DORI MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2005

U.S. DOLLARS IN THOUSANDS

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ERNST & YOUNG

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 67067, Israel

Phone: 972-3-6232525
Fax: 972-3-5622555

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

DORI MEDIA GROUP LTD.

We have audited the accompanying consolidated balance sheets of Dori Media Group Ltd. and its subsidiaries ("the Group") as of 31 December 2005, 2004 and 2003, and the related consolidated statements of income, changes in equity and cash flows for each of the three years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the financial statements of a jointly controlled entity, whose assets constitute approximately 1% of total consolidated assets as of 31 December 2005 and whose revenues constitute approximately 8% of total consolidated revenues for the year then ended. Also, we did not audit the financial statements of this entity, formerly - an associate, the investment in which, at equity, amounted to US $ 87 thousand and US $ 83 thousand as of 31 December 2004 and 2003, respectively, and the Group's equity in its earnings amounted to US $ 71 thousand and US $ 84 thousand for the years ended 31 December 2004 and 2003, respectively. The financial statements of this entity were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for this entity, is based on the reports of the other auditors.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2005, 2004 and 2003, and the consolidated results of operations and cash flows for each of the three years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
20 February, 2006

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

		As of 31 December		
		2003	2004	2005
	Note	US$ '000	US$ '000	US$ '000
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents		286	364	2,085
Trade receivables	3	2,334	*) 2,903	5,238
Other accounts receivable	4	1,373	281	376
Broadcasting rights	5	524	764	489
Inventory of TV series rights for sale		24	77	67
		4,541	4,389	8,255
NON-CURRENT ASSETS:				
Investments in rights of TV series	6	5,406	7,227	9,397
Investment properties, net	7	1,278	1,237	-
Intangible assets, net	8	1,754	1,454	3,108
Property and equipment, net	9	285	202	968
Investment in associate	10	83	87	-
Deferred tax assets	16d	1,148	1,043	1,595
		9,954	11,250	15,068
Total assets		14,495	15,639	23,323

*) Restated - see Note 2w.

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

CONSOLIDATED BALANCE SHEETS

	Note	As of 31 December 2003 US$ '000	2004 US$ '000	2005 US$ '000
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Credit from banks and current maturities of long-term loans	11	5,151	6,128	3,559
Trade payables	12	705	800	1,719
Other current liabilities	13	2,750	1,720	1,355
		8,606	8,648	6,633
LONG-TERM LIABILITIES:				
Bank loans	14	284	-	-
Other long-term liabilities	15	432	169	1,270
		716	169	1,270
COMMITMENTS AND CONTINGENT LIABILITIES	17			
EQUITY:	18			
Equity attributable to equity holders of the Parent:				
Issued capital		2	348	448
Share premium		4,058	3,656	11,257
Receipts on account of shares		-	200	-
Foreign currency translation reserve		(90)	(137)	(249)
Asset revaluation surplus		240	240	240
Retained earnings		610	*) 2,096	3,724
		4,820	6,403	15,420
Minority interest		353	419	-
Total equity		5,173	6,822	15,420
Total liabilities and equity		14,495	15,639	23,323

*) Restated - see Note 2w.

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

20 February 2006			
Date of approval of the financial statements	Tamar Mozes-Borovitz Chairman of the Board of Directors	Nadav Palti Director and Chief Executive Officer	Moshe Pinto Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

		Year ended 31 December		
		2003	2004	2005
	Note	US$ '000*)	US$ '000*)	US$ '000*)
Revenues	19a	10,623	**) 10,412	12,078
Cost of revenues	19b	6,560	4,908	5,152
Gross profit		4,063	5,504	6,926
Selling and marketing expenses	19c	768	746	1,899
General and administrative expenses	19d	2,800	2,632	3,067
Total operating expenses		3,568	3,378	4,966
Operating profit		495	2,126	1,960
Financial expenses, net	19e	246	394	229
Equity in earnings of associate	10	84	71	-
Other income (expenses), net	19f	237	396	(51)
Profit before taxes on income		570	2,199	1,680
Taxes on income (tax benefit)	16c	(58)	506	52
Profit for the year		628	**) 1,693	1,628
Attributable to:				
Equity holders of the parent		361	**) 1,486	1,628
Minority interest		267	207	-
		628	**) 1,693	1,628
Basic earnings per share	20	0.03	0.10	0.09
Diluted earnings per share	20	0.03	0.10	0.09
Weighted average number of shares used for computing basic earnings per share	20	12,175,500	15,000,000	17,984,179
Weighted average number of shares used for computing diluted earnings per share	20	12,175,500	15,771,707	18,603,724

*) Except per share amounts.
**) Restated - see Note 2w.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Issued capital	*Share premium*	*Receipts on account of shares*	*Foreign currency translation reserve*	*Asset revaluation surplus*	*Retained earnings*	*Total*	*Minority interest*	*Total equity*	*Total recognized income and expenses*	
										Parent	*Minority*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance as of 1 January 2003	*) -	2,138	-	(26)	-	249	2,361	22	2,383	-	-
Issuance of shares	*) -	1,922	-	-	-	-	1,922	-	1,922	-	-
Issuance of bonus shares	2	(2)	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	(64)	-	-	(64)	(6)	(70)	(64)	(6)
Additions for newly consolidated subsidiary	-	-	-	-	240	-	240	201	441	-	-
Dividend paid to minority interest	-	-	-	-	-	-	-	(131)	(131)	-	-
Profit for the year	-	-	-	-	-	361	361	267	628	361	267
										297	261
Balance as of 31 December 2003	2	4,058	-	(90)	240	610	4,820	353	5,173	-	-
Issuance costs	-	(56)	-	-	-	-	(56)	-	(56)	-	-
Issuance of bonus shares	346	(346)	-	-	-	-	-	-	-	-	-
Receipts on account of shares	-	-	200	-	-	-	200	-	200	-	-
Acquisitions of shares of a subsidiary	-	-	-	-	-	-	-	(178)	(178)	-	-
Issuance of shares by a subsidiary	-	-	-	-	-	-	-	34	34	-	-
Currency translation differences	-	-	-	(47)	-	-	(47)	3	(44)	(47)	3
Profit for the year	-	-	-	-	-	**) 1,486	**) 1,486	207	**) 1,693	**) 1,486	207
										1,439	210
Balance as of 31 December 2004	348	3,656	200	(137)	240	2,096	6,403	419	6,822	-	-
Issuance of shares	7	193	(200)	-	-	-	-	-	-	-	-
Issuance of shares in IPO, net of expenses	63	4,536	-	-	-	-	4,599	-	4,599	-	-
Issuance of shares, net of expenses	20	1,764	-	-	-	-	1,784	-	1,784	-	-
Issuance of shares to purchase minority interest in subsidiary	10	984	-	-	-	-	994	(190)	804	-	-
Acquisitions of shares of a subsidiary	-	-	-	-	-	-	-	(229)	(229)	-	-
Cost of share-based payments	-	124	-	-	-	-	124	-	124	-	-
Currency translation differences	-	-	-	(112)	-	-	(112)	-	(112)	(112)	-
Profit for the year	-	-	-	-	-	1,628	1,628	-	1,628	1,628	-
Balance as of 31 December 2005	448	11,257	-	(249)	240	3,724	15,420	-	15,420	1,516	-

*) Represents an amount lower than US$ 1 thousand.
**) Restated - see Note 2w.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2003	2004	2005
	Note	US$ '000	US$ '000	US$ '000
Cash flows from operating activities:				
Profit for the year		628	*) 1,693	1,628
Adjustments to reconcile profit to net cash provided by (used in) operating activities	(a)	844	*) (203)	(1,672)
Net cash provided by (used in) operating activities		1,472	1,490	(44)
Cash flows from investing activities:				
Acquisition of minority interests in subsidiaries		-	**) (236)	(1,041)
Acquisition of newly consolidated subsidiaries and jointly controlled entity	(c)	(1,466)	-	73
Investments in rights of TV series, net		(4,743)	(2,871)	(2,714)
Proceeds from sale of property, equipment and investment properties		24	55	460
Purchase of property and equipment		(17)	(46)	(225)
Net cash used in investing activities		(6,202)	(3,098)	(3,447)
Cash flows from financing activities:				
Receipts on account of shares		-	200	-
Proceeds from issuance of shares, net of issuance costs		1,175	944	6,383
Receipt of loans from banks		440	-	-
Repayment of loans from banks		(1,037)	(169)	(271)
Receipt of long-term production financing		-	-	1,100
Receipt of loans from shareholders		155	-	-
Repayment of loans from shareholder		-	(50)	-
Repayment of loans from shareholders of subsidiary		(8)	-	-
Short-term bank credit, net		4,218	765	(1,978)
Dividends paid to minority interests		(131)	-	-
Net cash provided by financing activities		4,812	1,690	5,234
Effect of exchange rate changes on cash and cash equivalents		16	(4)	(22)
Increase in cash and cash equivalents		98	78	1,721
Cash and cash equivalents as of the beginning of the year		188	286	364
Cash and cash equivalents as of the end of the year		286	364	2,085

*) Restated - see Note 2w.
**) Reclassified.
The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2003	*2004*	*2005*
	US$ '000	*US$ '000*	*US$ '000*
(a) Adjustments to reconcile profit to net cash provided by (used in) operating activities:			
Income and expenses not involving cash flows:			
Equity in earnings of associate, net of dividend received	42	(2)	-
Cost of share-based payments	-	-	124
Depreciation and amortization	3,132	2,562	1,977
Deferred income taxes	(1,226)	104	(530)
Gain on issuance of shares by a subsidiary	-	(306)	-
Gain on sale of investee	(130)	-	-
Other	(29)	16	59
Changes in operating assets and liabilities:			
Increase in trade receivables	(994)	*) (544)	(2,464)
Decrease (increase) in other accounts receivable	(337)	69	(96)
Decrease in short-term investments in rights of TV series	-	-	50
Increase in broadcasting rights	(228)	(856)	(527)
Decrease (increase) in inventory of TV series rights for sale	36	(51)	5
Increase (decrease) in trade payables	(204)	90	288
Increase (decrease) in other current liabilities	782	(1,285)	(558)
	844	*) (203)	(1,672)
(b) Supplemental disclosure of cash flows:			
Cash paid during the year for:			
Interest	242	369	357
Income taxes	628	1,067	513
Dividend	131	-	-
Cash received during the year for:			
Interest	21	-	25
Income taxes	45	-	-
Dividend	126	69	-

*) Restated - see Note 2w.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2003	*2004*	*2005*
	US$ '000	*US$ '000*	*US$ '000*
(c) Acquisition of newly consolidated subsidiaries and jointly controlled entity:			
The fair values of the assets and liabilities at the date of acquisition were as follows:			
Working capital deficiency (excluding cash)	134	-	25
Property and equipment	(226)	-	(6)
Investment properties	(634)	-	-
Deferred taxes	139	-	-
Provision for losses of investee	123	-	-
Investments in rights of TV series	-	-	(84)
Long-term liabilities	260	-	54
Goodwill arising on acquisition	(1,160)	-	-
Broadcasting contracts	(749)	-	-
Minority interest	201	-	-
Asset revaluation surplus	240	-	-
Carrying value of investment prior to acquisition	206	-	84
	(1,466)	-	73
(d) Significant non-cash transactions:			
Acquisition of rights in TV series on credit	-	360	587
Issuance of shares on credit	1,000	-	-
Conversion of loans into shares of subsidiary	-	340	-
Issuance of shares to purchase minority interest in subsidiary	-	-	994
Acquisition of minority interest in subsidiary on credit	-	-	383

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

NOTE 1:- GENERAL

a. Company description:

The Company was incorporated on 14 February 1996 under the laws of Israel. The Company and its subsidiaries are engaged in the rights purchase, production and distribution of Telenovela TV series ("Telenovelas"), broadcasting of Telenovela dedicated TV channels ("TV channels") and sale of Telenovela series ("TV series") rights (see also Note 25).

b. Definitions:

In these financial statements:

The Company	-	Dori Media Group Ltd.
The Group	-	Dori Media Group Ltd. and its investees.
Subsidiary	-	entity controlled by the Company.
Jointly controlled entity	-	entity owned by various parties that have a contractual arrangement that establishes joint control over the activities of the entity.
Associate	-	entity over which the Company has significant influence and is neither a subsidiary nor a jointly controlled entity.
Investee	-	subsidiary, jointly controlled entity or an associate.

c. The following are investees of the Company as of 31 December 2005:

	Country of incorporation	Ownership interest %
Subsidiaries:		
Davka Content & Productions Ltd. ("Davka") (see Note 23b)	Israel	100
Yair Dori International 2002 Ltd. ("YDI 2002") (see Note 23a)	Israel	100
Dori-Aram Productions Ltd. ("Dori-Aram") (see Note 23c)	Israel	50
Dori Media International GmbH ("DMI GmbH") (1)	Switzerland	100
Viva Contenides S.A. ("Viva") (2)	Argentina	100
Dori Media Distribution GmbH (2)	Switzerland	100
Dori-Mapal Holdings Inc. BVI ("Dori Mapal Holdings")	B.V.I. (6)	100
Dori-Mapal Inc. BVI ("Dori-Mapal") (3)	B.V.I. (6)	100
Yair Dori International Inc. BVI ("YDI Inc.") (4)	B.V.I. (6)	100
Yair Dori International B Inc. ("YDI B") (5)	B.V.I. (6)	100
Jointly controlled entities:		
Dar Multimedia Ltd. ("Dar")	Israel	50
Darset Productions Ltd. ("Darset") (7)	Israel	25.16

(1) Subsidiary of YDI 2002.
(2) Subsidiary of DMI GmbH.
(3) 90% held by Dori-Mapal Holdings and 10% held by the Company (see Note 23a).
(4) Subsidiary of Dori-Mapal.
(5) Inactive.
(6) British Virgin Islands.
(7) 24.83% held by the Company and 0.33% held by Davka.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance:

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are effective at 31 December 2005.

b. Accounting policies:

The accounting policies adopted by the Group have been consistently applied for all periods presented.

c. Financial statements in U.S. dollars - the presentation currency:

The majority of the revenues of the Company and of its investees that operate in Israel ("the Israeli companies") are received in new Israeli shekels ("NIS"). NIS is the currency of the primary economic environment of the Israeli companies and, therefore, the functional currency of the Israeli companies is the NIS.

The Company has selected the U.S. dollar ("US$") as its presentation currency, rather than using its functional currency as its presentation currency, since an increasing portion of its consolidated revenues are received and its expenses are incurred in U.S. dollars and the Company believes that most of the readers of its financial statements are more familiar with the U.S. dollar than the NIS.

Because the Company selected the presentation currency to be the U.S. dollar, the financial statements of the Israeli companies have been translated from the functional currency (NIS) to the presentation currency in accordance with the principles set forth in IAS 21 (revised 2003), as follows:

Assets and liabilities of the Israeli companies are translated into U.S. dollars at the closing rate at the date of each balance sheet. Issued capital, share premium and other reserves are translated into U.S. dollars using the exchange rate on the date of the transaction. Income and expenses are translated at average monthly exchange rates. Translation differences resulting from the translation are recognized as a separate component of equity ("foreign currency translation reserve").

The functional currency of DMI GmbH and YDI Inc. is the U.S. dollar. DMI GmbH and YDI Inc. prepare their financial statements in U.S. dollars.

The functional currency of Viva is the Argentinean Peso. Viva prepares its financial statements in Argentinean Pesos. Translation differences resulting from the translation of Viva's financial statements to U.S. dollars are included in the foreign currency translation reserve in equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Principles of consolidation:

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

Intercompany balances and transactions, including profits from inter-company transactions not yet realized outside the Group, have been eliminated upon consolidation.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

e. Investment in associate:

The investment in an associate is accounted for under the equity method of accounting. The investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The income statement reflects the Company's share of the results of operations of the associate.

f. Interests in jointly controlled entities:

The interests in jointly controlled entities are accounted for by proportionate consolidation, which involves recognizing a proportionate share of the jointly controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

g. Cash equivalents:

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

h. Trade receivables:

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

i. Inventory of TV series rights for sale:

The inventory is valued at the lower of cost or net realizable value.

j. Broadcasting rights:

The Company acquires rights to broadcast TV series on the channels owned and operated by the Group. The broadcasting rights are presented at cost net of accumulated amortization and any impairment in value.

Amortization is recorded as each episode is broadcasted, taking into consideration the residual value of reruns.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Property and equipment:

Property and equipment are presented at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%	
Buildings	2	
Computers and communication equipment	20 - 33	(mainly 33%)
Office furniture and equipment	6 - 20	(mainly 7%)
Motor vehicles	15	
Leasehold improvements	term of the lease	

l. Recoverable amount of non-current assets:

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount is the higher of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.
If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.
After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

m. Advertising costs:

Advertising costs are charged to operations as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Deferred income taxes:

1. The Company provides for deferred income taxes using the liability method of accounting. Under the liability method, deferred taxes are recognized for temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets in respect of carryforward losses and other temporary deductible differences are recognized to the extent that it is probable that they will be utilized.

2. Taxes that would apply in the event of the distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, when the distribution of dividend does not involve an additional tax liability or when the Company is able to control the distribution of dividends that will cause an additional tax liability.

o. Revenue recognition:

Revenue is recognized to the extent that is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

1. Revenues from rights of TV series are recognized when persuasive evidence of a sale or licensing arrangement with a customer exists, the series is complete, the license period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale.

2. Revenues from broadcasting TV channels are recognized over the period of the broadcasts.

3. Revenues from sales of TV series rights are recognized upon the delivery of the films to the customer.

p. Investment properties:

Investment properties are presented at cost less accumulated depreciation and any impairment in value. Depreciation is calculated using the straight-line method over the estimated useful lives of the properties. The annual depreciation rate is 2%.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Investments in rights of TV series:

Commencing 1 January 2005, investments in rights in TV series are amortized using the straight-line method over their useful economic life of 10 years, based on management's revised evaluation of the expected pattern of consumption of the economic benefits of these rights. Prior to this change, the cost of investments in rights was amortized using the individual-film-forecast-computation method. The change in the method of amortization is recognized prospectively as a change in accounting estimate.

For the year ended 31 December 2005, amortization of the rights amounted to U.S.$ 982 thousand (year ended 31 December 2004 - U.S.$ 1,472 thousand).

The carrying values of unamortized costs of rights are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

r. Intangible assets:

Intangible assets (broadcasting rights) acquired in a business combination are capitalized at fair value at the date of acquisition. Following initial recognition, the cost model is applied.

Broadcasting contracts are amortized using the straight-line method over their useful economic life of 2.25 - 3.75 years. Amortization expense is included in cost of revenues.

s. Goodwill:

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

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Basic and diluted earnings per share:

Basic earnings per share have been computed using the weighted average number of Ordinary shares outstanding during the period adjusted retrospectively for the issuance of bonus shares. Diluted earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each period, adjusted for the effect of dilutive options.

u. Business combinations:

Business combinations in these financial statements are accounted for in accordance with IFRS 3, "Business Combinations". Upon acquisition, the identifiable assets and liabilities acquired are initially measured at their fair values at the acquisition date and any minority interest in the acquiree is stated at the minority's share of the net fair values of these items.

In a business combination achieved in stages, the increase in the fair value of the identifiable net assets relating to the interest held prior to the business combination is recognized as an asset revaluation surplus in equity.

v. Share-based payment transactions:

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

The cost of equity settled transactions is measured by reference to the fair value at the date at which they were granted. The fair value is determined by using an option-pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date the options vest. The cumulative expense, recognized at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for amounts that do not ultimately vest.

The effect of the adoption of IFRS 2 on the year ended 31 December 2005, was an increase in employee benefits expense and a decrease in profit in the amount of US$ 124 thousand, with a corresponding increase in equity (additional paid-in capital). The effect on Earnings per Share ("EPS") was a decrease in basic and diluted EPS of $ 0.01.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Restatement:

In the year ended 31 December 2005, the Company restated its consolidated financial statements for the year ended 31 December 2004 due to an error in revenue recognition by a subsidiary.

The effect of the restatement was a decrease in trade receivables and a decrease in revenues in the amount of U.S.$ 78 thousand, and a decrease in profit for the period of U.S. $ 78 thousand.

NOTE 3:- TRADE RECEIVABLES

	As of 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
Trade receivables	1,821	*) 2,281	5,329
Checks receivable	874	737	70
	2,695	*) 3,018	5,399
Allowance for doubtful accounts	(361)	(115)	(161)
	2,334	*) 2,903	5,238

*) Restated - see Note 2w.

NOTE 4:- OTHER ACCOUNTS RECEIVABLE

Shareholders	1,087	-	16
Related parties	58	22	6
Income tax receivables	20	40	85
Government authorities	72	-	133
Investees	44	17	-
Prepaid expenses and other	92	202	136
	1,373	281	376

NOTE 5:- BROADCASTING RIGHTS

	As of 31 December		
	2003	*2004*	*2005*
	US$ '000	*US$ '000*	*US$ '000*
Opening balance as of 1 January	338	524	764
Additions during the year	337	856	527
Amortization during the year	(537)	(633)	(759)
Additions for newly consolidated subsidiary	338	-	-
Currency translation differences	48	17	(43)
Balance as of 31 December	524	764	489

NOTE 6:- INVESTMENTS IN RIGHTS OF TV SERIES

Opening balance as of 1 January	2,861	5,406	7,227
Additions during the year	4,743	3,293	3,068
Additions for newly consolidated subsidiary and jointly controlled entity	-	-	84
Impairment	(600)	-	-
Amortization during the year	(1,598)	(1,472)	(982)
Balance as of 31 December	*) 5,406	7,227	9,397

*) In 2003, the balance reflects the Company's investment in the purchase of 50% of the worldwide rights for television series produced in Argentina. The balance also includes a loan to the other 50% rights holder in the amount of US$ 2,706 thousand as of 31 December 2003.

In February 2004, the Company acquired, through DMI GmbH and VIVA, an additional 50% of the worldwide rights for three Telenovela series from the other 50% rights holder. Following the acquisition, the Company, through the above mentioned companies, holds 100% of the worldwide rights to the aforementioned series, except for certain worldwide rights in which the selling rights holder retained varying percentages. The total consideration for the additional 50% of the rights was US$ 3,621 thousand comprising of US$ 915 thousand to be paid in installments over a period ending in 2006 (the balance payable as of 31 December 2005 is US$ 129 thousand), and the waiver of the repayment of a loan in the amount of US$ 2,706 thousand which the selling rights holder owed to the Group.

NOTE 7:- INVESTMENT PROPERTIES, NET

a. Composition and movement:

	As of 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
Cost:			
Balance as of 1 January	982	1,423	1,403
Investment property of newly consolidated subsidiary	330	-	-
Disposals during the year	-	(48)	(634)
Transfer to property and equipment	-	-	(726)
Currency translation differences	111	28	(43)
Balance as of 31 December	1,423	1,403	-
Accumulated depreciation:			
Balance as of 1 January	102	145	166
Additions during the year	19	19	5
Investment property of newly consolidated subsidiary	13	-	-
Disposals during the year	-	(1)	(114)
Transfer to property and equipment	-	-	(48)
Currency translation differences	11	3	(9)
Balance as of 31 December	145	166	-
Net carrying amount as of 31 December	1,278	1,237	-

b. The investment property consisted of principally 597 sq.m. in two office buildings and additionally, two basements related to those premises. The buildings are located in Tel-Aviv, Israel.

In respect of one property, for which the annual net rental income in 2004 was US$ 51 thousand, the Company did not renew the lease which expired in the beginning of 2005. The property is presently used by Davka (see Note 9).

The second property was sold in July 2005, in consideration for US$ 438 thousand. The loss on the sale was US$ 62 thousand.

c. The Group recorded net rental income of US$ 32 thousand in 2005 (2004 - US$ 108 thousand; 2003 - US$ 116 thousand).

NOTE 8:- INTANGIBLE ASSETS

	Broadcasting contracts (*)	*Goodwill*	*Total*
	US$ '000	*US$ '000*	*US$ '000*
Balance as of 1 January 2003	-	-	-
Acquisition of subsidiary (Davka)	749	1,160	1,909
Amortization for the year	(300)	-	(300)
Currency translation differences	50	95	145
Balance as of 31 December 2003, net of accumulated amortization	499	1,255	1,754
Amortization for the year	(316)	-	(316)
Currency translation differences	(4)	20	16
Balance as of 31 December 2004, net of accumulated amortization	179	1,275	1,454
Acquisition of minority interests in subsidiaries (see Note 23)	-	2,020	2,020
Amortization for the year	(147)	-	(147)
Currency translation differences	(9)	(210)	(219)
Balance as of 31 December 2005, net of accumulated amortization	23	3,085	3,108

(*) Customer contracts (acquired in a business combination) for the sale of rights to broadcast TV channels.

NOTE 9:- PROPERTY AND EQUIPMENT

	Land and buildings	*Computers and communication equipment*	*Office furniture and equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
Balance as of 1 January 2003	-	83	137	163	47	430
Property and equipment of newly consolidated subsidiary	-	31	72	64	24	191
Currency translation differences	-	12	17	17	6	52
Additions during the year	-	14	2	-	1	17
Disposals during the year	-	-	-	(32)	-	(32)
Balance as of 31 December 2003	-	140	228	212	78	658
Currency translation differences	-	3	3	7	1	14
Additions during the year	-	16	7	23	-	46
Disposals during the year	-	(2)	(4)	-	(2)	(8)
Balance as of 31 December 2004	-	157	234	242	77	710
Additions for newly consolidated jointly controlled entity	-	13	3	-	-	16
Currency translation differences	(48)	(12)	(16)	(15)	(5)	(96)
Additions during the year	53	106	66	-	-	225
Transfer from investment property	726	-	-	-	-	726
Balance as of 31 December 2005	731	264	287	227	72	1,581
Accumulated depreciation:						
Balance as of 1 January 2003	-	67	54	73	10	204
Property and equipment of newly consolidated subsidiary	-	25	18	29	6	78
Currency translation differences	-	8	4	9	3	24
Additions during the year	-	16	20	35	7	78
Disposals during the year	-	-	-	(11)	-	(11)
Balance as of 31 December 2003	-	116	96	135	26	373
Currency translation differences	-	2	6	5	-	13
Additions during the year	-	16	21	35	50	122
Balance as of 31 December 2004	-	134	123	175	76	508
Additions for newly consolidated jointly controlled entity	-	10	1	-	-	11
Currency translation differences	(3)	(10)	(8)	(13)	(4)	(38)
Additions during the year	10	24	23	27	-	84
Transfer from investment property	48	-	-	-	-	48
Balance as of 31 December 2005	55	158	139	189	72	613
Net carrying amount as of 31 December 2005	676	106	148	38	-	968
Net carrying amount as of 31 December 2004	-	23	111	67	1	202
Net carrying amount as of 31 December 2003	-	24	132	77	52	285

NOTE 10:- INVESTMENT IN ASSOCIATE

	As of 31 December	
	2003	2004
	US$ '000	US$ '000
Darset:		
Cost of shares	2	2
Equity in post-acquisition net earnings	258	337
Dividends received	(177)	(252)
Total investment	83	87

The Group's interest in Darset (25.16%), which is engaged in the production of TV series in Israel, was accounted for by the equity method of accounting until the end of 2004. Commencing in 2005, the Group's interest in Darset is accounted for according to the proportionate consolidation method (see Note 24). Darset is a private entity that is not listed on any stock exchange and, therefore, there is no published quotation price for the fair value of this investment.

NOTE 11:- CREDIT FROM BANKS AND CURRENT MATURITIES OF LONG-TERM LOANS

	Interest rate *)	As of 31 December		
	%	2003	2004	2005
		US$ '000	US$ '000	US$ '000
Credit from banks in NIS - unlinked	Prime **) +0.85	4,974	5,840	3,559
Current maturities of long-term bank loans		177	288	-
		5,151	6,128	3,559

*) As of 31 December 2005.

**) The prime rate as of 31 December 2005 - 6%.

Liens - see Note 17a.

NOTE 12:- TRADE PAYABLES

	As of 31 December		
	2003	2004	2005
	US$ '000	US$ '000	US$ '000
Open accounts	362	677	1,509
Checks payable	343	123	210
	705	800	1,719

NOTE 13:- OTHER CURRENT LIABILITIES

	As of 31 December		
	2003	2004	2005
	US$ '000	US$ '000	US$ '000
Employee benefits and payroll accruals	126	84	162
Income tax payable	1,150	202	386
Accrued expenses	453	297	140
Customer advances	415	260	3
Shareholders	213	144	-
Related parties	253	309	34
Liability for acquisition of minority interest in subsidiary (Note 23a)	-	-	383
Others	140	424	247
	2,750	1,720	1,355

NOTE 14:- BANK LOANS

Composition:

	As of 31 December		
	2003	2004	2005
	US$ '000	US$ '000	US$ '000
NIS - unlinked	457	288	-
NIS - linked to Israeli CPI	4	-	-
	461	288	-
Less - current maturities	177	288	-
	284	-	-

NOTE 15:- OTHER LONG-TERM LIABILITIES

	As of 31 December		
	2003	2004	2005
	US$ '000	US$ '000	US$ '000
Loans from shareholders of a subsidiary	*) 340	-	47
Accrued severance pay, net	92	118	123
Liability for production financing received	-	-	**) 1,100
Others	-	51	-
	432	169	1,270

*) See Note 23a.
**) See Note 17c(2).

NOTE 16:- TAXES ON INCOME

a. Taxation under inflationary conditions:

According to the Income Tax (Inflationary Adjustments) Law, 1985 in Israel, the results for tax purposes of the Israeli companies are calculated after adjustments for the changes in the Israeli CPI.

b. As part of the Group's reorganization, and in light of the Amendment of the Israeli Income Tax Ordinance in 2002, the Company reached an agreement with the Israeli Tax Authorities, with respect to profits derived by YDI Inc. In principle, the agreement provided for reduced taxation on the assessed assets of YDI Inc. In accordance with this agreement (dated 17 August 2003), YDI Inc.'s business assets were valued at approximately US$15 million (hereinafter: "the Revaluated Assets"). Furthermore, it was agreed that the Company will pay tax at the rate of 7.5% of its share in the Revaluated Assets, amounting to approximately US$1 million which was charged to expenses in 2003. In addition, the agreement laid down the transfer price to be applied by the Company on payments abroad with respect to the merchandising and the distribution of television series.

With respect to the taxation of profits derived by DMI GmbH, DMI GmbH obtained a ruling from the cantonal tax authorities in Zurich. Based on this ruling, income generated from foreign sources is subject to a preferred tax rate of approximately 8.5% (overall tax burden including federal, cantonal and communal corporate income tax rate, calculated on net profit before taxes). Domestic income would be subject to ordinary and full taxation for cantonal and communal tax purposes, as well as for federal income tax purposes.

c. Taxes on income included in the statements of income:

	Year ended 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
Current taxes	1,252	293	582
Deferred taxes	(1,226)	104	(530)
Taxes in respect of previous years	(84)	109	-
	(58)	506	52

NOTE 16:- TAXES ON INCOME (Cont.)

d. Deferred taxes:

Significant components of the Group's deferred tax assets (liabilities) are as follows:

	Investments in production of TV series	*Broadcasting rights*	*Employee benefit liabilities*	*Broadcasting contracts*	*Tax loss carryforward*	*Doubtful accounts*	*Investment properties and equipment*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance as of 1 January 2003	-	1	26	-	-	45	58	130
Amounts included in statement of income	1,171	(14)	(8)	108	-	29	(60)	1,226
Acquisition of subsidiary	-	-	10	(270)	-	45	11	(204)
Currency translation differences	-	(1)	2	(18)	-	10	3	(4)
Balance as of 31 December 2003	1,171	(14)	30	(180)	-	129	12	1,148
Amounts included in statement of income	(269)	18	(10)	114	138	(92)	(3)	(104)
Currency translation differences	-	-	-	1	-	(2)	-	(1)
Balance as of 31 December 2004	902	4	20	(65)	138	35	9	1,043
Amounts included in statement of income	153	7	20	53	313	(17)	1	530
Currency translation differences	-	-	9	4	9	-	-	22
Balance as of 31 December 2005	1,055	11	49	(8)	460	18	10	1,595

NOTE 16:- TAXES ON INCOME (Cont.)

e. A reconciliation of theoretical tax expense assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax expense is as follows:

	Year ended 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
Profit before taxes on income	570	2,199	1,680
Provision at statutory rate - 36% (2003), 35% (2004) and 34% (2005)	205	770	571
Increase (decrease) in taxes resulting from:			
Losses and other items for which deferred taxes were not provided	323	261	18
Decrease in taxes resulting from recording of deferred taxes in respect of carryforward tax losses for which deferred taxes were not recorded in prior years	-	-	(441)
Non-deductible expenses	160	23	194
Gain from sale of associate	(46)	-	-
Gain on issuance of shares by subsidiary	-	(109)	-
Different tax rates and changes in tax rates	(607)	(547)	(313)
Taxes in respect of previous years	(84)	109	-
Share of profit of associate	(30)	(25)	-
Other	21	24	23
	(58)	506	52

f. Carryforward losses for tax purposes:

The carryforward losses for tax purposes for the year ended 31 December 2005 amount to approximately US$ 1,700 thousand in Israel. A tax asset in respect of these losses is included in the balance sheet.

g. Tax rates in Israel:

Until 31 December, 2003, the regular tax rate applicable to income of companies was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, the “Knesset” passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which determined, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31% , 2007 -29%, 2008 – 27%, 2009 – 26%, 2010 and thereafter - 25%.

NOTE 16:- TAXES ON INCOME (Cont.)

h. Tax assessments:

The Company and the investees have received final assessments or assessments considered as final as detailed below:

	Through the tax year
The Company	2002
Davka	2001
Dar	2001
Darset	2001

The other investees have not yet been assessed since their inception.

NOTE 17:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Liens:

To secure credit obtained from banks in the net amount of approximately US$ 3,800 thousand fixed and floating charges of various priorities were recorded on the Group's assets, rights deriving from the assets, share capital and goodwill, insurance rights and rights in real estate. The credit obtained from the banks is also secured by guarantees granted to the banks by share holding companies and personal guarantees of the shareholders.

b. Lease agreement:

DMI GmbH rents its facilities under an operating lease agreement. The minimum rental payments under non-cancelable lease are as follows:

31 December	*US$ '000*
2006	87
2007	87
2008	65

c. Commitments:

1. In May and September 2003, Davka signed long-term agreements with the Israeli Satellite Company and with the Israeli cable companies, respectively. The terms of the agreements are until December and Apil 2008 respectively, for a consideration based on the number of viewers with a fixed minimum as determined in the agreements.
   Davka has a put option to extend the agreement with the Satellite Company by one additional year, until December 2009.

NOTE 17:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

2. During 2005, agreements were reached between DMI GmbH and various Argentinean producers for the acquisition and financing of the production of new Telenovela series in Argentina. The production costs are expected to amount to approximately US$ 2.4 million. As of 31 December 2005, US$ 1,720 thousand of the aforesaid amount had been incurred.

   In addition to the aforesaid productions, in September and October 2005, DMI GmbH signed finance agreements for the production of new Telenovela series ("the new series") with external financial partners ("the financial partners"). The new series will be produced by Viva and production costs are expected to be US$ 2.2 million, of which US$ 1 million will be funded by the financial partners (as of 31 December 2005 this amount was received and recorded as a liability - see Note 15).
   The Group will be the owner of 100% of the rights of the new series. The financial partners will be entitled to royalties from the profits that will derive from the new series.
   As of the date of the financial statements, approximately US$ 620 thousand of the aforesaid production costs had been incurred.

   An additional amount of US$ 100 thousand was received from financial partners as an advance for two new Telenovela series expected to be produced in 2006.

d. Litigation:

In September 2003, a claim was filed in the Tel-Aviv District Court against the Company and against YDI 2002 by a minority shareholder (5%) of YDI 2002 and Dori-Mapal and by another claimant. In the context of the claim, the court was asked to grant various injunctions, declaratory orders and mandamuses compelling, inter alia, the Company and YDI 2002 under certain conditions to allocate 10% of the shares of, inter alia, the Company and YDI 2002 and compelling the Company and YDI 2002, under certain other conditions, to allocate 10% of the shares of, inter alia, the Company and YDI 2002.

Additionally, the Court was asked to compel, inter alia, the Company and YDI 2002 to deliver to the claimants all documents indicating how the project, as defined in the claim, was held and managed and who are the owners of the project; were dividends issued from the project, inter alia, to the shareholders of the Company and/or of YDI 2002 and in what amounts and when; what was, inter alia, the income of the Company and YDI 2002 from May 2002 and all documentation regarding the project, as defined in the claim.

Additionally, the Court was asked to compel, inter alia, the Company and YDI 2002 to give to the claimants all the rights due to them, pursuant to the various agreements referred to in the claim, including dividends and/or any other benefits given to any of the shareholders in the Company and in YDI 2002 and, additionally, to grant an injunction preventing, inter alia, the Company and YDI 2002 from making any dispositions in 20% of their shares, including any transfers, allocations, sale, dilution or change in rights therein, until a decision has been reached on the claim.

The estimated amount of the claim was approximately NIS 3,200 thousand (US$ 745 thousand). On 26 November 2003, a statement of defense was filed.

NOTE 17:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On 31 January 2005, the Company reached a compromise with the abovementioned minority shareholder. Pursuant to this compromise, the minority shareholder agreed to sell to the Company his interest (5%) and all other rights in YDI 2002 and Dori-Mapal for a total consideration of US$ 575 thousand. In addition, the minority shareholder agreed to release the Company and all members of the Group from any and all claims and demands, including the claims referred to above.

On 2 June 2005, the other claimant filed a request with the Tel-Aviv District Court to amend the statement of claim in which several corrections were requested, as follows: the deletion of the name of the minority shareholder from the list of the claimants in light of the compromise that was reached with him; corrections required to the statement of claim in light of the rejection of the claim against minority shareholder in accordance with the compromise reached by the parties; the addition of factual claims concerning the initial public offering of the Company's shares on the London stock exchange, and the correction of the estimated amount of the claim to an amount of approximately NIS 1,600 thousand (US$ 350 thousand).

On 19 July 2005, the Court agreed to the request and a revised statement of claim was issued.

In November 2005, the other claimant filed a request for the issue of an attachment order. After a hearing on the request, the other claimant asked to withdraw his request.

A pretrial hearing was set to take place on 19 June 2006.

The Company believes, among others, based on the opinion of its legal advisors that there is little likelihood that the other claimant will succeed in its claim against the Company and YDI 2002. Therefore, no provision was recorded in respect thereof in the financial statements.

NOTE 18:- EQUITY

a. The share capital is composed as follows:

Authorized:

	Year ended 31 December		
	2003	*2004*	*2005*
	Number of Shares		
Ordinary shares of NIS 0.1 par value each *)	294,000	30,000,000	30,000,000
Issued and fully paid:			
Ordinary shares of NIS 0.1 par value each	100,000	15,000,000	19,413,223

*) On 14 September 2004, the Company effected a share split such that, each Ordinary share of NIS 1 par value became 10 Ordinary shares of NIS 0.1 par value each. Share and per share data in these financial statements have been retrospectively adjusted for all periods presented to reflect this share split.

NOTE 18:- EQUITY (Cont.)

b. Issuance of shares:

1. On 31 December 2002, the Company issued to shareholders 9,000 Ordinary shares and 1,000 Management shares in consideration of approximately US$ 2 million.

   In addition, a shareholder was granted an option to purchase additional shares of the Company, such that his holding percentage in the Company would increase to 50% (see 2 below).

2. On 31 December 2003, an investment and purchase agreement was entered into between two existing shareholders, the Company and a new shareholder. In accordance with the agreement, the following issuances and transfer were made: issuance of 5,340 shares to an existing shareholder upon exercise of an option in consideration for approximately US$ 900 thousand; issuance of 71,170 bonus shares to the existing shareholders; issuance of 12,490 shares to the new shareholder in consideration of US$ 1 million; a transfer of 12,500 shares from an existing shareholder to the new shareholder. In addition, the 1,000 Management shares were converted into 1,000 Ordinary shares.

3. In 2004, subsequent to the share split, the Company increased its authorized share capital to 30,000,000 Ordinary shares of NIS 0.1 par value each, and issued 14,900,000 Bonus shares to existing shareholders.

   In December 2004, the Company received US$ 200 thousand from a related party which was recorded as receipt on account of shares.

   On 12 January 2005, the Company's Board of Directors approved the issuance of 300,000 Ordinary shares to the related party in consideration of the said US$ 200 thousand.

4. On 24 March 2005, the Company's shares were admitted to trading on AIM, a market operated by the London stock exchange. Concurrently, the Company also completed an initial public offering ("IPO") of 2,738,784 Ordinary shares. The proceeds of the IPO were approximately US$ 6,049 thousand, before issuance expenses in the amount of US$ 1,450 thousand.

   On 24 March 2005, the Company issued to the minority shareholder of Davka 450,000 Ordinary shares at their fair value in the amount of U.S. $ 994 thousand (based on the IPO price per share of US$ 2.2). See Note 23b.

   On 7 October 2005, the Company issued to a new shareholder 924,439 Ordinary shares in consideration of US$ 1,784 thousand (net of issuance expenses in the amount of US$ 18 thousand).

NOTE 18:- EQUITY (Cont.)

c. Stock Option Plan:

In September 2004, the Company authorized a Stock Option Plan for the issuance of options to purchase up to 2,000,000 Ordinary shares of the Company. The options were granted in 2004 to employees and directors and vest over periods of four and three years, respectively. The options expire 10 years after the date of grant. The options to employees and directors in Israel were granted under sections 102 and 3(i) of Israel's Income Tax Ordinance.

The weighted average fair value of options granted by the Company in September 2004 was U.S.$ 0.19 per share and was estimated based on the following data and assumptions:
Share price - U.S.$ 0.7; exercise price - U.S.$ 0.66; expected volatility - 25.6%; risk-free interest rate 4.9%; expected dividends 0%, and expected average life of options - 3.5 years.

The weighted average fair value of options granted by the Company in February 2005 was U.S.$ 1.46 per share and was estimated based on the following data and assumptions:
Share price - U.S.$ 2; exercise price - U.S.$ 0.66; expected volatility - 25.6%; risk-free interest rate 4.9%; expected dividends 0%, and expected average life of options - 3 years.

In 2005, the Company agreed to grant to the CEO of DMI GmbH options to purchase 50,000 Ordinary shares of the Company at an exercise price per share that will be equal to the closing market price of the Company's shares on the day proceeding the date on which the options are to be granted.

The options to be granted will be fully vested and exercisable upon their grant, as follows:

Options to purchase 25,000 shares are to be granted after the publication of the 2006 annual audited financial statements, and additional options to purchase 25,000 shares will be granted after the publication of the 2007 annual audited financial statements. The options are to be granted subject to the achievement of certain profit targets. The options to be granted will be exercisable for a period ending one year after the date of the publication of the 2007 annual financial statements.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	Ended 31 December			
	2005		2004	
	Number	WAEP (U.S.$)	Number	WAEP (U.S.$)
Outstanding at the beginning of the year	1,100,000	0.65	-	-
Granted during the year	60,000	0.65	1,100,000	0.65
Forfeited during the year	(75,000)	0.65	-	0.65
Outstanding at the end of the year	1,085,000	0.65	1,100,000	0.65
Exercisable at the end of the year	341,000	0.65	-	-

NOTE 18:- EQUITY (Cont.)

d. Nature and purpose of other reserves:

1. Asset revaluation surplus -

The asset revaluation surplus reflects the increase in the fair value of the identifiable net assets (broadcasting contracts) of Davka since its establishment and prior to the acquisition of the controlling interest in 2003.

2. Foreign currency translation reserve -

The foreign currency translation reserve is used to record exchange rate differences arising from the translation to the U.S. dollar of the financial statements of those companies in the Group whose functional currency is not the U.S. dollar.

NOTE 19:- SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME

	Year ended 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
a. Revenues:			
Revenues from rights in TV series	6,506	*) 5,750	8,048
Revenues from broadcasting TV channels	3,848	4,471	3,854
Revenues from sales of TV series rights	269	191	176
	10,623	*) 10,412	12,078

*) Restated - see Note 2w.

b. Cost of revenues:			
Cost of rights in TV series	4,960	3,301	3,403
Cost of broadcasting TV channels	1,432	1,598	1,609
Cost of TV series rights sold	168	9	140
	*) 6,560	*) 4,908	*) 5,152

*) Included in costs of revenues:

Amortization	2,435	2,421	1,888
Impairment	600	-	-
Salaries and related benefits	134	135	138

NOTE 19:- SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME (Cont.)

		Year ended 31 December		
		2003	*2004*	*2005*
		US$ '000	*US$ '000*	*US$ '000*
c.	Selling and marketing expenses:			
	Advertising and marketing expenses	354	394	437
	Commissions	414	352	1,462
		768	746	1,899
d.	General and administrative expenses:			
	Salaries and related benefits	782	609	1,058
	Management fees	714	848	717
	Rental fees and maintenance of offices	364	344	399
	Professional fees	697	595	705
	Depreciation and amortization	78	122	84
	Doubtful accounts and bad debts	151	85	55
	Others	14	29	49
		2,800	2,632	3,067
e.	Financial expenses, net:			
	Bank loans and overdrafts	238	377	290
	Income from deposits	(21)	-	(80)
	Other	29	17	19
		246	394	229
f.	Other income (expenses), net:			
	Gain on sale of investee	130	-	-
	Gain on issuance of shares by a subsidiary (Note 23a)	-	306	-
	Loss on disposal of property and equipment	-	-	(60)
	Rental income, net	116	108	32
	Depreciation of investment property	(19)	(19)	(5)
	Other	10	1	(18)
		237	396	(51)

NOTE 20:- EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
Net profit attributable to Ordinary shareholders for basic and diluted earnings per share	361	*) 1,486	1,628
Weighted average number of Ordinary shares for basic earnings per share	12,175,500	15,000,000	17,984,179
Effect of dilution:			
Share options	-	771,707	619,545
Adjusted weighted average number of Ordinary shares for diluted earnings per share	12,175,500	15,771,707	18,603,724

*) Restated - see Note 2w.

NOTE 21:- FINANCIAL INSTRUMENTS

a. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, credit from banks, trade payables and other current liabilities approximate their fair value due to the short-term maturity of such instruments.

b. Concentration of credit risk:

Financial instruments that potentially subject the Group to concentration of credit risk consist principally of cash and cash equivalents and trade receivables.

Cash and cash equivalents are deposited with major banks. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company's trade receivables are mainly derived from sales to customers in Israel, Central and South America and Europe. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection.

NOTE 22:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

	As of 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
Current assets:			
Other accounts receivable	1,189	39	22
Current liabilities:			
Other current liabilities	466	453	34

b. Transactions with related parties:

	Year ended 31 December		
	2003	***2004***	***2005***
	US$ '000	***US$ '000***	***US$ '000***
Revenues:			
Sales to related parties	183	210	15
Compensation of key management personnel of the Group:			
Short-term employee benefits	1,140	1,222	1,060
Share-based payments	-	-	33
	1,140	1,222	1,093

NOTE 23: INVESTMENTS IN SUBSIDIARIES

a. YDI 2002 and Dori-Mapal:

In May and October 2002, the Company established YDI 2002 and Dori-Mapal, respectively. Since the date of establishment of YDI 2002 and Dori-Mapal, the Company intended to allocate 10% of its holdings in YDI 2002 and Dori-Mapal to two external investors ("the investors"). YDI 2002 was inactive until the second half of 2003.

In May 2004, YDI 2002 and Dori-Mapal allocated to the investors 10% of their share capital. In exchange for the issuance of capital, loans that were received from the investors in the amount of about US$ 340 thousand were converted into share capital. The Company realized a gain from the allocation of shares amounting to approximately US$ 306 thousand, which is presented under the "Other income" item (in 2004).

NOTE 23: INVESTMENTS IN SUBSIDIARIES (Cont.)

In July 2004, the Company acquired 5% of the share capital of YDI 2002 and Dori-Mapal from one of the investors. Following the acquisition, the Company held 95% of the share capital of YDI 2002 and Dori-Mapal. The consideration for the acquisition amounted to US$ 250 thousand.

On 31 January 2005, the Company reached a compromise with the second investor. Pursuant to this compromise, the investor agreed to sell to the Company his interest (5%) and all other rights in YDI 2002 and Dori-Mapal for a total consideration of US$ 575 thousand. The consideration is payable in three equal installments in February 2005, January 2006 and in December 2006. In addition, the investor agreed to release the Company and all members of the Group from any and all claims and demands. Goodwill on the acquisition amounted to U.S.$ 363 thousand.

Following the acquisition, the Company holds 100% of the share capital of YDI 2002 and Dori-Mapal.

b. Davka:

On 11 February 2005, the Company signed an agreement with the minority shareholder of Davka ("the seller") according to which, the Company acquired the 22% of Davka's shares held by the seller in exchange for 450,000 Ordinary shares (2.86% of the Company's shares post issuance) with a fair value of US$ 994 thousand and a cash payment of US$ 844 thousand. After consummation of this agreement, the Company holds 100% of Davka's issued share capital. Goodwill on the acquisition amounted to U.S.$ 1,657 thousand. The acquisition was effective as of 1 January 2005.

c. Dori-Aram:

At the end of 2005, a shareholder of the Company transferred to the Company his interest in Dori-Aram (50% of the Ordinary shares of Dori-Aram, and a Management share that provides the Company with control), in consideration for less than US$ 1 thousand. The equity of Dori-Aram as of the date of the transfer was immaterial.

NOTE 24:- INTEREST IN JOINTLY CONTROLLED ENTITIES

On 2 January 2005, the Company reached an agreement with a shareholder who owns approximately 25% of Darset, pursuant to which the shareholder granted the Company a proxy, at no consideration, to vote the shares of the shareholder in the meetings of Darset's shareholders. The proxy expires after eight years or upon the transfer of the shares by the shareholder to an unrelated party.

Subsequent to the signing of the agreement, the Group holds 50% of the voting power and joint control in Darset. Therefore, commencing in 2005, the Group's interest in Darset (25.16%) is accounted for by proportionate consolidation.

NOTE 24:- INTEREST IN JOINTLY CONTROLLED ENTITIES (Cont.)

The Company also has a 50% interest in the assets, liabilities, expenses and output of Dar, which is involved in the production of TV series.

The Company's share of the assets, liabilities, revenues and expenses of Darset and Dar which are included in the consolidated financial statements, are as follows:

	As of 31 December		
	2003	*2004*	*2005*
	US$ '000	*US$ '000*	*US$ '000*
Balance sheet items:			
Current assets	21	62	170
Non-current assets	1	1	43
Current liabilities	7	56	122
Non-current liabilities	1	1	5

	Year ended 31 December		
	2003	*2004*	*2005*
	US$ '000	*US$ '000*	*US$ '000*
Statement of income items:			
Revenues	10	13	1,008
Cost of revenues	6	4	888
Operating expenses	23	16	31
Profit (loss) before taxes on income	(19)	(7)	89

NOTE 25:- BUSINESS SEGMENTS

a. General:

1. The Group companies operate in three principal business segments: production and distribution of TV series, broadcasting of TV channels and sale of TV series rights.

2. The segment's assets include all the operating assets which are used by the segment and are composed mainly of cash and cash equivalents, trade and other receivables, equipment and other assets. Most of the assets are attributed to a specific segment.

3. The segment's liabilities include all the operating liabilities that derive from the operating activities of the segment and are composed mainly of trade payables and other accounts payable. The segment's assets and liabilities do not include taxes on income.

NOTE 25:- BUSINESS SEGMENTS (Cont.)

b. The following data are presented in accordance with IAS 14:

	Year ended 31 December 2003				
	Rights of TV series	***Broadcasting of TV channels***	***Sales of TV series rights***	***Adjustments***	***Total consolidated***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***
Revenues:					
Sales to external customers	6,506	3,848	269	-	10,623
Inter-segment sales	80	-	335	(415)	-
Total revenues	6,586	3,848	604	(415)	10,623
Results:					
Segment results	877	128	391	-	1,396
Unallocated expenses					(901)
Operating profit					495
Financial expenses, net					(246)
Equity in earnings of associate	84	-	-	-	84
Other income, net					237
Taxes on income					(58)
Profit for the year					628
Assets and liabilities:					
Segment assets	7,237	4,338	367		11,942
Investment in associate	83	-	-		83
Unallocated assets					2,470
Total assets					14,495
Segment liabilities	1,200	731	153		2,084
Unallocated liabilities					7,238
Total liabilities					9,322
Other segment information:					
Capital expenditure:					
Tangible fixed assets	10	6	1		17
Intangible assets	4,743	1,909	-		6,652
Depreciation	27	47	4		78
Amortization	1,598	837	-		2,435
Impairment losses	600	-	-		600

NOTE 25:- BUSINESS SEGMENTS (Cont.)

	Year ended 31 December 2004				
	Rights of TV series	*Broadcasting of TV channels*	*Sales of TV series rights*	*Adjustments*	*Total consolidated*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Revenues:					
Sales to external customers	*) 5,750	4,471	191	-	*) 10,412
Inter-segment sales	235	-	402	(637)	-
Total revenues	*) 5,985	4,471	593	(637)	*) 10,412
Results:					
Segment results	*) 1,601	781	491	-	*) 2,873
Unallocated expenses					(747)
Operating profit					*) 2,126
Financial expenses, net					(394)
Equity in earnings of associate	71	-	-	-	71
Other income, net					396
Taxes on income					506
Profit for the year					*) 1,693
Assets and liabilities:					
Segment assets	*) 8,966	4,042	149		*) 13,157
Investment in associate	87	-	-		87
Unallocated assets					2,395
Total assets					*) 15,639
Segment liabilities	1,608	555	58		2,221
Unallocated liabilities					6,596
Total liabilities					8,817
Other segment information:					
Capital expenditure:					
Tangible fixed assets	31	12	3		46
Intangible assets	3,293	-	-		3,293
Depreciation	41	77	4		122
Amortization	1,472	949	-		2,421

*) Restated - see Note 2w.

NOTE 25:- BUSINESS SEGMENTS (Cont.)

	Year ended 31 December 2005				
	Rights of TV series	***Broadcasting of TV channels***	***Sales of TV series rights***	***Adjustments***	***Total consolidated***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***
Revenues:					
Sales to external customers	8,048	3,854	176	-	12,078
Inter-segment sales	5	-	323	(328)	-
Total revenues	8,053	3,854	499	(328)	12,078
Results:					
Segment results	2,163	418	282	-	2,863
Unallocated expenses					(903)
Operating profit					1,960
Financial expenses, net					(229)
Other expenses, net					(51)
Taxes on income					52
Profit for the year					1,628
Assets and liabilities:					
Segment assets	15,590	5,538	308		21,436
Unallocated assets					1,887
Total assets					23,323
Segment liabilities	3,352	393	48		3,793
Unallocated liabilities					4,110
Total liabilities					7,903
Other segment information:					
Capital expenditure:					
Tangible fixed assets	96	125	4		225
Intangible assets	3,431	1,657	-		5,088
Depreciation	28	55	6		89
Amortization	982	906	-		1,888

NOTE 25:- BUSINESS SEGMENTS (Cont.)

c. Geographical segments:

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the years ended 31 December 2005, 2004 and 2003.

Year ended 31 December 2003	*Israel*	*Europe*	*Central and South America*	*Other*	*2003 Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Revenues:					
Sales to external customers	8,966	108	1,515	34	10,623
Inter-segment sales	-	-	-	-	-
Segment revenues	8,966	108	1,515	34	10,623

Year ended 31 December 2003	*Israel*	*Switzerland*	*2003 Total*
	US$ '000	*US$ '000*	*US$ '000*
Other segment information:			
Segment assets	6,116	5,826	11,942
Unallocated assets	-	-	2,553
Total assets			14,495
Capital expenditure:			
Tangible fixed assets	7	10	17
Intangible fixed assets	1,909	4,743	6,652

NOTE 25:- BUSINESS SEGMENTS (Cont.)

Year ended 31 December 2004	*Israel* US$ '000	*Europe* US$ '000	*Central and South America* US$ '000	*Other* US$ '000	*2004 Total* US$ '000
Revenues:					
Sales to external customers	7,890	857	*) 1,452	213	*) 10,412
Inter-segment sales	-	-	-	-	-
Segment revenues	7,890	857	*) 1,452	213	*) 10,412

Year ended 31 December 2004	*Israel* US$ '000	*Switzerland* US$ '000	*2004 Total* US$ '000
Other segment information:			
Segment assets	4,183	*) 8,974	*) 13,157
Unallocated assets	-	-	2,482
Total assets			*) 15,639
Capital expenditure:			
Tangible fixed assets	15	31	46
Intangible fixed assets	-	3,293	3,293

*) Restated - see Note 2w.

Year ended 31 December 2005	*Israel* US$ '000	*Europe* US$ '000	*Central and South America* US$ '000	*Other* US$ '000	*2005 Total* US$ '000
Revenues:					
Sales to external customers	6,471	2,539	2,980	88	12,078
Inter-segment sales	-	-	-	-	-
Segment revenues	6,471	2,539	2,980	88	12,078

Year ended 31 December 2005	*Israel* US$ '000	*Switzerland* US$ '000	*2005 Total* US$ '000
Other segment information:			
Segment assets	7,871	13,565	21,436
Unallocated assets			1,887
Total assets			23,323
Capital expenditure:			
Tangible fixed assets	141	84	225
Intangible fixed assets	1,657	3,431	5,088

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