subjected to trade

restrictions, export licence requirements and currency fluctuations, all of which could adversely affect the Company's financial condition, operating expenses and business.

### **Israeli law**

Shareholders rights and responsibilities will be governed by Israeli law and these differ from the rights and responsibilities of shareholders under English law or the law of other non-Israeli jurisdictions. The Company is incorporated under Israeli law. The rights and responsibilities of holders of the Ordinary Shares are governed by the Company's memorandum of association, the Company's articles of association and by Israeli law. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his power in the company, including, amongst other things, in voting at the general meeting of shareholders on certain matters. Further details are set out in paragraph 17.4 of Part V of this document.

### **Health and safety**

In recent years there has been widespread press coverage of potentially negative health and safety effects of electromagnetic emissions from cellular and other wireless devices, including those of the sort produced by the Company. It is possible that this could give rise to litigation or other actions against the Company and to greater regulation of the products produced by the Company. This could negatively impact the Company's business, financial condition and results from operations. Even if concerns regarding the health and safety of electromagnetic radiation prove to be baseless, the publicity associated with this could adversely affect the Company's ability to market its products.

### **The City Code on Takeovers and Mergers**

The Company is incorporated in Israel and its head office and place of central management is in Israel. Accordingly, transactions in shares of the Company are not subject to the provisions of the UK City Code on Takeovers and Mergers. Under the Companies Law, a potential bidder for the Company's shares, who would as a result of a purchase of shares hold either 25 per cent. or more of the voting rights in the Company when no other party holds 25 per cent. or more, or 45 per cent. or more of the voting rights in the Company where no other shareholder holds 45 per cent. or more of the voting rights, would be required to make a special purchase offer as set out in the provisions of the Companies Law.

The Companies Law requires a special purchase offer to be submitted to shareholders for a pre-approval vote. A majority vote is required to accept the special purchase offer. A 'controlling shareholder', as defined under the Companies Law, cannot vote on the resolution. In the event that such vote has been passed, those shareholders who failed to respond to the special purchase offer and those who may have initially rejected the offer will have up to 4 days to decide if they wish to vote in favour of the special purchase offer. If such shareholders decide to vote in favour of the special purchase offer they will be considered as having originally voted in favour of such. A special purchase offer may only be accepted in the event that at least 5 per cent. of the voting rights in the target company have been acquired under it. Further information is contained in paragraph 17.5 of Part V of this document.

### **Dependence on key personnel**

The Company relies on professional and skilled staff in the field of antennas. The simultaneous departure of such key employees could cause the Company difficulties in manufacturing and supplying its products and would consequently have a material adverse affect on the Company's business.

### **Volatility of share price**

The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a number of events and factors, Company specific or otherwise, such as variations in operating results, changes in financial estimates, recommendations by securities analysts, the operating and share price performance of other companies which investors may deem comparable to the Company and news reports relating to trends

in the geographical and sectoral markets in which the Company operates. These factors may adversely affect the trading price of the Ordinary Shares, regardless of the Company's operating performance.

### **Foreign exchange**

All of the Company's salaries are payable in NIS. However, most of its revenues are US\$ denominated (although some income is payable in NIS according to the exchange rate on the charging date). The Company has also selected US\$ as its presentation currency. Accordingly, the Company may be exposed to differentials in the NIS exchange rate as against the US\$. The Company could be adversely affected by changes in the exchange rates between these currencies. The Company does not currently engage in hedging or use any other financial arrangement to minimise risk.

### **Business Licence**

The Company does not have a valid business licence in respect of its head office in Rosh Ha'ayin, Israel. Under Israeli law, a court may order the suspension of business at the premises that operates without a business licence and this may also result in the imprisonment or imposition of a fine on the violating party (including any acting officers of the Company). The Company is in the process of obtaining a business licence.

### **Realisation of investment**

Potential investors should be aware that the value of shares and income from them can go down as well as up, that Admission of the Ordinary Shares to trading on AIM should not be taken as implying that there will be a liquid market in the Ordinary Shares and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. An investment in the Ordinary Shares may therefore be difficult to realise.

### **Liquidity of the Ordinary Shares**

It may be more difficult for an investor to realise his or her investment in a company whose shares are traded on AIM than a company whose securities are listed on the Official List of the United Kingdom Listing Authority. AIM has been in existence since June 1995 but its future success and liquidity as a market for the Ordinary Shares cannot be guaranteed. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up and investors may therefore not recover their initial investment, especially as the market in the Ordinary Shares may have limited liquidity.

**The risk factors listed above do not necessarily comprise all those associated with an investment in the Company.**

## PART III

### A – Accountants’ report on the Company for the three years ended 31 December 2005



**BDO Ziv Haft**  
Certified Public Accountants

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46-48 Menachem Begin Road  
Tel Aviv 66184  
Israel

The Directors  
MTI Wireless Edge Ltd.  
11 Hamelacha Street  
Afek Industrial Park  
Rosh Ha'ayin 48091  
Israel

The Directors  
Corporate Synergy Plc  
30 Old Broad Street  
London  
EC2N 1HT

Dear Sirs

**MTI Wireless Edge Ltd. (the “Company”)**

#### **Introduction**

We report on the financial information set out in Section B of Part III. This financial information has been prepared for inclusion in the admission document dated 7 March 2006 of MTI Wireless Edge Ltd. (the “Admission Document”) on the basis of the accounting policies set out in note 1 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

As described in Section B of Part III, the Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with international financial reporting standards (“IFRSs”), including International Accounting Standards and Interpretations adopted by the International Accounting Standards Board, as applicable for the relevant period.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document a true and fair view of the state of affairs of the Company as at the dates stated and of its results and cash flows for the years then ended in accordance with the basis of preparation set out in note 1 to the financial information and has been prepared in accordance with IFRS as described in note 1 to the financial information.

### **Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Ziv Haft  
Certified Public Accountants  
BDO Member Firm

## B – Financial information on the Company

### FINANCIAL INFORMATION

#### Responsibility

The Directors of the Company are responsible for preparing the financial information set out below on the basis of preparation set out in note 1 to the financial information and in accordance with international financial reporting standards (“IFRSs”), including International Accounting Standards and Interpretations adopted by the International Accounting Standards Board, as applicable for the relevant period.

#### Profit and loss accounts

	<i>Notes</i>	<i>31 December 2003 \$000</i>	<i>31 December 2004 \$000</i>	<i>31 December 2005 \$000</i>
<b>Revenues</b>	2	6,011	8,420	11,694
Cost of sales		(3,632)	(4,915)	(6,780)
<b>Gross profit</b>		<u>2,379</u>	<u>3,505</u>	<u>4,914</u>
Research and development expenses		(949)	(928)	(855)
Selling and marketing expenses		(818)	(963)	(1,237)
General and administrative expenses		(934)	(634)	(779)
Operating (loss)/profit	2	<u>(322)</u>	<u>980</u>	<u>2,043</u>
Financial income/(expense)		148	(87)	(164)
<b>(Loss)/profit on ordinary activities before taxation</b>		(174)	893	1,879
Tax on (loss)/profit from ordinary activities	3	–	–	(130)
<b>(Loss)/profit on ordinary activities after taxation</b>		<u>(174)</u>	<u>893</u>	<u>1,749</u>
<b>(Loss)/earnings per share</b>	4			
Basic (loss)/earnings per share		(\$16.49)	\$85.13	\$166.73
Diluted (loss)/earnings per share		(\$16.49)	\$70.72	\$138.33

**Balance sheets**

		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
		<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>Notes</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<b>Fixed assets</b>				
Intangible assets	5	474	406	450
Tangible assets	6	1,660	1,557	1,441
		<u>2,134</u>	<u>1,963</u>	<u>1,891</u>
<b>Current assets</b>				
Cash and cash equivalents	7	398	984	3,980
Short term investment		1,952	2,036	–
Trade receivables	8	2,015	2,227	3,405
Other receivables	9	158	232	265
Inventories		629	1,317	1,008
		<u>5,152</u>	<u>6,796</u>	<u>8,658</u>
<b>Total Current assets</b>				
		5,152	6,796	8,658
<b>Long term prepaid expenses</b>		20	31	26
		<u>20</u>	<u>31</u>	<u>26</u>
<b>Total assets</b>		<u>7,306</u>	<u>8,790</u>	<u>10,575</u>
<b>Current liabilities</b>				
Credit from banks and current maturities of long-term loans	10	87	87	87
Trade payables		1,122	1,752	1,669
Other accounts payable	11	509	478	599
		<u>1,718</u>	<u>2,317</u>	<u>2,355</u>
<b>Total current liabilities</b>				
		1,718	2,317	2,355
<b>Long term liabilities</b>				
Liabilities to banks	12	283	196	109
Severance pay	13	158	162	174
		<u>441</u>	<u>358</u>	<u>283</u>
<b>Total long term liabilities</b>				
		441	358	283
<b>Shareholders' funds</b>				
Share capital	14	2	2	2
Additional paid-in capital		7,413	7,488	7,561
Retained earnings/(accumulated deficit)		(2,268)	(1,375)	374
		<u>5,147</u>	<u>6,115</u>	<u>7,937</u>
		<u>7,306</u>	<u>8,790</u>	<u>10,575</u>

## Statement of changes in shareholders' equity

	<i>Share capital \$000</i>	<i>Additional paid in capital \$000</i>	<i>Retained earnings/ (accumulated deficit) \$000</i>	<i>Total \$000</i>
<b>Balance at 1 January 2003</b>	2	7,070	(2,094)	4,978
<b>Changes in 2003</b>				
Surplus arising from options granted to employees	–	343	–	343
Net loss	–	–	(174)	(174)
<b>Balance at 31 December 2003</b>	<u>2</u>	<u>7,413</u>	<u>(2,268)</u>	<u>5,147</u>
<b>Changes during 2004</b>				
Surplus arising from options granted to employees	–	75	–	75
Net profit	–	–	893	893
<b>Balance at 31 December 2004</b>	<u>2</u>	<u>7,488</u>	<u>(1,375)</u>	<u>6,115</u>
<b>Changes during 2005</b>				
Surplus arising from options granted to employees	–	73	–	73
Net profit	–	–	1,749	1,749
<b>Balance at 31 December 2005</b>	<u>2</u>	<u>7,561</u>	<u>374</u>	<u>7,937</u>

**Cash flow statement**

	<i>31 December</i> <i>2003</i> <i>\$000</i>	<i>31 December</i> <i>2004</i> <i>\$000</i>	<i>31 December</i> <i>2005</i> <i>\$000</i>
<b>Cash flows from operating activities</b>			
Net (loss)/profit after taxation	(174)	893	1,749
Adjustments to reconcile net income to net cash provided by operating activities			
Compensation expenses resulting from options granted to employees	343	75	73
Depreciation and amortisation	346	349	272
Gain on short-term investments	(88)	(87)	(58)
Deferred tax	–	–	(51)
Severance pay, net	17	4	12
Changes in operating assets and liabilities			
(Increase)/decrease in inventories	(286)	(688)	309
Increase in trade receivables	(677)	(212)	(1,178)
Decrease/(increase) in other accounts receivable for short and long term	23	(84)	(21)
Increase/(decrease) in trade payables	589	652	(128)
Increase/(decrease) in other accounts payable	8	(31)	121
<b>Net cash provided by operating activities</b>	<u>101</u>	<u>871</u>	<u>1,100</u>
<b>Cash flow from investing activities</b>			
Purchase of short-term investment	(1,863)	–	2,095
Purchase of fixed assets	(214)	(198)	(112)
<b>Net cash used in investing activities</b>	<u>(2,077)</u>	<u>(198)</u>	<u>1,983</u>
<b>Cash flows from financing activities</b>			
Short-term credit from bank, net	(42)	–	–
Repayment of long-term loans	(78)	(87)	(87)
<b>Net cash used in financing activities</b>	<u>(120)</u>	<u>(87)</u>	<u>(87)</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	<u>(2,096)</u>	<u>586</u>	<u>2,996</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>2,494</u>	<u>398</u>	<u>984</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>398</u>	<u>984</u>	<u>3,980</u>

**Major non-cash transactions**

	<i>31 December</i> <i>2003</i> <i>\$000</i>	<i>31 December</i> <i>2004</i> <i>\$000</i>	<i>31 December</i> <i>2005</i> <i>\$000</i>
Purchase of fixed assets against trade payables	<u>31</u>	<u>10</u>	<u>–</u>

## Notes to the financial information

### 1 Accounting policies

#### *General*

MTI 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. The fees for those services are adjusted once a year according to actual expenditures.

#### Definitions:

In this financial information:

Nominal financial reporting	–	financial reporting on the basis of reported amounts.
The Company	–	MTI Wireless Edge Ltd.
Interested parties	–	As defined in IAS 24.
Index	–	The Consumer Price Index (“CPI”) as published by the Central Bureau of Statistics in Israel.

#### *Basis of preparation*

##### *Adoption of new and revised international reporting standards*

In the current year, the Company has adopted new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised standards has resulted in changes to the Company’s accounting policies in the following areas that have affected the amounts reported in the current and prior years.

##### *Goodwill*

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 amortising 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. Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

No amortisation has been charged in 2005. The charge in 2004 was \$68,000.

##### *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 2003, this had an impact of an expense to the income statement of \$343,112. In 2004, the amount expensed was \$75,196 and in 2005 \$57,013.

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

#### *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.

#### *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.

The fixed assets of the segments include the assets that are used directly in the segment.

#### *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.

#### *Provision for doubtful accounts*

Provision for doubtful accounts is computed on a specific basis in respect of identifiable debts which, in the opinion of the Company's management, is in doubt.

#### *Inventory*

Inventory is valued at the lower of cost or market value. Cost is determined on the adjustable cost average basis.

#### *Goodwill*

The goodwill was created when all the activities, assets and certain liabilities relating to the development, design, manufacture and marketing of antennas were transferred from the Parent Company to the Company. Until 2005 goodwill is amortized by the straight line method over a ten year period commencing on the date of acquisition by the Parent Company. From the 2005 financial year onwards, in accordance with IFRS 3, goodwill is no longer amortized but tested annually for impairment.

#### *Fixed assets*

Fixed assets are stated at cost net of accumulated depreciation with deduction of provision of impairment of assets according to International Accounting Standard No. 36. Depreciation is computed by the straight line method, based on the estimated useful lives of the assets, as follows:

	<i>Rate of depreciation</i>
Machinery and equipment	6 – 20%
Leasehold improvements	2 – 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.

#### *Provision for warranty*

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

#### *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 recognised when the merchandise is delivered to the customer, provided no significant vendor obligations remain.
3. Revenues from maintenance services are recognised based on the proportionate share of the maintenance services under the contract to be provided in each year of account.

#### *Research and development*

Research and development costs are charged to the statement of profit and loss as incurred.

#### *Taxes on income*

1. 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.
2. Deferred taxes are determined in accordance with IAS 12, utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred tax balances are computed using the tax rates expected to be in effect when these differences reverse.

#### *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).

#### *Financial instruments*

Financial assets and financial liabilities are recognized on the Company’s balance sheet when the Company becomes a party to the contractual provisions of the instrument in accordance with IAS 39.

#### *Foreign currency*

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in profit or loss for the period.

#### *Earnings Per Share*

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

*Details regarding exchange rate and index:*

Data regarding the Index and the exchange rates of the U.S. dollar (“dollar”) are presented below:

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Index (in points)	103.0	100.6	99.4
Dollar (NIS per dollar)	4.603	4.308	4.379
		<i>Percentage of change</i>	
Index	2.39	1.21	(1.89)
Dollar	6.85	(1.62)	(7.56)

2 *Segment information*

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Analysis of turnover by class of business:			
Commercial	4,605	7,189	10,044
Military	1,406	1,231	1,650
	<u>6,011</u>	<u>8,420</u>	<u>11,694</u>
Analysis of turnover by geographical segments:			
Israel	3,056	3,598	5,666
North America	2,280	3,028	3,422
Europe	198	1,155	1,902
Other	477	639	704
	<u>6,011</u>	<u>8,420</u>	<u>11,694</u>
Analysis of operating profit/(loss) by class of business			
Commercial	(512)	667	1,690
Military	190	313	353
	<u>(322)</u>	<u>980</u>	<u>2,043</u>

3 *Taxes on Income*

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 per cent. on income derived from the approved enterprise, subject to fulfillment 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 per cent., 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 per cent. 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 per cent. for 2004 tax year, 34 per cent. for the 2005 tax year, 31 per cent. for the 2006 tax year, 29 per cent. for the 2007 tax year, 27 per cent. for the 2008 tax year, 26 per cent. for the 2009 tax year and 25 per cent. 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 not yet received final tax assessments since its foundation.

C. Composition:

	<i>31 December</i> <i>2003</i> <i>\$000</i>	<i>31 December</i> <i>2004</i> <i>\$000</i>	<i>31 December</i> <i>2005</i> <i>\$000</i>
Income tax	–	–	181
Deferred income tax	–	–	(51)
	<u>–</u>	<u>–</u>	<u>130</u>
Reconciliation of effective tax rates			
	<i>31 December</i> <i>2003</i> <i>\$000</i>	<i>31 December</i> <i>2004</i> <i>\$000</i>	<i>31 December</i> <i>2005</i> <i>\$000</i>
Income (loss) before tax as per profit and loss statement	(174)	893	1,879
Statutory tax in Israel	36%	35%	34%
Theoretical tax expense (benefit)	(63)	313	639
Non deductible expenses	428	147	85
Losses and temporary differences for which deferred taxes were not recorded	(10)	(653)	(706)
Non taxable gains	(88)	(87)	(58)
Other	(267)	280	221
Taxes on income as per profit and loss statement	<u>–</u>	<u>–</u>	<u>181</u>
Effective tax rate	<u>–</u>	<u>–</u>	<u>9.6%</u>

4 (Loss)/earnings per share

	<i>31 December</i> 2003 \$000	<i>31 December</i> 2004 \$000	<i>31 December</i> 2005 \$000
(Loss)/earnings for the purposes of (loss)/earnings per share	(174)	893	1,749
	<u>31 December</u> 2003 \$000	<u>31 December</u> 2004 \$000	<u>31 December</u> 2005 \$000
<b>Number of shares</b>			
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	10,490	10,490	10,490
Share options	–	2,137	2,154
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u>10,490</u>	<u>12,627</u>	<u>12,644</u>

5 Fixed Assets – Intangible assets

	<i>Deferred</i> <i>tax</i> \$000	<i>Goodwill</i> \$000	<i>Total</i> \$000
<b>Cost</b>			
As at 1 January 2003	–	678	678
<b>As at 31 December 2003</b>	–	678	678
<b>As at 31 December 2004</b>	–	678	678
Provision in the year	44	–	44
Elimination of accumulated amortisation prior to adoption of IFRS3	–	(272)	(272)
<b>As at 31 December 2005</b>	<u>44</u>	<u>406</u>	<u>450</u>
<b>Amortisation</b>			
As at 1 January 2003	–	136	136
Provided for the year	–	68	68
<b>As at 31 December 2003</b>	–	204	204
Provided for the year	–	68	68
<b>As at 31 December 2004</b>	–	272	272
Elimination of accumulated amortisation prior to adoption of IFRS3	–	(272)	(272)
<b>As at 31 December 2005</b>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net book value</b>			
As at 1 January 2003	–	542	542
As at 31 December 2003	–	474	474
As at 31 December 2004	–	406	406
As at 31 December 2005	<u>44</u>	<u>406</u>	<u>450</u>

6 *Fixed Assets – Tangible assets*

	<i>Computers</i> \$000	<i>Machinery &amp; equipment</i> \$000	<i>Office furniture &amp; equipment</i> \$000	<i>Leasehold Improvements</i> \$000	<i>Total</i> \$000
<b>Cost</b>					
As at 1 January 2003	702	2,324	197	185	3,408
Additions	22	103	–	1	126
<b>As at 31 December 2003</b>	<u>724</u>	<u>2,427</u>	<u>197</u>	<u>186</u>	<u>3,534</u>
Additions	10	200	3	–	213
Disposals	(14)	–	–	(22)	(36)
<b>As at 31 December 2004</b>	<u>720</u>	<u>2,627</u>	<u>200</u>	<u>164</u>	<u>3,711</u>
Additions	16	137	3	–	156
<b>As at 31 December 2005</b>	<u>736</u>	<u>2,764</u>	<u>203</u>	<u>164</u>	<u>3,867</u>
<b>Depreciation</b>					
As at 1 January 2003	479	942	113	61	1,595
Provided for the year	82	170	10	17	279
<b>As at 31 December 2003</b>	<u>561</u>	<u>1,112</u>	<u>123</u>	<u>78</u>	<u>1,874</u>
Provided for the year	67	200	9	12	288
Disposals	(3)	–	–	(5)	(8)
<b>As at 31 December 2004</b>	<u>625</u>	<u>1,312</u>	<u>132</u>	<u>85</u>	<u>2,154</u>
Provided for the year	55	197	9	11	272
<b>As at 31 December 2005</b>	<u>680</u>	<u>1,509</u>	<u>141</u>	<u>96</u>	<u>2,426</u>
<b>Net book value</b>					
As at 1 January 2003	<u>223</u>	<u>1,382</u>	<u>84</u>	<u>124</u>	<u>1,813</u>
As at 31 December 2003	<u>163</u>	<u>1,315</u>	<u>74</u>	<u>108</u>	<u>1,660</u>
As at 31 December 2004	<u>95</u>	<u>1,315</u>	<u>68</u>	<u>79</u>	<u>1,557</u>
As at 31 December 2005	<u>56</u>	<u>1,255</u>	<u>62</u>	<u>68</u>	<u>1,441</u>

7 *Cash and cash equivalents*

	<i>31 December</i> 2003 \$000	<i>31 December</i> 2004 \$000	<i>31 December</i> 2005 \$000
<b>In New Israeli Shekels</b>			
Cash on hand and in banks	1	48	152
Deposits with banks	34	–	–
	<u>35</u>	<u>48</u>	<u>152</u>
<b>In U.S. Dollars</b>			
Deposits with banks	363	936	3,828
	<u>398</u>	<u>984</u>	<u>3,980</u>

8 *Trade receivables*

	<i>31 December</i> 2003 \$000	<i>31 December</i> 2004 \$000	<i>31 December</i> 2005 \$000
Trade accounts receivable	2,113	2,162	3,113
Income receivable	140	65	292
Less: Provision for doubtful debts	(238)	–	–
	<u>2,015</u>	<u>2,227</u>	<u>3,405</u>

9 *Other receivables*

	<i>31 December</i> 2003 \$000	<i>31 December</i> 2004 \$000	<i>31 December</i> 2005 \$000
Deferred tax	–	–	7
Government departments	44	104	–
Employees	85	80	52
Prepaid expenses and advances to suppliers	29	48	206
	<u>158</u>	<u>232</u>	<u>265</u>

The balances receivable from employees are linked to the Index, and bear interest at an annual rate of 4 per cent.

10 *Credit from banks and current maturities of long term loans*

	<i>31 December</i> 2003 \$000	<i>31 December</i> 2004 \$000	<i>31 December</i> 2005 \$000
Current maturities of long-term loans from banks	87	87	87
	<u>87</u>	<u>87</u>	<u>87</u>

11 *Other accounts payable*

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Employees and other salary related liabilities	274	261	273
Related parties	220	208	200
Income tax assessor	–	–	82
Institutions	–	–	32
Customer advances	15	9	12
	<u>509</u>	<u>478</u>	<u>599</u>

12 *Liabilities to banks*

*Composition:*

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Total long-term liabilities	<u>283</u>	<u>196</u>	<u>109</u>

*Maturity dates:*

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Maturity dates:			
First year (current maturities)	80	87	87
Second year	87	87	87
Third year	87	87	22
Fourth year	87	22	–
Fifth year	22	–	–
	<u>363</u>	<u>283</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 per cent., 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, 2005, the Company continues to abide by the above commitments.

13 *Severance pay*

*Composition*

	<i>31 December</i> 2003 \$000	<i>31 December</i> 2004 \$000	<i>31 December</i> 2005 \$000
Liability for termination of employee-employer relationship	158	162	174

*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.

14 *Share capital*

1. Share capital authorized, issued and outstanding:

	<i>31 December</i> 2003 \$000	<i>31 December</i> 2004 \$000	<i>31 December</i> 2005 \$000
<b>Ordinary shares, NIS 1 par value each</b>			
Authorised	32,000	32,000	32,000
Issued and outstanding	9,400	9,400	9,400
<b>Preferred A Shares of NIS 1 par value</b>			
Authorised	2,000	2,000	2,000
Issued and outstanding	1,090	1,090	1,090

2. On December 31, 2000, the Company and the Parent Company entered into an agreement with a group of investors (the purchasers) led by Catalyst Fund L.P., to invest in the Company. The amount of the investment was set at approximately \$4.1 million in cash, based on a company value worth of \$40.5 million, before the money. The date stipulated for transfer of the cash was between December 31, 2000 and January 11, 2001. 1,090 preferred A shares of NIS 1 par value were issued through January 11, 2001. These shares are to be converted automatically into ordinary shares of NIS 1 par value for no consideration on a one to one basis if an initial public offering of the Company takes place. In the agreement, the Company declared that it intends to allot approximately 17 per cent. of its share capital to employees under a proposed employee stock option plan. This does not preclude application of section 104D of the Israel Income Tax Ordinance. The preferred A shares have various rights attached to them including a liquidation preference, anti-dilution rights, pre-emption rights and rights of first refusal. All of these rights will fall away upon the closing of an IPO.
3. Options to acquire shares  
In November 2000, the Parent Company's board of directors resolved to authorize the Company's board of directors to grant options to employees.

The Company's board of directors has granted options represent 17 per cent. (after dilution) of the Company's share capital to employees of the Company, the Parent Company, and M.T.I. Engineering Ltd. (subsidiary of the Parent Company), without consideration. Each option can be exercised to purchase one ordinary share of NIS 1 par value of the Company. Immediately upon allotment, the ordinary shares purchased in exercise of the options will have the same rights as other company ordinary shares.

In May 2005, the Company granted another 17 options as part of its ESOP.

As of December 31, 2005 the total number of outstanding options is 2,154.

This plan will be subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance.

During 2004, the Company granted 28 options. Each option can be exercised to purchase 1 ordinary shares of NIS 1 par value of the Company at an exercise price of NIS 1 per share.

The options vest over a four year period and can be exercised within six years of the vesting period. In the event of an employees' termination of employment, such employee will have a period of 90 days in which to exercise the vested options. Any non vested options will be cancelled on termination. The approximate value of each options is \$2,400.

## 15 *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 per cent.-3.5 per cent. are payable on sales of products developed from a project so funded, up to 100 per cent. 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, 2005 is \$470,000. During the year 2005 the Company did not pay any royalties.

### B. Guarantees

The Company has guarantees in favour of customers in the amount of US\$79,000. The guarantees are mainly to guarantee advances received from customers.

### 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.

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.

The outcome of the litigation is still pending.

#### 16 *Financial instruments and monetary balances classified by linkage basis*

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

##### B. Fair value of financial instruments

The financial instruments of the Company consist mainly of cash and cash equivalents, current and non-current receivables, long term loans and other investments, credit from banks and others, accounts payable and long term liabilities to banks and others.

In view of their nature, the fair value of the financial instruments included in the Company's working capital is usually identical or close to their carrying value. The fair value of the long term assets and liabilities mentioned above also approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

#### 17 *Related party transactions*

The Parent Company provides certain financial services to the Company. During 2005, the Company paid \$625,000 (2004: \$550,000, 2003: \$510,000) to the Parent Company, for these services.

#### 18 *Subsequent events*

By Admission the following events will have occurred:

- A. the conversion of all of the Company's employee share options totalling 2,154 options into ordinary shares on a one-for-one basis;
- B. the conversion of all of the Company's preferred A shares into ordinary shares on a one-for-one basis;
- C. the issue of 116 ordinary shares to certain shareholders (see note 14.2) in consideration, *inter alia*, of their renunciation of certain share rights;
- D. the issue of 29 Bonus Shares for each ordinary share totalling 370,040 new ordinary shares (382,800 including the existing ordinary shares and the ordinary shares referred to in Note 18A, B and C above); and
- E. a split of ordinary shares at a ratio of 100 new shares for each ordinary share.

## PART IV

### Pro forma statement of net assets of the Company

The following unaudited pro forma statement of net assets of the Company has been prepared for illustrative purposes only to show the effect on the net assets of the Company of the dividend declaration and the Placing and because of its nature, may not give a true reflection of the financial position of the Company. It has been prepared on the basis that the dividend declaration and the Placing were undertaken as at 31 December 2005 and on the basis set out in the notes:

	<i>As at 31 December 2005 (note 1) \$000</i>	<i>Declaration of dividend (note 2) \$000</i>	<i>Placing (note 3) \$000</i>	<i>Pro forma net assets of the Company \$000</i>
<b>Fixed assets</b>				
Tangible assets	1,441	–	–	1,441
Other assets	450	–	–	450
Long term prepaid expenses	26	–	–	26
	1,917	–	–	1,917
<b>Current assets</b>				
Stock	1,008	–	–	1,008
Debtors	3,670	–	–	3,670
Cash at bank and in hand	3,980	(2,000)	8,838	10,818
	8,658	(2,000)	8,838	15,496
<b>Creditors:</b> amounts falling due within one year	(2,356)	–	–	(2,356)
<b>Net current assets</b>	6,302	(2,000)	8,838	13,140
<b>Long term liabilities</b>	(283)	–	–	(283)
<b>Shareholders' equity</b>	7,936	(2,000)	8,838	14,774

**Notes:**

The pro forma statement of net assets has been prepared on the following basis:

1. The net assets of the Company at 31 December, 2005 have been extracted from the historical financial information on the Company set out in Part III of this document.

Adjustments:

2. Declaration of a dividend of US\$2.0 million on 6 March 2006. The dividend is being declared out of taxable income and is therefore not subject to any further tax by the Company.
3. Net proceeds from the placing being approximately US\$8.8 million, arising from the Placing and Admission.
4. No other adjustments have been made for any changes in the financial position of the Company, including its trading results, since 31 December 2005.

## PART V

### ADDITIONAL INFORMATION

#### 1 Responsibility statement

The Company and the Directors of the Company whose names appear on page 4 of this document under the heading “Directors”, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

#### 2 The Company

The Company was incorporated and registered in the State of Israel with the name MTI Advanced Antenna Technologies Ltd. on 30 December 1998 as a private company limited by shares under the Israeli Companies Ordinance with registered number 51-271930-3. On 13 December 2000, the Company changed its name to MTI Wireless Edge Ltd.. Conditional upon Admission, the Company will change its status at the Israeli Companies Registrar to that of a “Public Company”.

The Companies Law is the primary corporate legislation under which the Company operates.

The registered office and head office of the Company is at 11 Hamelacha Street, Afek Industrial Park, Rosh Ha'ayin, 48091, Israel (telephone number +972 (0) 3 900 8900).

The principal activities of the Company are the development, design, manufacture and marketing/sale of antennas and wave guidance systems for both the military and commercial markets.

#### 3 Subsidiaries

3.1 MTI Wireless Edge Inc. was incorporated in November 2000 in Texas, USA as a wholly-owned subsidiary of the Company for marketing purposes and engaged one employee. In 2001 the Company decided to cease the operations of this subsidiary, whose status is now that of “forfeited existence”.

3.2 Save as disclosed above, the Company has no subsidiaries.

#### 4 Share capital

4.1 The Company was incorporated on 30 December 1998 with an authorised share capital of NIS 34,000 divided into 34,000 Old Ordinary Shares. On 28 December 2000, the Company re-classified 2,000 Old Ordinary Shares into 2,000 Series A Shares.

4.2 Options in respect of the following number of Old Ordinary Shares have been granted under the Share Option Plan as follows:

<i>Date</i>	<i>Number of Old Ordinary Shares subject to option</i>
2005	17
2004	28
2003	161

All options under the Share Option Plan will be exercised immediately prior to Admission.

4.3 On 9 February 2006, each of the 1,090 Series A Shares then in issue were redesignated into 1,090 Ordinary Shares pursuant to the terms of an agreement dated 9 February 2006.

- 4.4 Immediately prior to Admission, the Company will issue 116 Ordinary Shares at \$2,388 per Ordinary Share payable by way of non-cash consideration to certain shareholders pursuant to the terms of an agreement dated 9 February 2006, further details of which are set out at paragraph 13.13 of this Part V.
- 4.5 Immediately prior to Admission, the Company will issue 2,154 Old Ordinary Shares at NIS 1 per Old Ordinary Share (equivalent to 6,462,000 Ordinary Shares) to Jacob Steinmetz to be held in trust on behalf of certain employees of the Company pursuant to the exercise of options under the Share Option Plan.
- 4.6 On Admission, the Company will issue 115,383 Ordinary Shares, in aggregate, to Stewart Millman, Hanna Lerman and Frank Lewis pursuant to the terms of their letters of appointment, further details of which are set out in paragraph 9 of this Part V.
- 4.7 On Admission, the Company will grant 3,730,631 warrants to certain Shareholders of the Company pursuant to the terms of an agreement entered into on 31 December 2000. Further details are set out in paragraph 12 of this Part V.
- 4.8 As of 31 December 2005, being the date of the most recent balance sheet included in Part III of this document and as at 1 January 2005 the registered and issued share capital of the Company was:

<i>Date</i>	<i>Class of shares</i>	<i>Registered</i>		<i>Issued and fully paid</i>	
		<i>number</i>	<i>par value (NIS)</i>	<i>number</i>	<i>par value (NIS)</i>
31 December 2005	Old Ordinary Shares	32,000	32,000	9,400	9,400
1 January 2005	Old Ordinary Shares	32,000	32,000	9,400	9,400
31 December 2005	Series A Shares	2,000	2,000	1,090	1,090
1 January 2005	Series A Shares	2,000	2,000	1,090	1,090

- 4.9 On 6 March 2006 the Company issued, conditional on Admission, 29 Old Ordinary Shares for each issued share held immediately prior to Admission.
- 4.10 By a shareholders resolution passed on 5 March 2006, it was resolved, *inter alia*, conditional on Admission:
- 4.10.1 that the Company adopt new articles of association, being the Articles of Association;
- 4.10.2 that each of the registered but unissued Series A shares be redesignated into one Ordinary Share, having the rights set out in the Articles of Association;
- 4.10.3 that each of the registered and/or issued Old Ordinary Shares be subdivided into one hundred Ordinary Shares having the rights set out in the Articles of Association;
- 4.10.4 that the registered share capital of the Company be increased from NIS 34,000 to NIS 1,000,000 by the creation of an additional 96,600,000 Ordinary Shares having the rights set out in the Articles of Association;
- 4.10.5 that the directors of the Company be empowered, pursuant to article 18.3 of the Articles of Association, to allot Equity Securities (as defined in the Articles of Association) for cash as if article 18.2 of the Articles of Association did not apply to any such allotment, provided that this power shall be limited to the allotment of Equity Securities:
- (a) pursuant to the Placing;
- (b) in connection with an issue or offer of Equity Securities by way of rights or otherwise open for acceptance for a period fixed by the directors of the Company in favour of holders of Equity Securities and any other persons entitled to participate in such issue or offer where the Equity Securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as practicable) to the respective numbers of Equity Securities held by or deemed to be held by them on the record date for such allotment, subject to such exclusions or other arrangements as the directors consider expedient in relation to dealing with fractional entitlements or legal or practical

problems under the laws in any territory or the requirements of any relevant regulatory body or any stock exchange; and

- (c) otherwise than pursuant to sub-paragraphs 4.10.5(a) and 4.10.5(b) above, up to an aggregate nominal amount of NIS 53,800;

and shall expire the date which falls five years after the date of the resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require Equity Securities to be allotted after such expiry and the directors of the Company may allot Equity Securities pursuant to such an offer or agreement as if the power had not expired;

4.10.6 to change the status of the Company at the Israeli Companies Registrar to that of a “Public Company” and to report such change to the Israeli Companies Registrar.

4.11 As of the date of this document, the registered and issued fully paid share capital of the Company is:

<i>Class of shares</i>	<i>Registered</i>		<i>Issued and fully paid</i>	
	<i>number</i>	<i>par value (NIS)</i>	<i>number</i>	<i>par value (NIS)</i>
Old Ordinary Shares	32,000	32,000	10,490	10,490
Series A Shares	2,000	2,000	nil	nil

4.12 The registered and issued fully paid share capital of the Company immediately following Admission will be:

<i>Class of shares</i>	<i>Registered</i>		<i>Issued and fully paid</i>	
	<i>number</i>	<i>par value (NIS)</i>	<i>number</i>	<i>par value (NIS)</i>
Ordinary Shares	100,000,000	1,000,000	53,779,998	537,799.98

4.13 The registered but unissued share capital of the Company immediately following Admission will be NIS 462,200.02 representing approximately 46.2 per cent. of the registered share capital and 85.9 per cent. of the issued Ordinary Share capital of the Company.

4.14 As of the date of this document, and immediately following Admission, the following persons (other than Directors and their immediate family) had and will have interests in the issued share capital of the Company which, directly or indirectly, represent or will represent, on Admission, 3 per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>As at the date of this document</i>			<i>Immediately following Admission</i>			<i>Percentage of issued share capital assuming exercise of warrants</i>
	<i>Old Ordinary Shares</i>	<i>Series A Shares</i>	<i>Percentage of issued share capital</i>	<i>Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Warrants</i>	
MTI Computers <sup>1</sup>	9,400	nil	89.6	25,635,897	47.7	731,819	45.8
United Mizrahi Bank Ltd.	399	nil	3.8	1,323,000	2.5	1,097,730	4.2
Catalyst Investments L.P.	399	nil	3.8	1,323,000	2.5	1,097,730	4.2
Nortrust Nominees Limited	nil	nil	nil	1,628,205	3.0	nil	2.8

<sup>1</sup> Mokirei Aya Ltd. controls 39.79 per cent. (36.98 per cent. on a fully diluted basis) of the issued share capital of MTI Computers. Mokirei Aya Ltd. is controlled by Zvi Borovitz (25 per cent.), Amalia Borovitz (25 per cent.), Moshe Borovitz (25 per cent.) and Alexander Borovitz (25 per cent.).

4.15 The Directors are satisfied the Company is capable of carrying on its business independently of MTI Computers and that all transactions between the Company and MTI Computers are, and will continue to be, at arms’ length and on a normal commercial basis. To ensure that Shareholders are adequately protected in this regard, on 7 March 2006 the Company entered into a relationship agreement with MTI Computers (the “Relationship Agreement”). Pursuant to the Relationship Agreement, MTI Computers as controlling shareholder has given certain undertakings to the Company so as to ensure that the Company is capable at all times of carrying on its business independently of MTI Computers. Further details of this agreement are contained in paragraph 13.3 of this Part V.

- 4.16 Save as disclosed in paragraph 4.14 of this Part V, the Directors are not aware of any person who, directly or indirectly, is or will be, following the Placing, interested in 3 per cent. or more of the Company's issued ordinary share capital.
- 4.17 The holders of Option Shares have signed individual agreements pursuant to the terms of the Share Option Plan. Under the relevant Israeli law, when options are granted to the employee, both the options and the shares to be issued on exercise of the option, are held in trust for a period of 24 months from the date of grant ("Lock-Up Period"). In the case of the Option Shares the trustee is Jacob Steinmetz (the "Trustee"). In addition to signing this agreement, each holder of Option Shares has executed a power of attorney in favour of the Trustee in which he assigns his voting rights to the Trustee. Under the Share Option Plan the Trustee is not entitled to utilise these voting rights. In addition, under the Share Option Plan, the Option Shares cannot be transferred during the Lock-Up Period.
- 4.18 Save as disclosed in paragraph 4.14 of this Part V, the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 4.19 Save as disclosed in paragraph 4.17 of this Part V, no Shareholder has different voting rights with respect to the Ordinary Shares and each of the Ordinary Shares ranks *pari passu* in all respects.
- 4.20 The Directors are not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.
- 4.21 Save as disclosed in paragraphs 4.2 to 4.7 inclusive of this Part V and other than pursuant to the Placing, in the three years immediately preceding the date of this document, no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued fully or partly paid, for cash or any other consideration or has been purchased by the Company.
- 4.22 Save as disclosed in paragraphs 4.2 and 4.7 of this Part V, no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 4.23 The liability of the Company's shareholders is limited to payment of the par value of each Ordinary Share.

## **5 Memorandum of association**

The principal objects of the Company are set out in full in clause 2 of the Company's memorandum of association and include that the Company may be involved with antennas and products related to antennas and any other object which shall be resolved by the Company.

## **6 Articles of Association**

The Company has, conditional on Admission, adopted new articles of association (the "Articles"). The following is a summary of certain provisions of the Articles:

### **6.1 Allotment of shares**

6.1.1 Subject to the provisions of the Companies Law, the Articles and the terms of any shareholders' resolution creating new shares:

- (a) the unissued shares forming part of the authorised share capital of the Company shall from time to time be under the control of the Board which is entitled to allot them for cash or non-cash consideration on such terms and at such times as the Board deems fit;
- (b) the Board shall have the power to grant any person an option to purchase any unissued shares in the Company, on such terms as the Board thinks appropriate.

6.1.2 The Board may, subject to and in accordance with the provisions of the Companies Law, delegate such powers to a Board committee or to the CEO of the Company.

## 6.2 *Pre-emption rights*

- 6.2.1 Subject to the provisions referred to in 6.2.2 (below), the Company shall not allot any Equity Securities (as defined in the Articles, which includes Ordinary Shares unless allotted in pursuant of an Employees' Share Scheme (as defined in the Articles)) to any person for cash unless it shall first have made an offer to each Shareholder to allot to him on the same or more favourable terms a proportion of those shares which is as nearly as practical equal to the proportion in nominal value of the shares held by him on the record date for any such allotment of the aggregate of all such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in their exclusive discretion to deal with fractional entitlements or legal or practical problems under the laws or the requirements of any regulatory authority or stock exchange in any jurisdiction.
- 6.2.2 The Company may pass a special resolution to authorise the Board to allot Equity Securities in the Company for cash up to a nominal amount specified in such resolution as if the provisions referred to in 6.2.1 (above) did not apply.
- 6.2.3 The power of the Board to allot the shares for cash as if the provisions referred to in 6.2.1 (above) did not apply, shall expire on the date (if any) specified in the resolution save that the Directors shall be entitled before such expiry to allot shares in pursuance of an offer or agreement made by the Company which would or might require shares to be allotted after such expiry.

## 6.3 *Voting rights*

- 6.3.1 Subject to the restrictions referred to in paragraph 6.4.1 (below) and subject to any special rights or restrictions as to voting attached to any class of shares, every holder of Ordinary Shares shall have one vote for each share held by him on every resolution whether voting on a show of hands, by a written ballot or by any other means. A corporate member may authorise any person to be its representative at a general or class meeting and such person shall be entitled to exercise such powers as the corporate member could exercise if it was an individual member.
- 6.3.2 The Board may in its discretion determine the matters that may be voted upon by written ballot to the Company (without attendance in person or by proxy) as shall be permitted by the relevant legislation in addition to the matters listed at section 87(a) of the Companies Law.
- 6.3.3 Any holder of Ordinary Shares entitled to vote may vote either personally or by proxy (who need not be a shareholder of the Company), or if the Shareholder is a corporate member, by a representative authorised pursuant to 6.3.1 (above).

## 6.4 *Restrictions on voting*

- 6.4.1 A Shareholder shall not be entitled to vote at any general or class meeting (or be counted as part of the quorum at the meeting) unless all calls and other sums then payable by him in respect of his shares in the Company have been paid.

## 6.5 *Transfer of shares*

- 6.5.1 No transfer of Ordinary Shares shall be registered unless a proper instrument of transfer has been submitted to the Company or its agent in form satisfactory to the Board and signed by or on behalf of the transferor and (except in the case of a fully paid share) by or on behalf of the transferee, together with the share certificate(s) or such other evidence of title as the Board may reasonably require.
- 6.5.2 The Board has absolute discretion to refuse to register a transfer of any Ordinary Share which is not fully paid up or upon which the Company has a lien without giving a reason, provided that the refusal is not such as to prevent dealings in shares from taking place on an open and proper basis but they must provide the transferee with a notice of the refusal within two months after the date on which the transfer was lodged.

## 6.6 *Alteration of capital*

6.6.1 By resolution and subject to relevant legislation, the Company may:

- (a) increase or reduce its share capital;
- (b) reduce any reserved fund for redemption of capital in any manner, subject to the requirements of the Companies Law;
- (c) consolidate and divide all or any of its share capital, whether issued or unissued, into shares of larger nominal value than its existing shares;
- (d) sub-divide all or any of its share capital, whether issued or unissued, into shares of smaller nominal value than is fixed by the Articles;
- (e) cancel any shares which at the date of the resolution have not been allotted.

## 6.7 *Disclosure notice*

6.7.1 The Company may by notice in writing require a person whom the Company knows or has reasonable cause to believe to be, or to have been, interested in shares in the Company within the last three years, to disclose that fact and particulars of such interest.

6.7.2 A member of the Company shall not be entitled to attend general meetings, or vote in person or by proxy, if he or another person appearing to be interested in the relevant shares has failed fully to comply with a notice given in accordance with provisions relating to the disclosure of interest in the Articles, within fourteen days after the date of service of such notice. In addition, if the relevant shares represent at least 0.25 per cent of the issued shares of that class of shares, the relevant member shall not, unless the Directors determine otherwise, be entitled to receive any dividend or other distribution or to transfer or agree to transfer any of the particular shares or any rights in them. The restrictions will continue until either the information required by the notice is supplied to the Company or the shares in question are transferred or sold in the circumstances set out in the Articles.

## 6.8 *Redeemable shares*

6.8.1 Subject to relevant legislation, the Company may issue redeemable shares and redeem them in a manner to be determined by the Board. Except as provided in the Companies Law, redeemable securities shall not constitute part of the Company's capital.

## 6.9 *Calls on shares*

6.9.1 The Board may make such calls upon a Shareholder as it deems fit in respect of any sum unpaid in respect of Shares held by the Shareholder, unless the sum is payable at a fixed time under the terms of allotment or issue.

## 6.10 *General meetings*

6.10.1 An annual general meeting shall be held once every calendar year at such time (being not more than 15 months after the previous annual general meeting) and such place as the Board may determine.

6.10.2 All general meetings other than Annual General Meetings are called "Special Meetings". The Board may convene a Special Meeting whenever it deems fit, at such time and place, as may be determined by the Board and shall be obliged to do so upon a requisition in writing in accordance with sections 63(b)(1) or (2) and 63(c) of the Companies Law. Any request for convening a meeting must specify the purposes for which the meeting is to be called, shall be signed by the persons requesting the meeting and shall be delivered to the Company's registered office.

- 6.10.3 The Board shall determine the agenda of any general meeting and may accept a request of a Shareholder to include a subject in the agenda.
- 6.10.4 Notice of a general meeting shall be given in such manner as is stipulated in the Companies Law.
- 6.10.5 The quorum for general meetings is two or more holders of Ordinary Shares present in person or by proxy and holding in aggregate at least 25 per cent. of the voting power of the Company. Where such a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be adjourned and, if at such adjourned meeting such a quorum is not present, any one shareholder present in person or by proxy shall constitute a quorum (subject to rules and regulations, if any, applicable to the Company).
- 6.10.6 At any general meeting, a proposed resolution shall be adopted if it is approved by a majority of more than 50 per cent. of the voting power represented at the meeting in person or by proxy and voting (a "simple majority"). Except as otherwise specified in the Articles and subject to the provisions of the Companies Law, any alteration or amendment of the Articles shall require a simple majority.
- 6.10.7 A resolution approving a merger (as defined in the Companies Law) of the Company shall be approved by a simple majority.
- 6.10.8 Every question submitted to a general meeting shall be decided by a show of hands unless a written ballot is demanded by any holder of Ordinary Shares present in person or by proxy and entitled to vote at the meeting.
- 6.10.9 The instrument appointing a proxy shall be in writing, in accordance with the requirements as to the form and content set out in the Articles and shall be delivered to the Company not less than forty eight hours before the time fixed for the meeting.

#### 6.11 *Dividends*

- 6.11.1 Subject to the Articles and any special or restricted rights conferred upon Shareholders as to dividends, any dividend paid by the Company must be allocated among the Shareholders in proportion to the sums paid up on account of the nominal value of their respective holdings in respect of which such dividend is being paid, but without taking into account the premium paid up on those shares. The amount paid up on account of a share which has not yet been called for payment or fallen due for payment and upon which the Company pays interest to the Shareholder shall not be deemed for the purposes of the Articles to be a sum paid on account of the share.
- 6.11.2 A dividend may be paid, wholly or partly, by the distribution of specific assets and, in particular, by distribution of paid-up shares, debentures or debenture stock of any other company or in one or more such ways.
- 6.11.3 The Board may resolve that:
- (a) any monies, investments or other assets forming part of the undivided profits of the Company standing to the credit of any reserve fund or investment funds or assets in the hands of the Company and available for dividends or representing premiums received on the issue of shares and standing to the credit of the share premium account be capitalised and distributed among such of the Shareholders as would be entitled to receive the same if distributed by way of a dividend and in the same proportion on the basis that they become entitled to such payment as capital;
  - (b) all or any part of such capitalised funds be applied on behalf of such Shareholders in paying up in full, either at nominal or at such premiums as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be

distributed accordingly or towards the payment, in full or in part, of the uncalled liability on any issued shares or debentures or debenture stock;

- (c) such distribution or payment shall be accepted by such Shareholders in full satisfaction of their share and interest in the capitalised sum.

6.11.4 The Board may prevent the distribution of a dividend in respect of shares which have not been fully paid up. The Board may also:

- (a) deduct from any dividend payable to any Shareholder all sums (if any) presently payable by such Shareholder to the Company on account of calls or otherwise in relation to the shares of the Company;
- (b) retain any dividend or other monies payable or property distributable in respect of a share in respect of which any person is entitled to become a Shareholder or entitled to transfer until such a person shall become a Shareholder in respect of such a share or shall transfer the same.

6.11.5 The Board may retain any dividend or other monies payable or property distributable in respect of a share on which the Company has a lien and may apply the same in or toward satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

6.11.6 Any dividend unclaimed after a period of seven years from the date of declaration of the dividend and any other money payable in respect of a share which is unclaimed after such period shall be forfeited and shall revert to the Company.

## 6.12 *Return of capital and winding up*

6.12.1 A resolution adopted in a general meeting approved by 75 per cent. of the voting shares represented at such meeting in person or by proxy is required to approve the winding up of the Company.

6.12.2 If the Company is wound up, then (subject to relevant legislation and to the rights of any holders of shares with special rights upon a winding up):

- (a) the assets of the Company available for distribution among the Shareholders shall first be distributed in proportion to the nominal value of their respective holdings of fully paid-up shares in respect of which such distribution is being made;
- (b) if a class of shares has no nominal value, the assets available for distribution shall be distributed to the Shareholders in proportion to their respective holdings of the shares in respect of which such distribution is being made.

## 6.13 *Directors*

### 6.13.1 *Borrowing Powers*

The Company may borrow or secure the payment of any sum(s) of money for the purposes of the Company and may secure or provide for the repayment of such sum(s) in such manner, at such times and upon such terms and conditions as it thinks fit. The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to any subsidiaries so as to secure (so far, as regards any subsidiary, as by such exercise they can secure) that the aggregate principal amount outstanding at any time in respect of all monies borrowed by the Company and its subsidiaries (exclusive of any intra-group borrowings), less cash deposited, will not, without the previous sanction of a shareholders' resolution of the Company, exceed sixty per cent. of revenue or any higher limit fixed by a resolution of the shareholders. For these purposes, "revenue" means the value of goods or services provided by the Company and its subsidiaries and accounted for under International Financial Reporting Standards in relation to the immediately preceding financial year of the Company and its subsidiaries (but excluding intra-group sales).

#### 6.13.2 Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall deem fit, and may invest any sum so set aside in any manner.

#### 6.13.3 Exercise of Powers of Directors

A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the directors present when such resolution is put to a vote and voting thereon.

#### 6.13.4 Minimum and maximum number

Unless altered by a Shareholders' resolution of the Company, the minimum number of directors of the Company is three and the maximum number is nine.

#### 6.13.5 Remuneration and expenses

A director will only be paid remuneration by the Company for his services as a director if such remuneration is approved pursuant to the Companies Law.

Subject to the relevant legislation, reimbursement of expenses incurred by a director in carrying out his directorial duties shall be made pursuant to the policy of the Board.

#### 6.13.6 Appointment, removal and shareholding qualification

- (a) The directors shall be elected (or re-elected) at the annual general meeting, or at any other general meeting by simple majority vote of the Shareholders. Each Director shall serve, subject to 6.13.6(d) hereof, until the next annual general meeting following the annual general meeting at which such Director was appointed. The Shareholders shall be entitled to remove any Director(s) from office by a Shareholders' resolution, all subject to applicable law. Should an annual general meeting not elect Directors, then the Directors in office shall continue to serve as Directors until being replaced or re-elected, as the case may be, by any general meeting.
- (b) Nominations for the election of directors may be made by the Board or a committee of the Board or any Shareholder(s) holding at least 1 per cent. of the voting rights in the issued share capital of the Company in accordance with the Articles and the Companies Law.
- (c) The Board may at any time appoint a director, whether to fill a vacancy or as an additional director (provided that the number does not exceed the maximum number of directors set out in the Articles). Any such director shall hold office until the next annual general meeting unless he is removed earlier by a Shareholders' resolution or by the Board.
- (d) The office of a director shall be vacated automatically if:
  - (i) the director dies;
  - (ii) the director is found to be legally incompetent;
  - (iii) the director becomes bankrupt;
  - (iv) the director is prevented by applicable law from serving as a director of the Company or if his directorship expires pursuant to the Companies Law (including the provisions of section 228 of the Companies Law);
  - (v) the Board has to terminate the director's office in accordance with Section 231 or 232 of the Companies Law;

- (vi) a court order is given in respect of that director in accordance with Section 233 of the Companies Law;
- (vii) the director's period of office has terminated in accordance with the Articles;
- (viii) the director resigns in writing;
- (ix) the director is removed pursuant to paragraph 6.13.6(a) (above).

6.13.7 The office of an External Director shall be vacated only in accordance with the relevant provisions of the Companies Law.

6.13.8 A director shall not be required to hold any shares in the Company.

6.14 *Directors' interests*

Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with:

6.14.1 any director where such director has a personal interest (directly or indirectly held); or

6.14.2 any third party where a director has a personal interest (directly or indirectly held).

6.15 *Approval of certain related parties transactions*

A transaction between the Company and an office holder, including transactions concerning compensation of non-director office holders, and a transaction between the Company and a third person in which an office holder of the Company has a personal interest, which is not an extraordinary transaction as such term is defined under the Companies Law, will require only the approval of the Board or a committee of the Board of Directors. Except to the extent permitted by the Companies Law, a director or other office holder shall neither participate in deliberations concerning or vote upon a resolution approving a transaction with the Company in which he has a personal interest.

6.16 *Committees of the Board*

Subject to the provisions of the Companies Law, the Board may delegate certain powers to committees consisting of two or more directors. Any such committee must comply with any regulations imposed on it by the Board and shall not be empowered to further delegate its responsibilities.

6.17 *Proceedings of the Board*

6.17.1 The Board must meet at least once every calendar quarter and not less than five times a year.

6.17.2 Unless otherwise unanimously decided by the Board, a quorum at a meeting of the Board shall be constituted by the presence of a majority of the Directors who are lawfully entitled to participate in the meeting.

6.17.3 The Chairman shall not have a casting vote in the event of a tied vote.

6.18 *Insurance and indemnity of officers*

6.18.1 Subject to the Companies Law, the Company may:

- (a) exculpate an officer in advance and retroactively from liability for damage resulting from breach of duty of care to the Company to the fullest extent permitted under the Companies Law;
- (b) insure the liability of an officer to the fullest extent permitted under the Companies Law;
- (c) indemnify an officer, in advance and retroactively, to the fullest extent permitted under the Companies Law;

(d) without derogating from the above, indemnify an officer in respect of any of the following liabilities, expenses or obligations when they are incurred in his capacity as an officer of the Company:

- (i) a financial obligation imposed on him in favour of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by court;
- (ii) reasonable legal fees, including attorney's fees, incurred by an office holder in consequence of an investigation or proceeding filed against him by an authority that is authorised to conduct such investigation or proceeding, and that resulted without filing an indictment against him/her and without imposing on him/her a financial obligation in lieu of a criminal proceeding, or that resulted without filing an indictment against him/her but with imposing on him a financial obligation as an alternative to a criminal proceeding in respect of an offence that does not require the proof of criminal intent.

For the purposes of this Article –

A proceeding that ended without an indictment in a matter in respect of a which an investigation was conducted, means – closing the case pursuant to Section 62 of the Criminal Procedure Act Combined Version 5742 – 1982 (the “Criminal Procedure Act”) or a stay of proceedings by the Administrator General pursuant to Section 231 of the Criminal Procedure Act;

“Financial obligation in lieu of a criminal proceeding”, means – a financial obligation imposed by law as an alternative to a criminal proceeding, including an administrative fine pursuant to the Administrative Offenses Act 5746 – 1985, a fine with respect to an offence which was defined as a “finable offence” under the Criminal Procedure Act, a monetary sanction or a ransom.

- (iii) reasonable litigation expenses, including attorneys' fees, incurred by an office holder or charged to the office holder by a court, in a proceeding instituted against the office holder by the Company or on its behalf or by another person, or in a criminal charge from which the office holder was acquitted, or in a criminal proceeding in which the office holder was convicted of an offense that does not require proof of criminal intent.
- (iv) any other obligation or expenses in respect of which it is permitted or will be permitted under the Companies Law to indemnify an office holder.

The Company may undertake to indemnify the officer (a) prospectively, provided that in respect of 6.16(d)(i) above, the undertaking is limited to events which in the Board's opinion are foreseeable at the time of giving the indemnity in view of the Company's actual business and in such amount or standard as the Board deems reasonable in the circumstances. The undertaking must specify the events that in the Board's opinion are foreseeable in view of the Company's actual business at the time of the undertaking and the amount that the Board deemed reasonable under the circumstances, and (b) retroactively, without derogating from the above and subject to the provisions of the Companies Law.

The Company may also enter into a contract for the insurance of all or part of a liability of any officer imposed on him in respect of an act performed in his capacity as an officer, in respect of each of the following:

- (i) a breach of his duty of care to the Company or to another person;

- (ii) a breach of his duty of loyalty to the Company, provided that the office holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;
- (iii) a financial obligation imposed on him in favour of another person; or
- (iv) any other event in respect of which it is permitted or will be permitted under the Companies Law to insure the liability an office holder.

The Company may also enter into a contract with regard to exculpation, indemnification, and insurance of office holders serving on behalf of the Company in companies controlled by the Company, affiliated or associated companies of the Company or any other company in which the Company has some interest, to the fullest extent permitted under the Companies Law.

#### 6.19 *Depositary Interests*

The Board is authorised to make such arrangements as it may think fit in order to enable shares in the Company to be represented by and exchanged for depositary interests which are eligible to be held and transferred in uncertificated form in a computer-based system whether located in Israel or in any other country. Any such arrangement shall be notified to the Shareholders in such manner as the Board may decide.

#### 6.20 *Modification of Rights*

If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by the terms of issue of the shares of that class, may be modified only upon the approval of a separate class meeting of the shareholders of the shares of such class by way of simple majority.

The provisions of the Articles relating to general meetings shall, *mutatis mutandis*, apply to any separate class meeting of the shareholders of a particular class.

### 7 **Directors' and other interests**

- 7.1 The interests of the Directors (all of which are, unless otherwise stated, beneficial), including their immediate families and persons connected with them, in the issued share capital of the Company as at the date of this document are and immediately following Admission, will be:

<i>Director</i>	<i>As at the date of this document</i>		<i>Immediately following Admission</i>	
	<i>Old Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Zvi Borovitz <sup>1</sup>	291	2.8	873,000	1.6
Moshe Borovitz <sup>2</sup>	70	0.7	210,000	0.4
Dov Feiner <sup>3</sup>	1,063	10.1	3,189,000	5.9
Stewart Ian Millman	nil	nil	38,461	0.07
Frank Lewis	nil	nil	38,461	0.07
Hanna Lerman	nil	nil	38,461	0.07

1 Zvi Borovitz holds options over 291 Old Ordinary Shares (equivalent to 873,000 Ordinary Shares) under the Share Option Plan which will be exercised immediately prior to Admission. On exercise of these options, the 873,000 Ordinary Shares will be held in trust by Jacob Steinmetz pursuant to the terms of an agreement between Jacob Steinmetz, the Company and Zvi Borovitz. Mr Borovitz also has an interest in 25 per cent. of Mokirei Aya Ltd. which controls 39.79 per cent. of the issued share capital of MTI Computers (36.98 per cent. on a fully diluted basis) which has an interest in 89.6 per cent. of the issued share capital of the Company (74.3 per cent. on a fully diluted basis) (47.7 per cent. on Admission).

2 Moshe Borovitz holds options over 70 Old Ordinary Shares (equivalent to 210,000 Ordinary Shares) under the Share Option Plan which will be exercised immediately prior to Admission. On exercise of these options, the 210,000

Ordinary Shares will be held in trust by Jacob Steinmetz pursuant to the terms of an agreement between Jacob Steinmetz, the Company and Moshe Borovitz. Mr Borovitz also has an interest in 25 per cent. of Mokirei Aya Ltd. which controls 39.79 per cent. of the issued share capital of MTI Computers (36.98 per cent. on a fully diluted basis) which has an interest in 89.6 per cent. of the issued share capital of the Company (74.3 per cent. on a fully diluted basis) (47.7 per cent. on Admission).

- 3 Mr Feiner holds options over 1,063 Old Ordinary Shares (equivalent to 3,189,000 Ordinary Shares) under the Share Option Plan which will be exercised immediately prior to Admission. On exercise of their options, the 3,189,000 Ordinary Shares will be held in trust by Jacob Steinmetz pursuant to the terms of an agreement between Jacob Steinmetz, the Company and Mr Feiner. Mr Feiner also holds options over 40,000 shares in MTI Computers and holds 421,732 shares in MTI Computers (representing 3.85 per cent.) of the total issued share capital of MTI Computers (on a fully diluted basis). MTI Computers has an interest in 89.6 per cent. of the issued share capital of the Company (74.3 per cent. on a fully diluted basis) (47.7 per cent. on Admission).
- 7.2 Save as set out in paragraph 7.1 of this Part V, none of the Directors, their immediate families and persons connected with them, has any interest in the share capital of the Company.
- 7.3 Save as disclosed in this document, no Director has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to, the Company and no contract or arrangement exists in which a Director is materially interested and which is significant in relation to the business of the Company.
- 7.4.1 Dov Feiner owes 199,767 NIS to the Company under loans made available to him by the Company. The necessary approvals for these loans, required by Israeli law, were not obtained at the time these loans were made. Dov Feiner has informed the Company of his intention to repay the loans in full following Admission, from the proceeds attributable to him of the dividend referred to at paragraph 17 of Part I of this document.
- 7.4.2 Save as disclosed in this document, there are no outstanding loans granted by the Company to any of the Directors nor are there any guarantees provided by the Company for their benefit.
- 7.5 Save as disclosed in this document, none of the Directors, including their immediate families and persons connected with them, is interested in any financial product referenced by the Ordinary Shares (being a financial product whose value is, in whole or in part, determined directly or indirectly by reference to the price of the Ordinary Shares, including a contract for difference or a fixed odds bet).

## 8 Additional information on the Directors

Other than their directorships of the Company, the current directorships and partnerships of the Directors and the directorships and partnerships held by them over the previous five years are as follows:

<i>Name</i>	<i>Age</i>	<i>Current</i>	<i>Previous</i>
Zvi Borovitz	67	MTI Computers MTI Engineering Ltd. MTEye Security Ltd. Mokirei Aya Ltd. Mokirei Aya Management (2003) Ltd.	None   None
Moshe Borovitz	35	MTI Computers MTI Engineering Ltd. MTEye Security Ltd. Mokirei Aya Ltd. Mokirei Aya Management (2003) Ltd.	
Dov Feiner	49	None	MTI Computers MTI Engineering Ltd. MTEye Security Ltd.

<i>Name</i>	<i>Age</i>	<i>Current</i>	<i>Previous</i>
Stewart Ian Millman	57	Aruna Solutions, Inc Dr Foster Research Ltd. Intellisponse, Inc. Leadcom Integrated Solutions Ltd. North Square Properties (Loughborough) Limited North Square Properties (Worthing) Limited Patsystems plc	Decillion Limited Dr Foster Limited E&C Medical Intelligence Limited HSBC Investments (Latin America) Limited North Square Properties (Lowestoft) Limited Profile Media Group plc The Thames Fund Ltd.
Frank Lewis	60	Bio-Oz Ltd., Imagemetrics Ltd. Interactive Rights Management Limited	Articsoft Limited Concen Limited Exclusive Group plc Jetcam Limited The Industry Limited Yoomedic plc Lloyds British Testing plc
Hanna Lerman	33	None	SunGard Business Integration (UK) Ltd.

Mr Millman was a director of David Gerstein Limited in respect of which a receiver was appointed on 4 June 1975.

Mr Lewis was a director of The Industry Limited until December 2003, which went into administrative receivership in December 2003.

- 8.1 Save as disclosed in this document, as at the date of this document, none of the Directors has:
- 8.2.1 any unspent convictions in relation to indictable offences; or
  - 8.2.2 been declared bankrupt or made any individual voluntary arrangement; or
  - 8.2.3 been a partner in a partnership at the time of or within the twelve months preceding the partnership being subject to a compulsory liquidation, administration or partnership voluntary arrangement; or
  - 8.2.4 been a director of a company at the time of or within the twelve months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors; or
  - 8.2.5 had any asset subject to receivership or been a partner of any partnership at the time of or within the twelve months preceding any asset of such partnership being subject to a receivership; or
  - 8.2.6 been subject to any public criticism by statutory or regulatory authorities (including recognised professional bodies), nor disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## **9 Directors' service agreements and emoluments**

- 9.1 Dov Feiner is engaged as Chief Executive Officer of the Company under the terms of a service agreement dated 13 September 2000 with a current salary of NIS 40,000 (£4,878) per month (excluding bonuses and benefits), terminable by either party on 6 months notice. Dov Feiner is entitled to receive a bonus subject to fulfilling certain criteria. In 2005, he received a bonus of approximately NIS 80,000. Dov Feiner has been a director of the Company since 3 January 1999.
- 9.2 The Company has procured the services of Moshe Borovitz as Finance Director of the Company pursuant to the terms of a management agreement entered into with Mokirei Aya Management (2003)

Ltd. dated 7 March 2006. Further details of this agreement are set out in paragraph 13.4 of this Part V. Moshe Borovitz has been a director of the Company since 3 January 1999.

- 9.3 The Company has procured the services of Zvi Borovitz as a non-executive director and chairman of the Company pursuant to the terms of a management agreement entered into with Mokirei Aya Management (2003) Ltd. dated 7 March 2006. Further details of this agreement are set out in paragraph 13.4 of this Part V. Zvi Borovitz has been a director of the Company since 3 January 1999.
- 9.4 Hanna Lerman has been appointed a non-executive director of the Company with effect from Admission under the terms of a letter of appointment dated 7 March 2006, for a fee of £10,000 per annum for the first year of appointment. In addition, the Company has agreed to issue to Hanna Lerman on Admission, such number of Ordinary Shares as have an aggregate value at the Placing Price of £15,000. In the second and any subsequent years of her appointment, Hanna Lerman shall be entitled to a fee of £20,000 per annum.
- 9.5 Frank Lewis has been appointed a non-executive director of the Company with effect from Admission under the terms of a letter of appointment dated 7 March 2006, for a fee of £10,000 per annum for the first year of appointment. In addition, the Company has agreed to issue to Frank Lewis on Admission, such number of Ordinary Shares as have an aggregate value at the Placing Price of £15,000. In the second and any subsequent years of his appointment, Frank Lewis shall be entitled to a fee of £20,000 per annum.
- 9.6 Stewart Millman has been appointed a non-executive director of the Company with effect from Admission under the terms of a letter of appointment dated 7 March 2006, for a fee of £10,000 per annum for the first year of appointment. In addition, the Company has agreed to issue to Stewart Millman on Admission, such number of Ordinary Shares as have an aggregate value at the Placing Price of £15,000. In the second and subsequent years of his appointment, Stewart Millman shall be entitled to a fee of £20,000 per annum. Any payments in respect of the appointment of Stewart Millman are to be made to Quantum Corporate Finance Consultancy.
- 9.7 Save as set out in paragraphs 9.1 to 9.6 of this Part V, there are no existing or proposed service agreements between the Company and any of the Directors, whether providing for benefits upon termination of employment or otherwise.

## **10 Employees**

As at 31 December 2003, 31 December 2004 and 31 December 2005, the Company employed 45, 48 and 53 persons respectively (excluding three financial department personnel who were engaged under consultancy arrangements). As at the date of this document, the Company employs 59 persons.

## **11 Share Option Scheme**

### **11.1 MTI Wireless Edge Ltd. – Employee Share Option Plan 2000**

The Company adopted the MTI Wireless Edge Ltd. – Employee Share Option Plan 2000 on 23 November 2000 which will be cancelled on Admission.

- 11.2 As at the date of this document, the Company has granted options over 2,154 Old Ordinary Shares (equivalent to 6,462,000 Ordinary Shares) to employees and managers under the MTI Wireless Edge Ltd. – Employee Share Option Plan 2000, all of which will be exercised and the Old Ordinary Shares issued immediately prior to Admission.

## **12 Warrants**

Pursuant to a share purchase agreement (the “Agreement”) between MTI Computers, the Company, Catalyst Investments L.P. (in trust for Catalyst Fund, L.P., Catalyst Fund II, L.P. and Catalyst Fund III, L.P.) (“Catalyst”), Otto Capital GmbH (“Otto”), Alegra Ventures LLC (“Alegra”), The Investment Company of United Mizrahi Bank (“Mizrahi”), S. Rubin and A. Levi (Catalyst, Otto, Alegra, Mizrahi, S Rubin and A. Levi (or their permitted transferees) being collectively referred to as the “Investors”) dated 31 December 2000, as amended, the Company has issued warrants, conditional on Admission, to the Investors and MTI Computers entitling them to purchase a total of 3,730,631 Ordinary Shares at a price per share equal to the

Placing Price (representing 6.49 per cent. of the Enlarged Share Capital, assuming exercise of all such warrants). Each Investor is entitled to subscribe an amount of Ordinary Shares at this share price in an aggregate amount equivalent to 50 per cent. of that respective Investors' investment (being, in aggregate, 50 per cent. of \$4,093,376) and for MTI Computers this amount being 50 per cent. of MTI Computer's loan under this agreement (being 50 per cent. of \$998,934).

The Investors and MTI Computers are entitled to exercise the warrants within a period of 36 months from Admission.

As a result of the above, the Company, as at Admission will have granted the following warrants:

<i>Warrant Holder</i>	<i>Number of warrants exercisable at the Placing Price</i>	<i>Exercise Period</i>
MTI Computers	731,819	36 months from Admission
Catalyst Investments L.P.	1,097,730	36 months from Admission
Otto Capital GmbH	731,820	36 months from Admission
R. Sabet	22,010	36 months from Admission
United Mizrahi Bank Ltd.	1,097,730	36 months from Admission
S. Rubin	35,766	36 months from Admission
A. Levi	13,756	36 months from Admission

### **13 Material Contracts**

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company in the two years immediately preceding the date of this document and which are or may be material:

- 13.1 An agreement (the "Placing Agreement") dated 7 March 2006 between the Company, the Directors, the Selling Shareholder and Corporate Synergy, pursuant to which Corporate Synergy has agreed (conditionally, among other things, on Admission occurring not later than 8.00 a.m. on 31 May 2006) as agent for the Company to use its reasonable endeavours to procure subscribers for the Placing Shares and the Sale Shares, in each case at the Placing Price. The Placing is not underwritten.

Under the Placing Agreement and subject to its becoming unconditional, the Company and the Selling Shareholder have agreed to pay Corporate Synergy a commission on the gross proceeds of the Placing and the Company has agreed to pay Corporate Synergy an advisory fee, together in each case with any applicable VAT. The Company and the Selling Shareholder will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the Registrar, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.

The Placing Agreement contains warranties and indemnities given by the Company, the Directors and the Selling Shareholder to Corporate Synergy as to the accuracy of the information contained in this document and other matters relating to the Company and its business. Corporate Synergy is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission including in the case of a material breach of warranty or a material adverse change in the financial or trading position or prospects of the Company. The Placing Agreement cannot be terminated on or after Admission.

- 13.2 A nominated adviser and broker agreement dated 7 March 2006 between the Company, the Directors and Corporate Synergy pursuant to which Corporate Synergy is retained by the Company as nominated adviser and broker for the purposes of the AIM Rules on and following Admission. The agreement is for an initial term of 12 months from Admission and is thereafter terminable by either the Company or Corporate Synergy giving not less than three months' prior written notice (the first opportunity for giving notice being 9 months after the date of Admission). The agreement contains certain undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations.

- 13.3 A relationship agreement dated 7 March 2006 between the Company and MTI Computers pursuant to which MTI Computers agrees, *inter alia*, to exercise all voting rights and powers of control that it has in relation to the Company and any subsidiaries and subsidiary undertakings in accordance with applicable Israeli law so as to ensure that the Company and its subsidiaries and subsidiary undertakings are capable of carrying on their business at all times independently of MTI Computers and any affiliate or person connected to or acting in concert with MTI Computers or any affiliate (“Specified Person”). MTI Computers undertakes and agrees to use all reasonable endeavours to procure that any affiliate will undertake that any transaction or relationship between MTI Computers, and affiliate and any Specified Person and the Company or any subsidiary or subsidiary undertaking of the Company will be at arms’ length and on a normal commercial basis. MTI Computers will not undertake any activity in conflict with those of the Company which may render the Company incapable of carrying on its business independently or lead to transactions and relationships between the Company and MTI Computers (or any Specified Person) which are not at arm’s length or on a normal commercial basis. Subject to the applicable Israeli laws, MTI Computers undertakes to the Company that it will adhere to all applicable rules and/or regulations applying to the exercise of its rights as a controlling shareholder, including those imposed by the AIM Rules and all other relevant English laws.

MTI Computers confirms that as at Admission, and so far as it is aware, all transactions, agreements or arrangements subsisting between the Company, MTI Computers, its affiliates and/or Specified Persons are on an arm’s length and normal commercial basis, including in particular the management services agreement between the Company and Mokirei Aya Management (2003) Ltd., (a wholly-owned subsidiary of Mokirei Aya Ltd.) described further at paragraph 13.4 below, the services agreement described further at paragraph 13.5 below, the accounting services agreement described further at paragraph 13.6 below and the lease agreement described further at paragraph 13.10 below.

The parties agree that damages may not be an adequate remedy for any breach of the covenants, undertakings and agreements contained in this agreement and the Company shall be entitled to the remedies of injunction, specific performance and other equitable relief for any threatened or actual breach of those covenants, undertakings or agreements.

MTI Computers undertakes that it shall not, and will use all reasonable endeavours to procure that any affiliate and Specified Person will undertake that it shall not, seek to interfere with the independent operation of the Board and in particular, MTI Computers shall not and shall procure that no affiliate or Specified Person shall appoint any director to the Board such that a majority of the directors on the Board would be non-independent directors. MTI Computers undertakes that it shall (and shall procure that its affiliates and Specified Persons shall) at all times, and other than upon a Delisting Event, exercise its voting rights in relation to the Company so as to procure, insofar as it is able to do so by the exercise of those rights, that the Company shall not delist all or any of its shares from AIM. A “Delisting Event” means either of the following events: (i) if 50 per cent. or more of the shareholders of the Company (other than the MTI Computers) vote in favour, at a general meeting of the Company, of delisting all or any of the Company’s shares from AIM; or (ii) a tender offer is made to all shareholders of the Company which, if approved by the relevant majority of the shareholders, results in the delisting of all or any of the Company’s shares from AIM. This agreement terminates in the event that MTI Computers’ shareholding in the Company falls below 30 per cent. of the Company’s issued share capital.

- 13.4 On 7 March 2006 the Company entered into a management services agreement with Mokirei Aya Management (2003) Ltd. (the “Management Company”), a wholly-owned subsidiary of Mokirei Aya Ltd. (which is the majority shareholder of MTI Computers) whereby conditional upon Admission, the Management Company agrees to provide management services to the Company. These management services will consist of the services of Mr. Zvi Borovitz who will serve as a non-executive chairman of the Company and Mr. Moshe Borovitz who will serve as the financial director of the Company (the “Managers”). This agreement amends a management services agreement entered into between the Management Company and MTI Engineering Ltd. on 10 July 2003 whereby the Management

Company agreed to provide management services to MTI Computers and its subsidiaries (including the Company).

In consideration for these services, the Company will pay the Management Company a service fee of NIS 50,000 (inclusive of all taxes and other mandatory payments) and additional benefits (i.e. car, mobile telephone etc.) which will be adjusted to reflect any changes in the Israeli Consumer Price Index as published from time to time. The Management Company will be exclusively responsible for reporting all amounts received from the Company and for paying all taxes due on such amount in accordance with the applicable law and the Management Company will indemnify the Company against any losses, costs and expenses due to any claim by any governmental agency or other body with respect to the payment of such sums. The Company agrees to indemnify the Management Company and the Managers against all losses relating to any claim or demand made by any third party with respect to any breach of duty of care and the Company will exempt the Management Company and/or the Managers from any liability towards the Company in such regard.

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.

All intellectual property integrated, conceived or reduced to writing or otherwise formulated by the Management Company or the individual managers as part of the services rendered will be automatically consigned to the Company. The Management Company is also bound by undertakings of confidentiality and non-competition with the Company. The Management Company may not assign its rights under this agreement.

- 13.5 On 7 March 2006 the Company entered into a services agreement with MTI Computers, (the "Service Agreement") whereby, conditional upon Admission, MTI Computers will provide the Company with general administrative services, computer services, communication services, archive services and directors' and officers' insurance. Upon Admission, this agreement will terminate all prior service arrangements between the Company and MTI Computers.

In consideration for the services to be provided to the Company in 2006, the Company will pay MTI Computers an annual fee of US\$145,000 on a quarterly basis for the preceding calendar quarter in NIS according to the US\$:NIS exchange rate published by the Bank of Israel on the date of payment, against a duly issued invoice.

Upon the conclusion of each calendar year and as long as the Service Agreement is in force, the parties have agreed to determine the scope of the services to be rendered in the following year and the fee to be paid in consideration therefore on an arm's length basis.

The initial term of the Service Agreement is until 31 December 2008 and the Company will have the option to extend this period for one or more 12 month periods by giving MTI Computers written notice at least 90 days prior to the expiration of the initial term. Such notice may be given in respect of any or all of the services. The provision of such renewed services will continue for an additional 12 month period on the same terms contained in the Service Agreement. Following the initial period, either party may terminate the Service Agreement at any time by giving the other party written notice at least 180 days prior to the scheduled termination date.

MTI Computers will be solely responsible for all fees and payments of, *inter alia*, its agents and employees, if any.

MTI Computers also undertakes to keep any information regarding the Company and its business confidential and not to disclose such without having obtained the prior written consent of the Company. This does not apply to information made available to MTI Computers' officers, agents, representatives or advisers in connection with the transactions contemplated by the Service Agreement or where such information is in the public domain through no fault of MTI Computers or which is information required to be disclosed by applicable law.

- 13.6 On 7 March 2006 the Company entered into a services agreement (the “Accounting Services Agreement”) with MTI Computers, whereby, conditional upon Admission, MTI Computers will retain various accounting and bookkeeping services of the Company, including, *inter alia*, the organisation and management of the accounting records of MTI Computers, assistance with the preparation of the financial statements of MTI Computers, assistance with the drafting of accounts, reports and filings required to be submitted to the relevant Israeli authorities, the calculation of the salaries of MTI Computers’ employees and any other accounting and bookkeeping services requested by MTI Computers.

In consideration for these services provided in 2006, MTI Computers will pay the Company an annual fee of US\$30,000 on a quarterly basis for the preceding calendar quarter in NIS according to the US\$: NIS exchange rate published by the Bank of Israel on the date of payment, against a duly issued invoice.

Upon the conclusion of each calendar year and as long as the Accounting Services Agreement is in force, the parties have agreed to determine the scope of the services to be rendered in the following year and the fee to be paid in consideration therefore on an arms length basis.

The initial term of the Accounting Services Agreement is until 31 December 2008 and MTI Computers will have the option to extend this period for one or more 12 month periods by giving the Company written notice at least 90 days prior to the expiration of the initial term. Such notice may be given in respect of any or all of the services. The provision of such renewed services will continue for an additional 12 month period on the same terms contained in the Accounting Services Agreement. Following the initial period, either party may terminate the Accounting Services Agreement at any time by giving the other party written notice at least 180 days prior to the scheduled termination date.

The Company agrees to be solely responsible for all fees and payments of, *inter alia*, its agents and employees, if any.

The Company also undertakes to keep any information regarding MTI Computers and its business confidential and not to disclose such without having obtained MTI Computers’ prior written consent. This does not apply to information made available to the Company’s officers, agents, representatives or advisors in connection with the transactions contemplated by the Accounting Services Agreement or where such information is in the public domain through no fault of the Company or which is information required to be disclosed by the applicable law.

- 13.7 On 31 December 2000 the Company was granted Approved Enterprise status by the Investment Centre in Israel (the “Investment Centre”) for an investment programme to expand the manufacturing facility in Rosh Ha'ayin (the “Approval”). The Approval approves the Company’s investment of NIS 11,808,000 in the manufacturing facility and the development of new equipment and machinery (the “Investment”). On 27 October 2003 the Company was granted a request to reduce the amount of the Investment to NIS 6,977,501. The Company is entitled to receive certain tax benefits for a period of 7 years from the year on which it first generated taxable income (the “Benefits Period”).

The Approval was granted, *inter alia*, upon the following conditions: (i) at least 30 per cent. of the Investment to be made in assets must be funded from the subscription proceeds of the Company’s share capital; (ii) all applicable tax filings must be made with the appropriate authorities and copied to the Investment Centre; (iii) to provide the Investment Centre with a report documenting the progress of the approved enterprise (non-provision of this report by the Company will be regarded as a violation of the Approval); and (iv) on 22 November 2000 the Company undertook to abide by the relevant intellectual property legislation in force in Israel from time to time. In the event that the Company is convicted of a violation of the relevant law, the Investment Centre will be entitled to cancel the tax benefits to which the Company has been entitled and demand repayment of the amount by which the Company has benefited.

Under the Approval, the Company is required to obtain the Investment Centre’s prior written approval for any change in the composition of the Company’s shareholders, including any placement to the

public (on a recognised stock exchange) of more than 49 per cent. of the Company's shares and for any private placement of any percentage within the period from the date of the Approval until the end of the Benefits Period. The conditions imposed upon the Company will stay in place for the entire Benefits Period and, in any event, no less than 7 years from the submission of the Final Report (defined below) to the Investment Centre.

A final report regarding the approved enterprise was submitted to the Investment Centre by the Company's accountant on 30 August 2004 (the "Final Report"). The Investment Centre approved this Final Report on 9 January 2006 and therefore the Benefit Period has begun and the Company will be entitled to such tax benefits set forth in the Approval. The approval of the Final Report reduced the amount of the Investment to NIS 6,868,396.

- 13.8 Pursuant to the Israeli Encouragement of Industrial Research and Development Law of 1984 (the "R&D Law"), certain of Elbit's and MTI Computers' research and development projects were granted "Approved R&D Programme" status by the Office of the Chief Scientist of the Ministry of Industry ("OCS"). Pursuant to a letter from the OCS dated 26 December 2000 (with accompanying certification) the rights and obligations granted to MTI Computers under the various programmes have been transferred to the Company.

Under the R&D Law, the Company is obliged to pay royalties to the Israeli Government. Under the Company's current programmes (as detailed below), royalties are payable at the rate of 2-3 per cent. on the sales of the products developed using the grants received, up to a maximum of the total amount of the grant or to the maximum royalties as set forth in Section 4 of the regulations to the R&D Law. Under R&D Law, the manufacturing of the products developed using the grant, has to take place in Israel. In addition, pursuant to Section 19(c) of the R&D Law, any transfer of knowledge developed under an Approved R&D Programme to any third party requires the prior approval of the research committee of the OCS (the "Research Committee"). Further, Section 19(b) of the R&D Law states that the transfer of such knowledge out of the State of Israel is forbidden without the prior approval of the Research Committee. The Company has the following grants from the OCS:

#### 13.8.1 Programme No. 13503

The Company has undertaken to pay the OCS royalties in the amount of 2 per cent. for certain antennae for which Elbit Ltd. had received grants approved by the OCS pursuant to the acquisition of the antennae activity of Elbit Ltd. by a subsidiary of MTI Computers on 24 March 1994. The total amount received under this grant was NIS 394,173 and the royalties yet to be paid are US\$163,350. The Company is not currently selling any of the products to which this grant relates.

#### 13.8.2 Programme No. 23699

On 18 August 1998, the OCS approved a grant of NIS 882,589 for research and development into flat antennae for 'Point-to-Point' communication systems. The Company has received an amount of NIS 783,998 in relation to this grant. The Company agreed to pay royalties in the amount of 3 per cent. to the OCS on the sale of the antennae which form part of the approved research and development programme under the grant. The Company has not paid any royalties to date. This grant is conditional upon the following actions being taken by the Company: (i) that the approved programme the subject of the grant be concluded by 31 December 1999; (ii) to notify the OCS of any change in the composition of the shareholders of 25 per cent. or more or a 25 per cent. change in the means of control of the Company; and (iii) to obtain the prior written approval of the OCS in the event that anything in (ii) above relates to any foreign company or resident.

Pursuant to a letter dated 3 November 1998, the Company agreed to attach Programme No. 22451 to the programme the subject of the grant. The letter states that the amount received for Programme No. 22451 was NIS 429,000. The Company has yet to repay the amount of US\$114,660. Pursuant to a letter dated 6 February 2000, the OCS granted an extension to the

Company for completion of this combined programme, until December 2000. The Company has yet to repay the amount of US\$306,724 for this combined programme.

- 13.9 Pursuant to a letter from the Israeli Ministry of Defence (“MD”) to the Company dated 9 October 2005, the MD gave approval for the Company to negotiate with foreign countries for the export of military equipment and defence knowledge. The approval states that the Company is required to report its activities with regard to the approved negotiations to the MD every 6 months. The approval is required under Section 2(a) of the Supervision of Products and Services (Export of Military Equipment and Defence Knowledge) Order 1986. In addition the Company has received an approval from the MD dated 6 December 2005 which states that the Company is permitted to negotiate with foreign countries for the purpose of exporting military knowledge and equipment until 30 November 2006.
- 13.10 On 7 March 2006, the Company entered into a lease agreement with MTI Computers relating to 11 Hamelacha Street, Afek Industrial Estate, Rosh Ha’ayin for approximately 3,030 square metres (the “Premises”). The term of the lease is for an initial period until 31 December 2009, with an option to extend the lease for an additional 3 year period (the “Option Period”). The rent for the Premises is US\$7.7 per square metre per month throughout the initial period and will be increased by an amount of 10 per cent. for the Option Period. In addition to the monthly rental payments, the Company will pay a monthly payment of US\$5.5 per square metre per month as a contribution towards certain expenses (including insurance, the use of the car park, maintenance services, rates, water and electricity). This amount will be increased by 5 per cent. on a yearly basis.
- 13.11 An agreement dated 7 March 2006 between the Company, the Directors (other than Zvi Borovitz and Moshe Borovitz), the Lock-In Persons and Corporate Synergy, pursuant to which each of the Directors (other than Zvi Borovitz and Moshe Borovitz) and the Lock-In Persons have undertaken to Corporate Synergy and to the Company not to dispose of any of the Ordinary Shares in which they are interested at Admission, or which they subsequently acquire by way of, for example, a rights issue or exercise of warrants, (subject to certain limited exceptions) within twelve months of Admission without Corporate Synergy’s prior consent. Thereafter, until the second anniversary of Admission they have each undertaken neither to sell nor dispose of any such Ordinary Shares other than through Corporate Synergy (subject to certain limited exceptions).

The restrictions set out above do not apply to:

- (a) the sale or transfer of the Ordinary Shares in connection with an offer to acquire the whole or any part of the shares or the sale of any of the Ordinary Shares to an offeror or potential offeror in respect of such an offer, or potential offer (or to any person acting in concert with the offeror or potential offer) or the entry into an agreement to do any of the same.
- (b) a disposal or agreement to dispose of any Ordinary Shares to the Company made pursuant to an offer by the Company to purchase its own shares.
- (c) a disposal, sale or other transfer of any Ordinary Shares to the shareholder’s Connected Person (as defined in the agreement) provided that, prior to such disposal, sale or transfer, such Connected Person enters into an undertaking not to dispose of the Ordinary Shares in the same form as the undertaking set out in the agreement.
- (d) the disposal, sale or other transfer the Ordinary Shares pursuant to a court order or after his death.
- (e) transfers or disposals of Ordinary Shares for the purpose of effecting the appointment of a new trustee, or for the purpose of retiring as a trustee, of a trust set up for the sole benefit of the restricted person or his Connected Persons provided that such new trustee, before registration of any transfer of such shares to such new trustee, executes an undertaking in relation to such shares in similar terms to that contained in this agreement in a form reasonably satisfactory to the Company and Corporate Synergy.

- (f) transfers or disposals of Ordinary Shares (i) in circumstances of pressing financial need arising from liabilities incurred under the agreement and/or the Placing Agreement; or (ii) in circumstances of severe personal hardship which would, in the opinion of Corporate Synergy, acting reasonably, constitute exceptional circumstances under Rule 21 of the AIM Rules.
- (g) to any disposal of Ordinary Shares pursuant to a compromise or arrangement between the Company and its members.
- (h) to a disposal of Ordinary Shares to the trustees of a settlement or trust set up for the sole benefit of the shareholder or any person a transfer to whom would not be prohibited by the agreement provided that such trustee, before registration of any transfer of such shares to such new trustee, executes an undertaking in relation to such shares in similar terms to that contained in this agreement in a form reasonably satisfactory to the Company and Corporate Synergy.
- (i) a disposal of Ordinary Shares to a company of which the shareholder holds the entire equity share capital provided that, prior to such disposal, such company enters into an undertaking in relation to such shares in the same form as that contained in this agreement.
- (j) a disposal of Ordinary Shares by the shareholder, being a holding company, to its wholly owned subsidiary or by a shareholder, being a wholly owned subsidiary, to its holding company or any other wholly owned subsidiary of that holding company provided that, prior to such disposal, such company enters into an undertaking in relation to such shares in the same form as that contained in this agreement.
- (k) a disposal of Ordinary Shares to a nominee holding on his behalf or on behalf of his Connected Person provided that prior to such disposal, such nominee enters into an undertaking in relation to such shares in the same form as that contained in this agreement.

13.12 An agreement dated 7 March 2006 between the Company, Zvi Borovitz, Moshe Borovitz and Corporate Synergy, pursuant to which each of Zvi Borovitz and Moshe Botovitz have undertaken to Corporate Synergy and to the Company not to dispose of any of the Ordinary Shares in which they are interested at Admission, or which they subsequently acquire by way of, for example, a rights issue (subject to certain limited exceptions) within twelve months of Admission without Corporate Synergy's consent. For the period from the first anniversary until the third anniversary of Admission they will not so dispose of such Ordinary Shares (subject to certain exceptions) without Corporate Synergy's consent or unless the average middle market closing price over any consecutive period of five trading days on AIM exceeds 120 per cent. of the Placing Price, in which case such restriction shall terminate. Until the second anniversary of Admission they have each undertaken neither to sell nor dispose of any of such Ordinary Shares other than through Corporate Synergy (subject to certain limited exceptions).

The restrictions set out above do not apply in the same circumstances as those detailed in paragraph 13.11(a) to (k) inclusive.

13.13 An agreement (the "New Catalyst Agreement") between the Company, MTI Computers, Catalyst Investments L.P., United Mizrahi Bank Ltd., Otto Capital GmbH, Samuel Rubin, Rolen Sabet and Avisor Levi (together, Catalyst Investments L.P., United Mizrahi Bank Ltd., Otto Capital GmbH, Samuel Rubin, Rolen Sabet and Avisor Levi shall be referred to as the "Investors") dated 9 February 2006 pursuant to which the Investors have agreed that they have no claims against the Company as at the date of the New Catalyst Agreement and that certain of their rights as the holders of Series A Shares and under the Catalyst Agreement (as defined below) shall expire immediately prior to Admission, subject to the performance by the parties of their obligations under the agreement. The Investors have accepted the sum of US\$277,000 in return for the cancellation of any rights which they may have as holders of Series A Shares under the agreement entered into between the Company, MTI Computers and the Investors on 31 December 2000 (the "Catalyst Agreement") and the Articles, to be satisfied by the allotment of Old Ordinary Shares in the Company, immediately prior to Admission (being defined as the conclusion of a listing of its entire issued share capital to AIM) and prior to the distribution of any dividend by the Company. For the avoidance of doubt, the number of Old Ordinary

Shares to be issued to each party will be as follows: Catalyst Investments L.P. – 42 Old Ordinary Shares, United Mizrahi Bank Ltd. – 42 Old Ordinary Shares, Otto Capital GmbH – 28 Old Ordinary Shares, Samuel Rubin – 2 Old Ordinary Shares, Rolen Sabet – 1 Old Ordinary Shares and Avisor Levi – 1 Old Ordinary Shares. The Series A Shares convert automatically into Old Ordinary Shares on a one-to-one basis.

- 13.14 An option agreement dated 7 March 2006 between the Company (1) and Corporate Synergy (2) under which, conditionally upon and with effect from Admission, the Company irrevocably grants Corporate Synergy the right to subscribe for 1,075,600 Ordinary Shares at a price per share equal to the Placing Price. The option may be exercised in whole or in part by Corporate Synergy after Admission up to midnight on the third anniversary of Admission. The agreement contains provisions in relation to the adjustment of the exercise price and/or the number of Ordinary Shares the subject of the option if certain changes are made to the Company's share capital.

#### **14 Intellectual Property Rights**

- 14.1 The Company uses patents and confidential information in carrying on its business and licenses intellectual property required for its business from time to time.
- 14.2 The Company has registered the following patents: Israeli patent 28235 relating to flat antenna kit board and US patents numbers 29425 and 32346 relating to flat panel antenna arrays. The Company also has a Canadian and a European patent pending relating to flat panel antenna arrays. The Company has two pending patent applications relating to apparatus for flat antennas. These are patent application 11/203,209 filed in the US on 15 August 2005 and patent application 171460 filed in Israel on 17 October 2005.

#### **15 Litigation**

- 15.1 The Company has received a letter from ARC Wireless Solutions, Inc. ("ARC") dated 13 July 2005 in which ARC accuses the Company of utilising discriminatory pricing practices in the US and violation of the US antitrust laws. In the letter, ARC threaten to file a complaint with the Federal Trade Commission in addition to considering private enforcement against the Company. The Company replied to this letter on 21 July 2005 stating that it does not engage in any discriminatory, predatory or other illegal pricing practices. The Company has asked ARC to provide it with specific facts on which ARC's claims are based and has asked ARC to refrain from threatening the Company with frivolous complaints.
- 15.2 On 3 July 2005, Mars filed a complaint (Civil Case No. 05/1867) in the District Court of Tel Aviv-Jaffa against the Company, MTI Computers and Dov Feiner (collectively, "the Party").

The claim relates to certain printed circuit boards in three models of antenna that the Party sells to one of its customers. Mars claims that the printed circuit boards 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 for a nominal sum of NIS 100,000 (which it reserves the right to modify in the future) and a permanent injunction, collection of the aforementioned antennas, appointment of a receiver and an account of profits. In addition, Mars petitioned for provisional remedies prior to final judgment, including a preliminary injunction, temporary receivership, and collection of the aforementioned antennae. The Company refuted the claims, stating, among other defences, that Mars does not own the copyright in the relevant circuits, that the Law for Protection of Integrated Circuits does not apply to the antennae, that consumers are not confused by any similarity.

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. The District Court denied the motion for stay. On 22 January 2006, the Company filed a petition to the Israeli

Supreme Court for an interlocutory appeal of the preliminary injunction. The Supreme Court has not yet decided the petition.

On 3 November 2005, the Company filed a complaint against Mars (Civil case No. 05/2422) in the District Court of Tel Aviv-Jaffa for infringement of the Company's design of its random<sup>60</sup> covers for antennas and its mounting kit. The lawsuit seeks monetary damages for a nominal sum of NIS 500,000 (which it reserves the right to modify in the future) and a permanent injunction. Mars filed a defence and counter claim on 5 January 2006.

- 15.3 Save as otherwise disclosed in this document, there have been no governmental, legal or arbitration proceedings in the twelve months prior to the date of this document (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the recent past a significant effect on the Company, its financial position or profitability.

## **16 Working Capital**

The Directors, having made due and careful enquiry and having regard to the net proceeds of the Placing, are of the opinion that the working capital available to the Company upon Admission, will be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

## **17 Summary of law in the State of Israel**

The following is a summary of certain provisions of Israeli corporate law relevant to the Company's management and corporate regulations. It should not be regarded as comprehensive.

### *17.1 Audit committee and internal auditor*

17.1.1 Under the Companies Law, the board of directors of a public company must appoint an audit committee, comprised of at least three directors, including all of the external (independent) directors of the company. The audit committee may not include the chairman of the board of directors, any controlling shareholder or a relative of a controlling shareholder and any director employed by the company or who provides services to the company on a regular basis. The role of the audit committee is to examine deficiencies in the management of the company's business, including in consultation with the internal auditor and the company's independent accountants and to recommend remedial action. In addition, the approval of the audit committee is required to effect certain related-party transactions.

17.1.2 Under the Companies Law, the board of directors of a public company must also appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine whether such public company's actions comply with the law and proper business procedure. The internal auditor may not be an interested party or office holder, or a relative of any interested party or office holder, nor a member or representative of the company's independent accounting firm. The Companies Law defines the term "interested party" to include a person who holds 5 per cent. or more of the company's outstanding share capital or voting rights, any person or entity who has the right to appoint one or more directors or the general manager of the company, or any person who serves as a director or as the general manager. The Company intends to appoint an internal auditor following Admission.

### *17.2 External (independent) directors*

17.2.1 Under the Companies Law, public companies are required to appoint at least two external (independent) directors within 3 months of Admission. At least one of the external directors is required to have "financial expertise" and the other external director or directors are required to have "professional competence" as defined in the Companies Regulations (Conditions and Tests for Directors with Accounting and Financial Expertise and Directors with Professional Competence) 2005.

17.2.2 Under the Companies Law Amendment:

- an external director must either be professionally eligible or have relevant accounting and financial expertise, but at least one of the external directors must have relevant accounting and financial expertise.
- the board of directors of a company incorporated under the laws of Israel and whose shares have been offered to the public in or outside of Israel is required (subject to the size of the board, as determined by the articles of association of the company, and taking into consideration, among other things, the type of company, its size and the scope and complexity of its activity) to determine a minimum number of its directors (not being external directors) who are required to have accounting and financial expertise.

The Companies Law Amendment provides for further regulations to be issued setting out the criteria for determining if a director is “professionally eligible” or has “accounting and financial expertise”. The above amendments regarding the criteria for being an external director and the requirement to appoint a minimum number of directors, who have accounting and financial expertise, will only come into force when those regulations take effect.

17.2.3 The Companies Law provides that a person may not be appointed as an external (independent) director of a company if the person or the person’s relative, partner, employer or any entity under the person’s control has, as of the date of the person’s appointment to serve as an external (independent) director, or has had, during the two years preceding that date, any affiliation with the company, any entity controlling the company or any entity controlled by the company or by its controlling entity.

17.2.4 The term “affiliation” includes an employment relationship, a regular business or professional relationship, control and service as an office holder, excluding service as a director in a private company prior to the first offering of its shares if such a director was appointed as a director of a private company in order to serve as an external director following the initial public offering. The Companies Law defines the term “office holder” of a company to include a director, the chief executive officer, the chief business manager, a vice president, any other manager directly subordinated to the chief executive officer and any other person assuming the responsibilities of any of the foregoing positions regardless of such person’s title.

17.2.5 No person can serve as an external (independent) director if the person’s position or other business activities creates or may create conflicts of interest with the person’s activities as an external (independent) director or may otherwise interfere with the person’s ability to serve as an external (independent) director. If at the time when an external director is appointed all members of the board are of the same gender, then the external director to be appointed must be of the opposite gender. Until the expiry of two years from termination of office, a company may not engage an external (independent) director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

17.2.6 External (independent) directors are to be elected by a majority vote at a shareholders’ meeting, provided that either:

- (a) the majority of shares voted for the appointment includes at least one third of the shares of non-controlling shareholders voted at the meeting; or
- (b) the total number of shares of non-controlling shareholders voted against the appointment does not exceed one per cent. of the aggregate voting rights in the company.

17.2.7 The initial term of an external (independent) director is three years and this may be extended for one additional three-year term. External (independent) directors may be removed from office only by the same percentage of shareholders as is required for their election, or by a court, and then only if the external (independent) directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. In the event of a vacancy created by an external director, the company’s board is required under

Companies Law to call a shareholders' meeting to appoint a new external director. Each committee of a company's board of directors that has a power of the board is required to include at least one external (independent) director, except for the audit committee, which is required to include all the external (independent) directors. External directors may be compensated only in accordance with regulations adopted under the Companies Law. Compensation of an external director must be determined prior to the person's consent to serve as an external director. Compensation of all directors requires the approval of the Company's audit committee, board of directors and shareholders, in that order.

### 17.3 *Fiduciary Duties of Office Holders*

17.3.1 The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would act under the same circumstances.

17.3.2 The duty of care of an office holder includes a duty to use reasonable means to obtain:

- (a) information on the advisability of a given action brought for his or her approval or performed by him by virtue of his position; and
- (b) all other important information pertaining to these actions.

17.3.3 The duty of loyalty of an office holder generally requires an office holder to act in good faith and for the benefit of the company. It includes a duty to:

- (a) refrain from any conflict of interest between the performance of his duties in the company and the performance of his other duties or his personal affairs;
- (b) refrain from any activity that is competitive with the company;
- (c) refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- (d) reveal to the company any information or documents relating to a company's affairs which the office holder has received due to his position as an office holder.

17.3.4 Under the Companies Law, the approval of the board of directors is required for all compensation arrangements of office holders who are not directors. However, the articles of association of a company may provide an alternative method of approval.

17.3.5 The Companies Law requires that an office holder of a company discloses to the company promptly and in any event no later than the meeting of the board of directors meeting at which the transaction is first discussed, any personal interest that he may have and all related material information known to him, in connection with any existing or proposed transaction by the company. A personal interest of an office holder includes an interest of another company where he holds a direct or indirect interest of 5 per cent. or more in that company or where he was a director or general manager of the company or where he had the right to appoint at least one director or the general manager of the company. In the case of an extraordinary transaction, the office holder's duty to disclose applies also to a personal interest of the office holder's relative, defined in the Companies Law as the person's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing.

17.3.6 Under the Companies Law, an extraordinary transaction is a transaction:

- (a) other than in the ordinary course of business;
- (b) otherwise than on market terms; or
- (c) that is likely to have a material impact on the company's profitability, assets or liabilities.

17.3.7 Under the Companies Law, once an office holder complies with the above disclosure requirements, the board of directors may approve a transaction between the company and an

office holder, or a third party in which an office holder has a personal interest unless the transaction is an extraordinary transaction or the articles of association provide otherwise. A transaction that is contrary to the company's interests may not be approved.

17.3.8 If the transaction is an extraordinary transaction or it concerns exculpation, indemnification or insurance of an office holder then, in addition to any approval stipulated by the articles of association, the approval of both the audit committee and the board of directors is required. In specific circumstances, shareholder approval may also be required. A director who has a personal interest in an extraordinary transaction which is considered at a meeting of the board of directors or the audit committee generally may not be present at this meeting or vote on this matter, unless a majority of members of the board of directors or the audit committee, as the case may be, has a personal interest. If a majority of the members of the board of directors has a personal interest, shareholder approval is also required.

#### 17.4 *Duties of Shareholders*

17.4.1 Under the Companies Law, each shareholder has a duty to act in good faith and in a customary manner in exercising his rights and fulfilling his obligations towards the company and other shareholders and to refrain from abusing his power in the company, such as in shareholder votes on the following matters: (i) any alteration of the articles; (ii) an increase of the company's registered share capital; (iii) a merger; or (iv) approval of certain actions and transactions that require shareholder approval. Each shareholder also has the general duty to refrain from depriving other shareholders of their rights.

17.4.2 In addition, specified shareholders have a duty of fairness towards the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote in a general meeting or in a class meeting and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an office holder or any other power with respect to the company. The Companies Law, however, does not define the substance of this duty of fairness and the breach of such duty is governed by Israeli contract law.

17.4.3 Under the Companies Law, the disclosure requirements that apply to an office holder (described in paragraph 16.3.5 above) also apply to a controlling shareholder of a public company. A controlling shareholder, for this purpose, is a shareholder who has the ability to direct the activities of a company, including a shareholder that holds 25 per cent. or more of the voting rights of the company where no other shareholder holds more than 50 per cent. of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position within the company.

17.4.4 Extraordinary transactions with a controlling shareholder of a public company or with another person in which a controlling shareholder has a personal interest, including a private placement in which the controlling shareholder has a personal interest and the engagement of a controlling shareholder or his relative as an office holder or employee, require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. The shareholder approval must be by a majority vote, provided that either:

- (a) the majority of shares voted for the election includes at least one third of the shares of non-interested shareholders voted at the meeting; or
- (b) the total number of shares of non-interested shareholders voted against the matter does not exceed 1 per cent. of the aggregate voting rights in the company.

#### 17.5 *Anti-Takeover Provisions; Mergers and Acquisitions*

17.5.1 The Companies Law permits merger transactions, provided that each party to the transaction obtains the approval of its board of directors and shareholders, excluding certain merger transactions which do not require the approval of the shareholders, as set forth in the

Companies Law. For the purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares not held by the other party, or by any person who holds 25 per cent. or more of the shares or the right to appoint 25 per cent. or more of the directors of the other party, has voted against the merger. Under the Companies Law, a merging company must inform its creditors of the proposed merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of that party. Finally, a merger may not be completed unless at least 50 days have passed from the time that the requisite proposals for approval of the merger have been filed with the Israeli Registrar of Companies and at least 30 days have passed from the shareholders' approval of each of the merging companies.

17.5.2 In addition, the provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75 per cent. of the shares voted on the matter. In addition to shareholder approval, court approval of the transaction is required.

17.5.3 The Companies Law also requires that an acquisition of shares in a public company be made by means of a tender offer if, as a result of the acquisition, a person would become a holder of 25 per cent. or more of the company, unless there is already another holder of 25 per cent. of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of 45 per cent. or more of the voting rights of the company, unless there is already another holder of more than 45 per cent. of the voting rights of the company. This requirement does not apply if:

- (a) the acquisition is made pursuant to a private offer that was approved by the shareholders as a private offer that is intended to grant the purchaser more than 25 per cent. of the voting rights of a company in which no shareholder holds more than 25 per cent. of the voting rights or to grant the purchaser more than 45 per cent. of the voting rights of a company in which no shareholder holds more than 45 per cent. of the voting rights;
- (b) the purchaser would hold more than 25 per cent. after purchasing shares from a person that held more than 25 per cent. of the voting rights; or
- (c) the purchaser would hold more than 45 per cent. of the voting rights after purchasing shares from a person that held more than 45 per cent. of the voting rights.

17.5.4 The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5 per cent. of the company's outstanding shares, regardless of the level of acceptances. The tender offer may be completed only if: (i) at least 5 per cent. of the company's outstanding shares will be acquired by the offeror; and (ii) the number of shares in respect of which acceptances have been given in the offer exceeds the number of shares whose holders objected to the offer.

17.5.5 Shares that are acquired in violation of this requirement to make a tender offer will be deemed "dormant shares" and will have no rights whatsoever for so long as they are held by the acquirer.

17.5.6 If as a result of an acquisition of shares the acquirer will hold more than 90 per cent. of a company's outstanding shares, the Companies Law requires that the acquisition be made by means of a tender offer for all of the outstanding shares. If acceptances are not received in respect of less than 5 per cent. of the outstanding shares in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The law provides for rights of

objection if any shareholder files a request in court within 3 months following the completion of a full tender offer. If acceptances are not received in respect of more than 5 per cent. of the outstanding shares in the tender offer, then the acquirer may not acquire such shares in the tender offer that will cause his shareholding to exceed 90 per cent. of the outstanding shares.

#### 17.6 *Dividends and distribution*

17.6.1 The Companies Law provides that distributions may be paid out of a company's profits, provided that there is no reasonable concern that the distribution will prevent the company from meeting its existing and foreseeable obligations as they become due. "Profits" for this purpose is defined as the greater of a company's surplus balance and surplus that accumulated for the two previous years.

17.6.2 If a company does not have sufficient profits, then permission to effect a distribution can be granted by order of an Israeli court. Prior to granting such an order, the company is required to give notice of the proposed distribution to its creditors, who are entitled to file objections with the court. In any event, a distribution is permitted only if there is no reasonable concern that the distribution will prevent the company from satisfying its existing and foreseeable obligations as they become due.

17.6.3 A repurchase by a company of its own shares is generally also considered as a distribution.

#### 17.7 *Exculpation, Insurance and Indemnification of Office Holders*

17.7.1 The Companies Law allows a company to provide for exculpation or indemnification of, or insurance coverage for, its office holders, as detailed below, provided that: (i) the articles of association permit the company to do so; and (ii) it has been approved by the company's audit committee and board of directors and, if the beneficiary is a director, also by the general meeting subject to certain terms specified below.

17.7.2 A company may not exempt an office holder from: (i) liability with respect to a breach of his duty of loyalty (but may exempt in advance an office holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care); and (ii) liability with respect to his duty of care with respect to the distribution of dividends.

17.7.3 A company may enter into a contract for the insurance of the liability of any of its office holders with respect to an act performed in his capacity of an office holder for: (i) a breach of his duty of care to the company or to another person; (ii) a breach of his duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice the company's interests; and (iii) a monetary liability imposed upon him in favour of another person in the performance of his duties as an office holder.

17.7.4 A company may indemnify an office holder with respect to an act performed in his capacity as an office holder against liabilities as set out in paragraph 6.20(d) of this Part V.

17.7.5 A company may also grant in advance, as long as such is permitted by that company's articles of association, an undertaking to indemnify an office holder, provided that in respect of a monetary liability incurred pursuant to a judgement as mentioned above, the undertaking is limited to types of events which the board of directors deems to be foreseeable at the time of the undertaking and is limited to an amount determined by the board of directors to be reasonable under the circumstances.

17.7.6 The Companies Law provides that a company may not exculpate or indemnify an office holder nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following: (i) a breach by the office holder of his duty of loyalty, unless, with respect to indemnification and insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company; (ii) a breach by the office holder of his duty of care if the breach was done intentionally or recklessly unless such breach was negligent only; (iii) any act or omission done

with the intent to derive an unlawful personal benefit; or (iv) any fine or forfeit levied against the office holder.

## 18 Taxation

**The following is only a general guide to the main UK and Israeli tax consequences that will apply to shareholders of the Company who hold their shares as investments and are UK tax resident individuals or companies. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders of acquiring, holding or disposing of shares. If you are in any doubt as to your own tax position or are resident or subject to tax in a jurisdiction outside the UK, you should seek independent professional advice without delay.**

### 18.1 *Dividends*

- 18.1.1 Dividends paid by the Company would normally be subject to the withholding of Israeli income tax at source at the rate of 25 per cent. The UK:Israel Double Taxation Treaty (“the Treaty”) provides for this withholding to be reduced to 15 per cent., subject to certain conditions, of the gross dividend where the recipient is subject to tax on the dividends received in the United Kingdom. This relief under the Treaty would not be available if the shareholder had a permanent establishment in Israel and the shares held are effectively connected with the business or trade of that permanent establishment. Application of the reduced rate of withholding tax under the Treaty can be agreed in advance between the Company and the Israeli tax authorities and a Shareholder would need to confirm their tax residence in order to benefit from the reduced rates of withholding under the Treaty.
- 18.1.2 The Company will not be obliged to make any withholding on account of UK tax on payment of any dividends. UK tax resident individual shareholders who are domiciled in the UK will be liable to UK tax on the gross dividend paid by the Company. However, relief may be available for the Israeli withholding tax, provided that the relief cannot exceed the amount of UK tax payable on the dividend. UK resident individual shareholders who are not domiciled within the UK will generally be subject to UK income tax on the dividend receipt only if the dividend is remitted to the UK. In such a case, it should be noted that advantage can only be taken of the reduced rate of withholding tax under the Treaty if the dividends are remitted and therefore subject to UK tax and the individual qualifies as a resident under the Treaty.
- 18.1.3 UK resident companies will, where double tax relief is claimed, be liable to UK corporation tax on the gross dividend paid by the Company at 30 per cent., subject to credit for Israeli withholding tax deducted at source and availability of the small companies’ relief on being subject to tax at the corporation tax starting rate. The credit given in the UK for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend.
- 18.1.4 A UK resident company may also seek relief for the underlying tax (tax borne by the Company and its subsidiaries on the profits out of which the dividend is paid) associated with the dividend where the UK company owns 10 per cent. or more of the voting rights in the Israeli company. Tax sparing relief may apply to increase the amount of underlying tax available for credit against UK tax, subject to the specific provisions in the Treaty.
- 18.1.5 As the credit given for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend, a UK company may, subject to satisfying the provisions within the UK tax laws, be entitled to claim credit for any excess unrelieved Israeli tax (both withholding, and where available, underlying tax) against dividends received from other sources.
- 18.1.6 For both individuals and companies having insufficient taxable income to give rise to a UK tax charge on which relief may be obtained for the withholding tax deducted under Israeli law, the taxpayer can elect to treat the Israeli withholding tax as an expense to be deducted from the gross dividend so that the taxable amount is reduced to the amount of the dividend net of withholding tax.

## 18.2 *Capital gains tax*

18.2.1 An individual, who is resident and ordinarily resident and domiciled in the UK shall be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including shares in the Company held as an investment) subject to the application of relevant reliefs and exemptions. Capital gains tax is charged at the rate equivalent to the rate of income tax applied to an individual's top slice of income. Taper relief may be available to reduce the amount of any gain arising based upon the taper relief rules within the capital gains tax legislation. Shares traded on AIM are treated as "unlisted" for the purposes of capital gains tax taper relief and consequently the shares in the Company may qualify as "business assets" in the hands of individual shareholders. A company resident in the UK for corporation tax purposes will be liable for corporation tax in respect of a gain on the disposal of shares in the company subject to the availability of an allowance for inflation and the substantial shareholdings exemption.

An individual shareholder who is resident or ordinarily resident in the UK but not domiciled in the UK, and whose shares are not situated in the UK will be liable to UK capital gains tax only to the extent that chargeable gains made on the disposal of shares are remitted or deemed to be remitted to the UK. As the Company's principal share register is situated in Israel, the shares are considered to be located abroad for capital gains tax purposes, but dealings in the shares on AIM may give rise to remitted profits which would therefore be taxable.

18.2.2 Under Israeli law, foreign residents are generally liable to Israeli taxation on capital gains derived from an Israeli source at the rate of 20 per cent. The sale of shares (or rights to shares) in the Company would be considered as arising from an Israeli source and be subject to Israeli taxation at the rate of 20 per cent. However, according to current Israeli regulations, shareholders resident outside Israel are exempt from Israeli capital gains tax on the sale of shares of an Israeli resident company listed on a foreign stock exchange (as defined in the law, including AIM) provided such gains are not attributable to a permanent establishment of the shareholder in Israel. Under Israeli law, UK resident companies will not be entitled to such exemption if an Israeli resident: (i) has a controlling interest of 25 per cent. or more in such UK resident company; or (ii) is the beneficiary of or is entitled to 25 per cent. or more of the revenues or profits of such UK resident company, whether directly or indirectly.

18.2.3 In any event, UK residents disposing of shares in the Company could rely on the Treaty which exempts UK shareholders from Israeli tax on capital gains where the capital gains are subject to tax in the UK and are not attributable to a permanent establishment of the shareholder in Israel. However, where shares in the Company are, for example, held by a UK company that qualifies for the substantial shareholding exemption from corporation tax on the disposal of shares, it is unlikely that the Israeli Tax Authorities will accept that the benefits of the Treaty apply as the capital gain would not be subject to UK tax. Therefore the exemption contained within the Israeli domestic regulations may be the only protection available from Israeli taxation.

## 18.3 *Stamp duty and stamp duty reserve tax*

The following comments are intended as a guide to the general Israeli and UK stamp duty and stamp duty reserve tax position and do not relate to persons such as market makers, brokers, dealers intermediaries and persons connected with voluntary arrangements or clearing services for whom special rules apply.

18.3.1 The Company has established a UK branch register. UK stamp duty is chargeable at 0.5 per cent. of the purchase price on transfers on the sale of Ordinary Shares on the UK branch register.

18.3.2 UK stamp duty at a fixed rate of £5 per transfer will be payable where an investor wishes to deposit the Ordinary Shares with the Registrar in order that Depository Interests will be issued under the depository interest arrangements outlined in paragraph 19 of this Part V.

18.3.3 UK stamp duty reserve tax at 0.5 per cent. of the purchase price will be chargeable in respect of an agreement to sell Ordinary Shares or depository interests representing the Ordinary Shares. Where a stamp duty reserve tax charge arises, payment of stamp duty within six years of the date of an agreement on a transfer executed pursuant to the agreement will generally cancel this charge to stamp duty reserve tax.

## **19 Settlement**

### *19.1 Introduction*

19.1.1 The Ordinary Shares (including the Placing Shares) are in registered and certificated form. Dealings in the Ordinary Shares will be effected through depository interests, as further described below.

19.1.2 The register of members of the Company will be kept by the Company at its registered office. The Company has established a UK branch register at P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, at which the Registrar will also keep a register of depository interests.

19.1.3 CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through the CREST system, a depository or custodian can hold the relevant securities and issue dematerialised depository interests ("DIs") representing the underlying securities which are held on trust for the holders of the DIs.

19.1.4 With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a depository interest arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so.

19.1.5 The Ordinary Shares will not themselves be admitted to CREST. Instead, the Registrar, acting as depository, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through the CREST system. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on AIM. The DIs will be created and issued pursuant to a deed poll (the "Deed Poll") entered into by the Registrar, which will govern the relationship between the Registrar, as depository, and the holders of the DIs.

19.1.6 Application has been made for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST, with effect from Admission.

19.1.7 Holders of Ordinary Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact the Registrar. A summary of the Deed Poll is set out below.

### *19.2 Summary of the Deed Poll*

19.2.1 As mentioned above, the DIs will be created pursuant to and issued on the terms of the Deed Poll. The Deed Poll is executed by the Registrar, as depository, in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against CRESTCo or its subsidiaries in respect of the underlying ordinary Shares or the DIs representing them.

19.2.2 Ordinary Shares will be transferred to an account of the Registrar or its nominated custodian (the "Custodian") and the Registrar will issue DIs to participating members.

19.2.3 Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Registrar will pass on to holders of DIs any stock or cash benefits received by it as holder of Ordinary Shares on trust for such DI holder. DI holders will

also be able to receive from the Registrar notices of meetings of holders of Ordinary Shares and other information to make choices and elections issued by the Company to its shareholders.

19.2.4 The Deed Poll contains, *inter alia*, provisions to the following effect:

- (a) The Registrar will hold (itself or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the DIs for the benefit of the holders of the DIs. The Registrar will re-allocate securities or distributions allocated to the Registrar or the Custodian *pro rata* to the Ordinary Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation. Holders of DIs warrant, *inter alia*, that the securities in the Company transferred or issued to the Registrar or Custodian on behalf of the Depository/Custodian are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's articles of association or any contractual obligation, law or regulation.
- (b) The Registrar and any Custodian shall pass on to DI holders, as so far as it is reasonably able, all rights and entitlements received by the Registrar or the Custodian in respect of the underlying securities. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received together with amendments and additional documentation necessary to effect such passing-on. If arrangements are made which allow a holder to take up rights in the Company's securities requiring further payment, the holder must put the Registrar in cleared funds before the relevant payment date or other date notified by the Registrar if it wishes the Registrar to exercise such rights.
- (c) The Registrar will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying securities in certain circumstances including where a DI holder fails to furnish to the Registrar such certificates or representations as to matters of fact, including his identity, as the Registrar deems appropriate.
- (d) The Deed Poll contains provisions excluding and limiting the Registrar's liability. For example, the Registrar shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Registrar shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use of such Custodian or agent. Furthermore, the Registrar's liability to a holder of DIs will be limited to the lesser of (a) the value of the shares and other deposited property properly attributable to the DIs to which the liability relates and (b) that proportion of £5 million which corresponds to the proportion which the amount the Registrar would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Registrar would otherwise be liable to pay to all such holders in respect of the same act, omission or event or, if there are no such amounts, £5 million.
- (e) The Registrar is entitled to charge holders of DIs fees and expenses notified from time to time for the provision of its services under the Deed Poll.
- (f) The holders of DIs are required to agree and acknowledge with the Registrar that stamp duty reserve tax may not be payable on agreements to transfer the DIs. It is the responsibility of the holders of DIs to ensure that any DIs which the holder is proposing to acquire or dispose of and which are identified by the CREST system as being exempt from the charge to stamp duty reserve tax on their transfer are so exempt. The holder is required to undertake to the Depository to notify CRESTCo and the Depository if DIs

which the holder is proposing to acquire or dispose of by means of the CREST system and which are identified by the CREST system as being exempt from the duty to charge to stamp duty reserve tax on their transfer are not so exempt. The holder is also required to undertake to pay to CRESTCo any stamp duty reserve tax and any interest, charges or penalties in relation to late or non-payment of stamp duty reserve tax arising directly or indirectly from any agreement of the holder to acquire or dispose of DIs or Ordinary Shares represented or to be represented by DIs which are not exempt from the charge to stamp duty reserve tax on their transfer and to hold the Depository harmless from any and all liabilities arising from or incurred in connection therewith.

- (g) Holders are required to acknowledge and agree with the Depository that the Depository and the Custodian may hold DI Holders' money entitlements in client bank accounts outside the UK on a pooled basis pending distribution and that such monies may not be as protected as effectively as money held in a bank account in the UK and, in particular, that the relevant bank may be entitled to combine funds held in a client bank account with any other account of the Depository or the Custodian or to exercise any right of set-off or counterclaim against money held in a client bank account in respect of any sum owed to it on any other account by the Depository or the Custodian.
- (h) Each holder of DIs is liable to indemnify the Registrar and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of DIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the Registrar, or the Custodian or any agent if such Custodian or agent is a member of the Registrar's group or if, not being a member of the same group, the Registrar shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.
- (i) The Registrar may terminate the Deed Poll by giving 90 days' notice. During such notice period holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Registrar must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Registrar, together with any other cash held by it under the Deed Poll *pro rata* to holders of DIs in respect of their DIs.
- (j) The Registrar or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Ordinary Shares to the holders. Holders agree to provide such information requested and consent to the disclosure of such information by the Registrar or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Company's memorandum or articles of association or applicable law may require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with the Company's instructions with respect thereto.

19.2.5 It should also be noted that holders of DIs may not have the opportunity to exercise all of the rights and entitlements available to holders of the Ordinary Shares including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of DIs to give prompt instructions to the Registrar to vote the underlying shares on their behalf.

19.2.6 If, by virtue of the laws of any jurisdiction outside the UK or the memorandum or articles of association of the Company, the Depository or Custodian does not acquire unconditional and

absolute title or right to the deposited Ordinary Shares, neither the Depository nor the Custodian will be liable to the DI holder.

19.2.7 The Deed may be amended or supplemented by the Registrar at any time in any respect which it may deem necessary or desirable.

## **20 General**

- 20.1 The accounting reference date of the Company is 31 December.
- 20.2 The nominated adviser and nominated broker to the Company is Corporate Synergy Plc of 30 Old Broad Street, London EC2N 1HT.
- 20.3 The total costs and expenses of the Placing and Admission which are payable by the Company (including professional fees, printing costs and commissions) are estimated to be £950,000 (excluding value added tax).
- 20.4 The total proceeds of the placing of the Placing Shares are expected to be £6 million and the net proceeds to the Company, after deduction of the expenses, are estimated at £5.05 million.
- 20.5 Of the Placing Price, NIS 0.01 represents the nominal value of each Ordinary Share.
- 20.6 Save in connection with the application for Admission, none of the Ordinary Shares have been admitted to dealings on a recognised investment exchange and no application for such admission has been made nor are there intended to be any other arrangements for dealings in the Ordinary Shares.
- 20.7 Corporate Synergy Plc has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to its name in the form and context in which it appears.
- 20.8 Ziv Haft (a BDO member firm) has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to its name in the form and context in which it appears.
- 20.9 Ziv Haft (a BDO member firm) has given and not withdrawn its consent to the inclusion of its accountants' report in Part III of this document.
- 20.10 The financial information set out in the Accountants' Report in Part III of this document does not constitute statutory accounts within the meaning of Section 240 of the Act.
- 20.11 Save as disclosed in this document there has been no significant change in the financial or trading position of the Company since 31 December 2005, being the end of the last financial period for which audited financial information for the Company has been published.
- 20.12 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by Corporate Synergy until such time as the Placing Agreement becomes unconditional in all respects.
- 20.13 MG Equity Partners Limited will receive £60,000 in connection with the placing pursuant to an agreement entered into between the Company and MG Equity Partners Limited on 13 February 2006.
- 20.14 Meitav Underwriting Ltd. will receive £58,000 in connection with the Placing by way of commission.
- 20.15 Save as disclosed in this document, no person (other than a professional adviser referred to in this document or trade supplier dealing with the Company) has:
- 20.15.1 received, directly or indirectly, from the Company within the twelve months preceding the Company's application for Admission; or
  - 20.15.2 entered into any contractual arrangement (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
    - (a) fees totalling £10,000 or more;

- (b) securities in the Company with a value of £10,000 or more calculated by reference to the Issue Price; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

- 20.16 Save as disclosed in this document, no commission has been paid by the Company to any person in consideration for him agreeing to subscribe for Placing Shares or Sale Shares agreeing to procure subscriptions for Placing Shares or Sale Shares.
- 20.17 The auditors of the Company for the period covered by the financial information contained in Part III of this document were Ziv Haft (a BDO member firm), certified public accountants, whose address is: Amot Bituach House, Building B46-48, Menachem Begin Road, Tel Aviv 66184, Israel.
- 20.18 Other than as disclosed in this document, Corporate Synergy Plc has not had any other position or office or other material relationship with the Company, its predecessors or affiliates in the past three years.
- 20.19 Information in this document sourced from Frost & Sullivan and/or from Maravedis and/or from Roth Capital has been accurately reproduced and as far as the Company is aware and is able to ascertain from information published in Frost & Sullivan and/or Maravedis and/or from Roth Capital, no facts have been omitted which would make the reproduced information inaccurate or misleading.
- 20.20 There have been no interruptions in the Company's business which have or have had in the last 12 months a significant effect on the Company's financial position.

## **21 Availability of admission document**

Copies of this document will be available free of charge to the public at the offices of Corporate Synergy plc, 30 Old Broad Street, London EC2N 1HT, from the date of this document until one month after Admission.

## **22 Documents available for inspection**

Copies of the following documents may be inspected at the offices of Halliwells LLP, 1 Threadneedle Street, London EC2R 8AW, during normal business hours on any weekday (Saturdays and public holidays excepted) for a period from the date of this document until the date falling one month from the date of Admission:

- 22.1 the memorandum and articles of association of the Company; and
- 22.2 the deed poll referred to in paragraph 19 of this Part V.

Dated: 7 March 2006