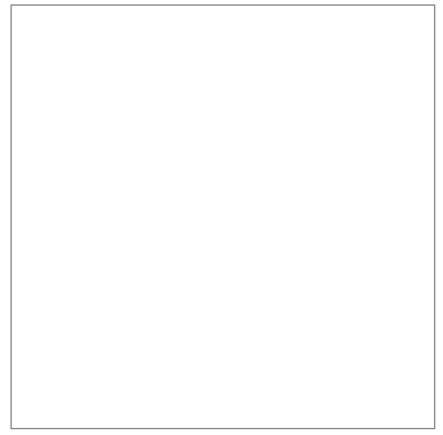
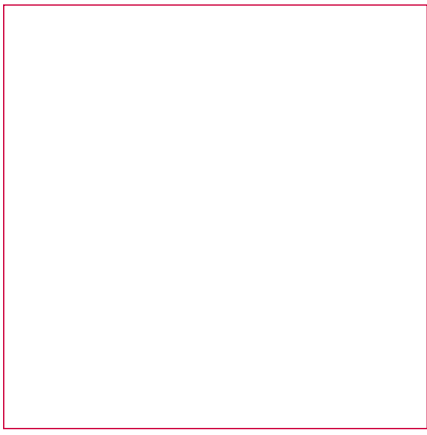




**ADVANCED DIGITAL BROADCAST HOLDINGS SA**  
ANNUAL REPORT 2005

ADVANCED DIGITAL BROADCAST GROUP





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# TO OUR SHAREHOLDERS

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## Ladies and Gentlemen,

I am proud to report our results of 2005, a year which has marked a cornerstone in the history of the ADB Group. We have driven the Group's performance and market position to its historically highest levels, delivering above-standard revenue growth and financial results and creating value for our customers, employees and shareholders.

Our business has expanded to over a quarter-billion US dollars, up 43% over 2004 levels. At the same time we have strengthened our overall position, both geographically and in terms of business segments, by reducing our dependency on specific countries, segments or customers. The top ten customers in 2005 represented around 73% of our revenue, down from 81% in 2004. In parallel, the new segment of Internet Protocol Television, or IPTV, grew from zero to 17% of our sales in 2005, thanks to our technology innovation capabilities: ADB Group is now a leader in this promising business segment. I am very satisfied with our capabilities in organically growing the business into new markets and applications.

While achieving commercial success, I am also pleased to report that we managed to grow our profitability at a faster rate than the revenue progression. Gross profit, profit from operations and profit for the year progressed by 52%, 77% and 77% respectively over 2004, reaching 36%, 8.4% and 5.7% of revenue respectively. These results build on ADB Group's unique position in the market, with a complete solutions offering for the digital television: set-top boxes, embedded software, middleware, applications, head-end integration and overall customer service. The core of our differentiation lies in this overall value-chain, customer-driven and innovation-centric position that we have been relentlessly developing since I started the activities in 1995. I am convinced that the outstanding performance I have the pleasure to report today is deeply rooted in this differentiation.

Our business relies strongly on its key assets: our people, our products, our customers and our partners. As a provider of complete solutions, we do nonetheless focus on our strengths, while binding the appropriate strong relationships with key partners. We enjoy a privileged relationship with chip manufacturer STMicroelectronics, with electronics manufacturer Cal-Comp Electronics and with several conditional access providers and standardizing bodies. Our close collaboration with these partners since years allows us to share development efforts and maximize efficiency.

Since our inception, we have enjoyed very strong customer relationships, and I am pleased to report that our Group, which today counts more than sixty customers worldwide, continues to serve all of its historical customers, without defections. We have been serving some of our customers successfully for more than ten years. ADB Group is dedicated to bringing value to them, and to solving their issues globally. As an organization, we care about long-term relationships; we aim to deliver to our customers the right solution at the right time together with a high level of service commitment.

In order to achieve this, we have to propose a product offering that goes beyond undifferentiated, "me-too" devices. We focus on technologically challenging solutions that bring competitive advantage to our customers.



This results in ADB Group delivering highly advanced products: in 2005 we shipped the world's first MPEG4 hybrid IPTV/DTT set-top boxes to Telefonica; we were the first to introduce new DTT products calibrated for Italian Pay-per-View offering; we partnered RAI for a live High Definition DTT broadcast during Torino 2006 Winter Olympic Games; we shipped the world's first MHP-enabled cable TV decoder. These are just a few examples that illustrate what sets us apart and the focus of our team.

I would like to take this opportunity to extend my gratitude to all the employees of ADB Group for making our Group a leader. I am convinced that the outstanding level of skills of our employees in all disciplines, combined with high business and ethical standards, are fundamental elements of our success. Moreover, I attribute the success of ADB Group to the winning spirit that is widespread at all levels of the organization. As our Group is engaged in an aggressive growth path, we are constantly expanding our staff. My special welcome goes to all new joiners into this adventure. In 2005 the employee base was significantly developed through many initiatives: we opened a brand new research and development center in Kharkov, Ukraine, to benefit from a talent reservoir in computing engineering; we decided to acquire the business of US-based Vidiom Systems to consolidate our foothold in the US; we created tele.DOM and SIMPLE, two new initiatives consistent with our vision of a complete solution offering; and we recruited a significant number of high caliber resources to complement our research and development, sales and marketing, and corporate development efforts. We regard recruiting top-notch talents, retaining them and inspiring their winning spirits as a key success factor of our Group, and we want to continue to ensure ADB Group remains a valued employer.

We look forward with eagerness and confidence to continue executing our strategic plans. We aim to cover all segments of the digital television markets by providing software intensive, technically challenging products and top quality services to leading broadcasters and operators worldwide. This industry is exciting, with many changes happening, and several discontinuities available. Existing broadcasting is evolving with the advent of IPTV, and very soon DVB-H; this market situation creates new technology and dedicated services requirements, and demand for new types and formats of content. The long-awaited high-definition television is finally making its way initially through satellite, cable and very soon other media such as terrestrial and IPTV. Multimedia consumption pattern is also undergoing a major revolution: from passive reception to on-demand and interaction. And of course, the vast majority of the world's installed television sets is still only capable of analog reception. We have in front of us a fantastic reservoir of opportunities to exploit.

By continuously enhancing our dedication, commitment, loyalty, care of service and quality, I am sure ADB Group will be able to be at the forefront of those who can profitably exploit the many opportunities that lie ahead. We focus on our strengths, and plan our way with determination and care. We prepare to face the inevitable challenges that come together with high growth opportunities. In this respect, I would like to mention with satisfaction some actions we conducted in 2005: on top of diversifying our business to make it more solid, and working closely with our long-standing manufacturing partner Cal-Comp Electronics to match the demand of our products, we were actively involved in the creation of a brand-new manufacturing capacity in Poland by Cal-Comp Electronics and SONO Polska. This brings us a manufacturing site close to our engineering, close to our European customers, and within the European Union. 2005 also saw the start-up of our System-On-Module business, demonstrating our capability to support and deliver digital TV technology in form factors other than set-top boxes.

Finally, let me conclude with a word on the Initial Public Offering of ADB Group on SWX Swiss Exchange on April 29, 2005. This has been a significant step in our development, providing our Group with greater resource opportunities as well as credibility, but also creating new obligations. The entire Board of Directors and I are fully committed to driving the Group to the highest standards of corporate governance and value delivery in the interests of all shareholders, which include management and many employees of the Group.

Ladies and Gentlemen, on behalf of the entire Group I would like to thank you, our shareholders, for your support and trust in the development of ADB Group. I am more than ever convinced that the future is paved with exciting upcoming opportunities as the television industry furthers its digital revolution, and ADB Group is uniquely positioned to seize them. I look forward to 2006 with high expectations.

Andrew N. Rybicki  
Chairman and CEO



**BUSINESS, OPERATIONS AND STRATEGY** 

## 2005: A CORNERSTONE FOR ADB GROUP

### Business Highlights

- 2005: ADB Group ships over 2 million set-top boxes, reaching close to 7 million units deployed worldwide since its inception; Osmosys' middleware leads the Multimedia Home Platform (MHP™) market of terrestrial, cable and IPTV platforms
- January 2005: thanks to its extensive and long-term cooperation with leading Italian broadcasters, ADB Group is first-to-market with products for the world's first Pay-per-View services on a Digital Terrestrial TV MHP-based operation
- March 2005: Telenet, the largest provider of broadband cable services in Belgium, selects ADB Group as a supplier of a full range of MHP products and services, including MHP-based digital cable interactive set-top boxes
- May 2005: Cablecom, Switzerland's leading cable operator, selects ADB Group to supply advanced Digital Video Recorders (DVRs)
- June and November 2005: first-to-market, successful IPTV take-off at Telefonica and selection by Fastweb of ADB Group's hybrid IPTV products for its new deployment. Similar developments are underway at another four European telecommunications operators
- September 2005: the Group signs a cross-license agreement with Thomson, a recognition of the Group's excellence in research and development

### Focus on development

- October 2005: Cal-Comp Electronics, SONO Polska and ADB Group initiate a strategic collaboration to setup a digital TV equipment production facility in Poland, dedicated to manufacturing ADB Group's products for the European market
- November 2005: ADB Group decides to launch two new initiatives: SIMPLE (Italy), a new multi-platform content and services production, formatting and distribution company; and tele.DOM (Poland), an aggregator and provider of interactive TV services over a partner's digital TV platform
- December 2005: ADB Group opens its 5th European research and development facility in Kharkov, Ukraine, and appoints Mr. Oleg Rudenko, a professor at the Kharkov National University, as its Managing Director
- December 2005: ADB Group announces the acquisition of the business of Denver (CO) - based Vidiom Systems Corporation, an American leading provider of OCAP™ technology, products and services. This positions the Group as the number one open standard middleware supplier to the American cable TV industry and a worldwide leader of OCAP and MHP products





## ADB Group goes public on April 29 2005: a successful IPO on the SWX Swiss Exchange

On April 29, 2005 ADB Holdings SA, the holding company of the ADB Group, completed its Initial Public Offering and became listed on the SWX Swiss Exchange. Issue price was CHF 51.00 per share with almost 2 million shares offered to the public. "Listing of the Group shares on the SWX Swiss Exchange

represents a truly key milestone for the Group and will enable us to realize our full growth potential. This successful IPO is for us a sign of the market and the investors' recognition in the strengths of our Group." said Mr. Andrew N. Rybicki, Chairman & CEO of ADB Group.

ADB Group was ranked the best performing Swiss and European IPO in 2005

Top 10 Swiss IPOs				
	Date	Issuer	Size (CHFm)	Performance on 31 Dec 2005 since pricing (%)
1	29-Apr	ADB	101	135
2	21-Sep	Panalpina	1,122	30
3	31-Mar	Dottikon <sup>1</sup>	237	21
4	28-Sep	Esmertec	102	18
5	30-Jun	Winterthur Tech.	110	13
6	8-Sep	Speedel <sup>2</sup>	0	10
7	22-Jun	Mobimo	129	10
8	6-Dec	Dufry	326	4
9	4-Nov	Nebag	16	3
10	7-Oct	EFG	1,393	-8

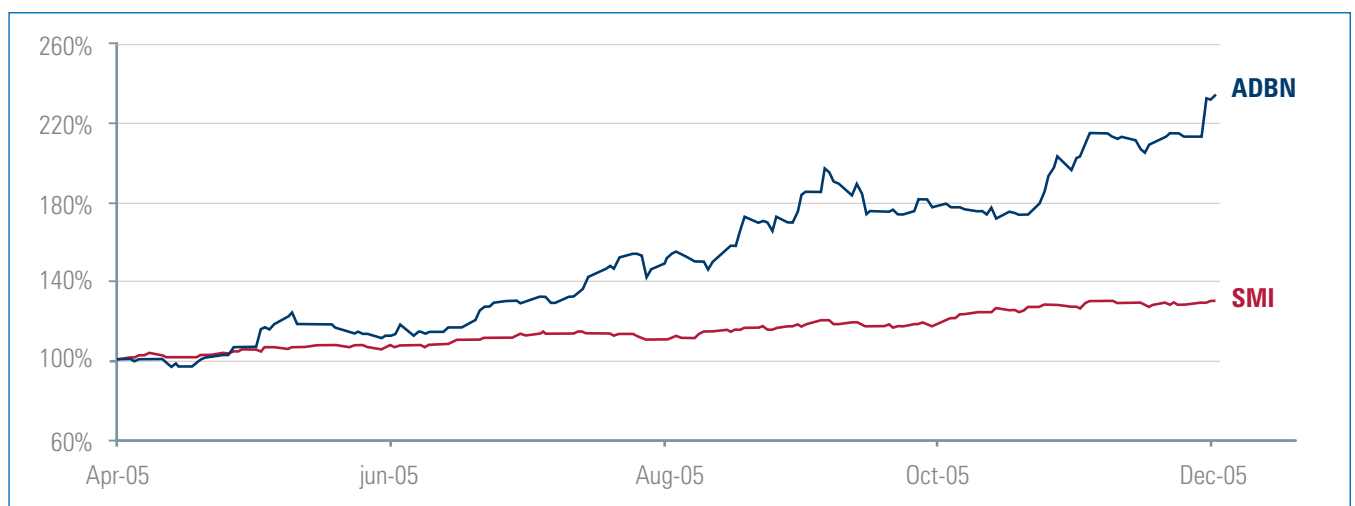
(1) Spin-off via purchase rights  
(2) Listing without public offering; performance based on first opening price

Top 10 European <sup>3</sup> IPOs					
	Date	Issuer	Issuer Nationality	Size (US\$m)	Performance on 31 Dec 2005 since pricing (%)
1	29-Apr	ADB	Switzerland	84	135
2	9-Jun	Banca Italease	Italy	233	132
3	2-Feb	Carter & Carter	UK	102	94
4	28-Sep	Interhyp	Germany	126	81
5	21-Apr	Raiffeisen Int. Bank	Austria	1,455	71
6	11-Mar	Lebedyansky	Russia	151	69
7	9-May	Foseco	UK	204	67
8	26-May	TomTom	Netherlands	692	66
9	17-Mar	APL ASA	Norway	75	65
10	15-Apr	Neste Oil Oyj	Finland	748	59

(3) IPOs in Europe in year 2005 with size greater than US\$ 50 million

Source: Dealogic Bondware, Credit Suisse

ADB Holdings share price evolution since IPO and comparison with the SMI index



# 2005 BUSINESS REVIEW

## General overview

### Strong revenue growth coupled with significant operating leverage

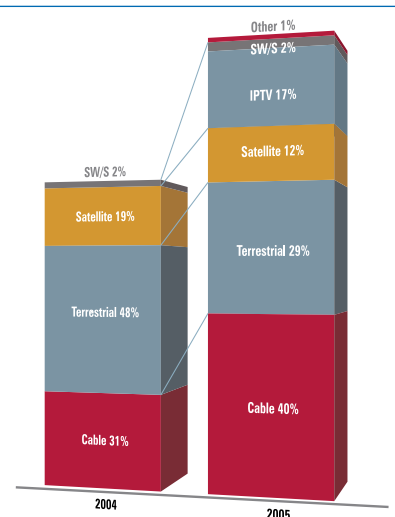
ADB Group's revenue has grown in 2005 at the rate of 43% (above its 35% historical growth rate), reaching U.S.\$ 252 million. This growth was primarily due to a significant expansion of the Group's customer base together with the start-up of IPTV business. Major growth contributors of the Group's core business were:

- Set-top boxes – revenue grew over 40%
- Digital Cable, which grew by more than 80%
- IPTV, that grew from 0% to about 17% of the annual 2005 revenue

The strongest driving segments were IPTV and Cable, while Satellite and Terrestrial were slightly down, following a year of exceptional growth in the Terrestrial segment in 2004.

Profitability grew at a higher rate than revenue (77% versus 43%) despite continuing investment in research and development and additional overhead costs incurred as a result of the IPO. This performance resulted from a very good product cost efficiency (based on product design), increased economies of scale, favorable prices of certain key components and better optimized product portfolio. Equally important has also been the growing contribution of engineering services revenue, which traditionally commands higher margins. Finally, a better product mix resulted in approximately 10% increase of the Group's Average Sale Price (ASP) in 2005, a remarkable achievement in our industry.

In million of U.S. Dollars except EPS	2004	2005	Growth
Sales	176.4	252.0	+43%
Gross profit % of sales	59.7 33.8%	90.8 36.0%	+52%
Operating profit % of sales	11.9 6.8%	21.1 8.4%	+77%
Net income % of sales	8.1 4.6%	14.3 5.7%	+77%
Basic EPS	\$1.99	\$2.58	+30%
Basic shares outstanding	4,063,614	5,540,839	

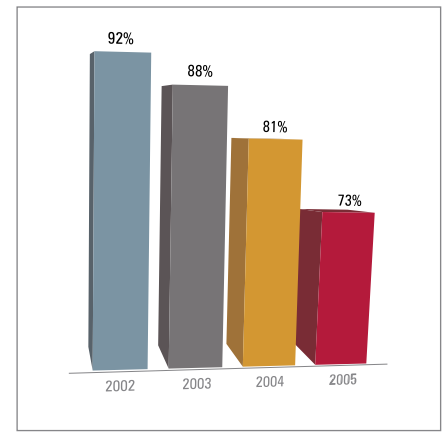


Country	Customer & Product Group	End Market
Spain	Auna (Cable)	Spain
Italy	Auriga (DTT)	Italy
Australia	Austar (Satellite)	Australia
Israel	Eurocom/DBS (Satellite)	Israel
Israel	HOT (Tevel) (Cable)	Israel
France	Philips (DTT)	Italy
Singapore	StarHub (Cable)	Singapore
Netherlands	Strong (DTT)	Italy
Switzerland	Technocell (DTT)	Italy
Thailand	UBC (Satellite & Cable)	Thailand
<b>Total top 10 customers</b>		<b>\$142m 81%</b>
Other customers / revenue		\$34m 19%
<b>Total 2004 revenue</b>		<b>\$176m 100%</b>

Top 10 customers in 2004

Country	Customer & Product Group	End Market
Spain	Auna (Cable)	Spain
Australia	Austar (Satellite)	Australia
Israel	Eurocom (Satellite)	Israel
Israel	Matav (Cable)	Israel
Singapore	StarHub (Cable)	Singapore
Switzerland	Technocell (DTT)	Italy
Spain	Telefonica (IPTV)	Spain
Belgium	Telenet (Cable)	Belgium
Israel	Tevel (Cable)	Israel
France	Thomson (DTT)	Italy
<b>Total top 10 customers</b>		<b>\$183m 73%</b>
Other customers / revenue		\$69m 27%
<b>Total 2005 revenue</b>		<b>\$252m 100%</b>

Top 10 customers in 2005



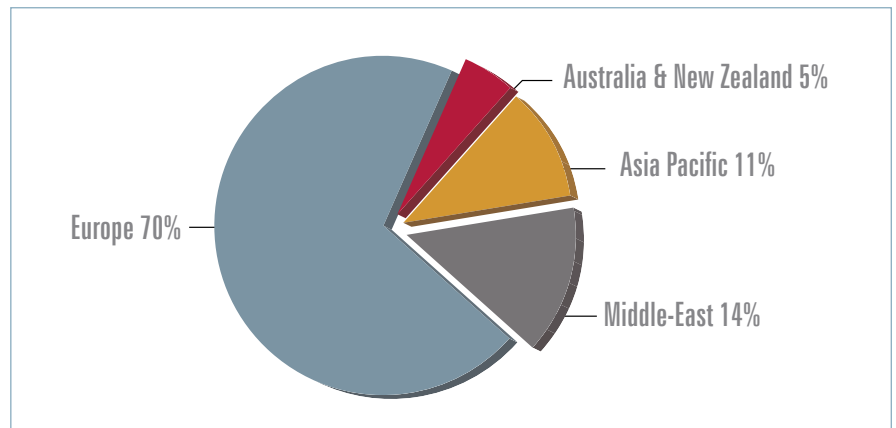
Top 10 customers as a percentage of total Group revenue

## More balanced sales

Additions of new customers decreased the Group's top ten customers share of revenue from 81% in 2004 to 73% in 2005, continuing the historical trend.

Geographical distribution of the Group's revenue in 2005 is similar to that of 2004: Europe generates 70% of revenue, followed by 16% from Asia Pacific (including Australia & New Zealand) and 14% from the Middle East (Israel).

In Europe, Italy and Spain generated 52% of the total revenue in 2005, followed by Belgium and Israel which were each above 10% of revenue.





## SEGMENTS REVIEW

### IPTV

2005 was the take-off year of the Group's IPTV business, which grew from zero in 2004 to 17% of the total revenue in 2005 (over 20% in the second half of the year). This is a result of ADB Group's long-term commitment to value-adding software and system integration. A strong technology position, such as the world's first IPTV set-top box with advanced H.264 video compression implemented in software, won the Group several significant customers and new business prospects for 2006 and beyond:

- Telefonica (Spain) became the Group's first IPTV customer contributing more than 15% of the 2005 revenue. Hybrid Terrestrial/IPTV product capabilities and ADB Group's proprietary software technology were key in winning this business
- The Group has also secured IPTV contracts with Fastweb in Italy and four other European telecommunications operators
- Finally, several business development activities conducted in 2005 put the Group in a strong position in 2006 and beyond, building on the Group's solid technology, cost effective design and proven 2005 track record.

IPTV is widely recognized as a fast growing and high potential segment of the digital television and integrated broadband services. ADB Group had regarded this segment as strategic well before the market was ready. The Group dedicated significant engineering resources to technology and product development since year 2003. The Group will continue emphasizing its research and development commitment to this segment, to further capitalize on its initial and on-going investments.

### Terrestrial

After the boom of 2004, when it generated 48% of the Group's total revenue, the DTT business remained an important factor in 2005, contributing 29% to the overall Group's revenue.

Consistent with its strategy, the company continues to focus on DTT markets that demand highly differentiated products with innovative features, such as MHP-based decoders designed for advanced Pay-per-View services in Italy and hybrid IPTV – DTT receivers. The Group is also preparing a range of advanced products and services that include Push Video-on-Demand (Push-VOD), PVR, and High Definition TV (HDTV) set-top boxes. The Group's successful developments in the area of HDTV for DTT in 2005 allowed it to conduct, in collaboration with RAI, a live broadcast during the Torino 2006 Winter Olympic Games. This key event clearly demonstrated ADB Group's leadership in HDTV technology.

Most of the DTT revenue in 2005 was accomplished through retail distribution channels, under the Group's i-CAN brand ([www.i-can.tv](http://www.i-can.tv)).

### Satellite

The market for satellite decoders has been substantially stagnant for the last few years, having reached a saturation plateau and experiencing no significant technology breakthrough. This trend is expected to change with new developments that are material enough to trigger the next "discontinuity": HDTV broadcast with advanced compression (H.264), Push-VOD and hybrid satellite-IPTV reception. Consequently, the Group has invested in 2005 in the development of several products that will address this up-coming demand.

Meanwhile, ADB Group enjoys a good position with a stable customer base, which includes historical customers such as Austar (Australia), UBC (Thailand) and DBS (Israel). In 2005, the satellite business represented around 12% of the total Group revenue.



## Cable

The Group has also developed over time a broad range of expertise and delivered several innovative products for the digital cable TV.

The Group's cable business has been driven by fast and efficient market introduction of technological innovation, resulting in a complete offer of products and systems based on an open-standard middleware (OCAP and MHP) and proprietary middlewares:

- A complete MHP system, with several software products and MHP-based set-top boxes for Telenet, Belgium's No. 1 cable TV operator
- a complete interactive TV system based on OpenTV middleware with custom-tailored applications and set-top boxes for StarHub, Singapore digital cable TV operator
- an XTV-DOCSIS PVR set-top box for HOT, a world first
- yet another MHP-based system comprising set-top boxes for TeleGeneve in Switzerland

... and several others.

The Group historical accounts (such as StarHub, HOT, Auna) performed well in 2005, and were complemented by new customers including Telenet in Belgium, Cablecom in Switzerland and TKP in Poland – the Group's first contract in that country.

As a result of the above, the Group's cable business grew more than 80% in 2005, contributing about 40% of the overall company revenue.

In the USA, ADB Group has conducted intense business development activities, stimulated to a large extent by the U.S. cable industry's recently announced shift to OCAP-based platforms. The acquisition of the business of Vidiom Systems Corporation, combined with the Group's already well-established leadership in various open standard middleware-enabled solutions, created a very strong platform for development of the Group's American business. Management expects to see the first material results in 2006.

## System-on-Modules

Anticipating the requirements of certain high volume yet not-technologically-advanced TV manufacturers for their inevitable migration to digital TV products, ADB Group has developed a part of the digital TV functionality in a form of an easily integrable module. Such module significantly cuts the time-to-market for the customers and eliminate costs and risks of the related research and development investment for TV manufacturers.

This new product line, referred to as System-On-Module (SOM), has already recorded its first design wins in 2005, particularly in a DVB-T MHP TV for a European flat screen manufacturer, and an ATSC-QAM TV for an Asian HDTV flat-screen supplier to the US market. To further strengthen value of its offer, the Group has established close technical collaboration with two leaders in digital image processing components suppliers: STMicroelectronics and Genesis.

As the Group's SOM business line has recently started its activity, its 2005 sales were not significant.

## Software and Services

A significant factor that differentiates the Group from its competitors is its ability to deliver complex software and system integration services. Osmosys, the Group's middleware company, was the world's first to develop and commercialize a complete offering for MHP - an open standard middleware specified by the Geneva-based DVB (Digital Video Broadcast) industry consortium. The "MHP middleware stack" and related tools and applications have been enablers of the Group's Digital Terrestrial TV (DTT) business.

The Osmosys MHP technology has also been extended to develop an offering based on OCAP, an open standard middleware specified by Cable Television Laboratories, Inc. (CableLabs®) of Louisville, CO, a U.S. cable industry technology standardisation body.

Osmosys has developed a middleware system integration, porting and licensing business, encompassing open system "stacks" as well as creative and proprietary solutions in the areas of development tools and applications.

In 2005, external sales of Software and Services amounted to approximately 2% of the Group's total revenue. The majority of the ADB Group's DTT products and a significant part of the cable products employ MHP software technology developed by Osmosys. Based on the research of independent parties, the Group believes that Osmosys is the most deployed MHP middleware worldwide.

In December 2005, ADB Group announced the acquisition of the business of Vidiom Systems Corporation. Vidiom has superior software integration and service ability, an attractive customer base that includes top U.S. cable operators (Comcast, Time Warner Cable, Cox) and is a valuable addition to the Group's Software and Services business, complementing Osmosys operations and extending the Group's American base.

# STRATEGY

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## Focus on a high-growth, technology intensive opportunities

### ADB Group positioning

ADB Group is a group focused on developing software and hardware required to view and interact with digital TV broadcast through cable, satellite, terrestrial and telecommunications networks. The Group is a leader in the development and delivery of consumer premise devices, including set-top boxes and associated software, ranging from real-time kernels and drivers to middleware and interactive applications, as well as complete interactive systems for digital TV with related integration services.

The Group offers four product lines:

- digital TV consumer premise devices
- interactive applications, systems and content
- integrated System-on-Module (SOM)
- middleware licensing and related porting and integration services and software development tools.

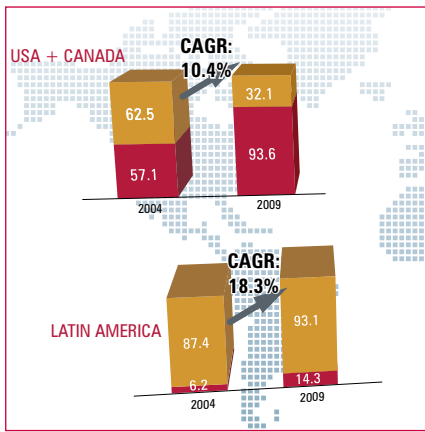
The Group sells consumer premise devices to digital cable, satellite, terrestrial and telecommunications operators (70% of set-top boxes revenue in 2005) as well as to distributors and consumer electronics companies (30% of set-top boxes revenue in 2005). It also supports operator customers with extensive engineering and system integration services from the early architecture design stage through to custom software design, on-site installation and debugging, after-sales maintenance and future upgrades.

The Group believes it was "first to market" with several products and technologies. ADB Group has received three international technical design awards for its MHP set-top boxes, including "Best Interactive TV Technology" (2003) and "Best Customer Premise

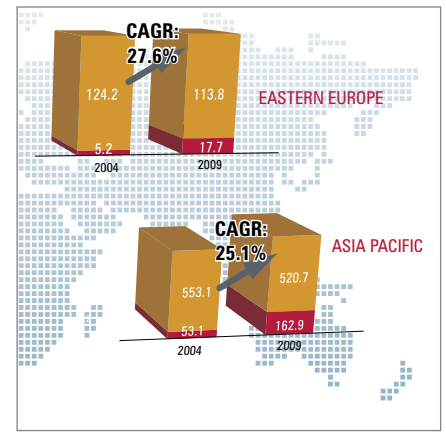
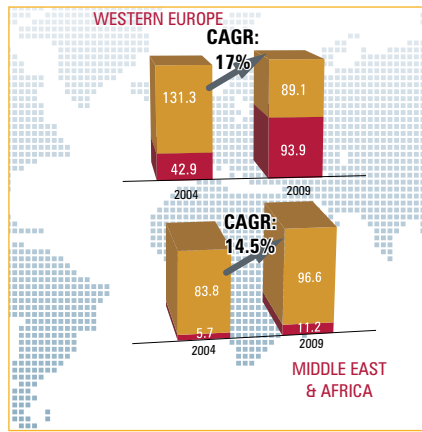
Technology" (2004), both from the Cable and Satellite International Product of the Year Awards. In addition, as an indicator of product quality, in 2005, the Group's cost to provide in-warranty repairs amounted to 0.49% of revenue, an improvement from 0.66% in 2004.

The two most important aspects of the Group's strategy are its ability to identify and efficiently exploit market discontinuities and to develop, maintain and grow close, mutually beneficial relationships with both suppliers and customers, including operators, as well as with broadcasters. Further, the Group seeks to maintain and grow its competitiveness through focusing on high margin, technically challenging products and projects. The Group leverages its operational efficiency by optimizing the geographical placement of its key functions: research and development, marketing and sales and operations, including contract manufacturing, sourcing and purchasing of strategic components, quality control, and customer support.

The Group believes that the emergence of new technologies, business models and regulatory decisions creates opportunities for it to become a new supplier to established broadcasters and rapidly penetrate new markets, because of its ability to efficiently anticipate and quickly respond to the development of such discontinuities. The Group seeks to continue exploiting significant discontinuities present in less mature, fast growing markets, such as delivery of video entertainment content via telecommunications networks (IPTV).



Growth of digital households (Source: IMS)



## Digital TV: a high-growth market

Digital TV represents a combination of the popular demand for more and better services with the natural progression of technology that facilitates such a demand. Market demands and developers' efforts have begun significantly influencing the patterns of consumer behavior and have created an entirely new industry through a process similar to the growth of the PC industry in the early 1980s. Digital content creation, its protection and delivery, interactive services and smart yet user-friendly, software-based consumer premise devices will drive the evolution of digital TV, creating significant business opportunities for the next decades.

It is estimated that over 1.2 billion households worldwide have at least one TV set (Source: IMS) and that less than 15% of these are digital. While the TV market is expected to remain stable, the trend towards digital reception will push the digital TV market upwards and is expected to result in an almost 20% growth each year until 2009 to 399 million households (Source: IMS).

In connection with the digitalization of TV has been the explosive growth of computer-generated content: static and animated information screens, education, games and various other consumer services. This has created the new industry of interactive services for digital TV, which according to industry analysts is poised to grow at high double-digit rates in the next years.

The growth of interactive services for digital TV has been fuelled by two areas of software technology: (i) middleware and (ii) applications. Digital TV middleware acts as an intermediate layer between a set-top box hardware and the software applications. The Digital Video Broadcast and CableLabs® have defined open standards for middleware called Multimedia

Home Platform ("MHP") and Open Cable Application Platform ("OCAP"), respectively. Both standards are open to implementation by qualified developers. In practice, only a few companies succeed in the creation of such implementations because of the high complexity and continuous evolution of the specifications. ADB Group, through its software arm Osmosys, has positioned itself as a leader in these software technologies.

Early digital set-top boxes were simple in function, complex in implementation and limited in functionality as they were used solely for reception and conversion of digital TV signals transmitted over satellite, cable or terrestrial transmission media. However additional functionality-enhancing features are constantly introduced. These additional features include in particular:

- Flexible and highly secure conditional access for subscription services with the ability to selectively decrypt pay TV signals. Such function is usually based on very sophisticated encryption and smart card technologies
- DVR that enables consumers to record content on a hard disk, thus allowing customers to defer and repeat viewing. Set-top boxes additionally offer, as a further enhancement, the possibility to transfer such data to a DVD for permanent storage
- HDTV capability
- Data and voice reception capability enabling a user to access internet as well as telephone services over TV cable
- Interactive TV features enabling the consumer to use interactive services provided by TV broadcasters and operators, such as electronic program guides, polling, home shopping, video on demand, gaming, interactive education and many others.

With the addition of new features, digital set-top boxes are becoming more software-driven, with open-standard middleware playing a key role. This results in their greater flexibility, scalability and multifunction capability, so that set-top boxes are becoming a centerpiece of home entertainment. Despite their high level of complexity, the software and high level of integration of key integrated circuits facilitate the sale of such devices to consumers at affordable prices.

IMS estimates worldwide digital set-top box shipments to grow from 51 million units in 2004 to just over 90 million units in 2009, with terrestrial, IP and other advanced set-top boxes expected to be the main growth drivers. ADB Group is decisively positioning itself to address this market opportunity.



## Commitment to excellence: technology, customer service and operations

### Research and development

Since its inception, the Group has focused on the research and development of innovative products and solutions related to the broadcast of digital TV signals. It possesses technical capabilities with respect to two distinct engineering fields: (i) computer and digital signal processing sciences and (ii) television broadcast and reception technologies. ADB Group's research and development department works closely with key component vendors, licensors of specific technologies and customers. Such close cooperation enhances ability to more accurately predict

technology trends and to better define the research and development priorities. The Group has a record of bringing technologically innovative, high quality products to the market ahead of competitors. Approximately 62% of the Group's employees are engaged in research and development activities. The Group's engineering and technical capabilities cover all disciplines necessary to successfully develop digital TV products.

<b>Chips</b>				
<b>CA &amp; Middleware</b>				
<b>Systems &amp; Software</b>				
<b>Regulatory Bodies / Industry Associations</b>				

Key business and technology relationships



## Differentiated products and customer service

The Group also maintains close working relationships with its customers – digital TV broadcast system operators including telecoms operators – as well as with terrestrial digital TV broadcasters. Digital TV systems need to be customized and frequently modified to meet operators' constantly changing needs. The Group's technological capabilities and system integration skills have, therefore, led to close and enduring business relationships with operators. Strong system integration and engineering capabilities distinguish ADB Group from traditional set-top box vendors that deliver their products without system integration and engineering services or adequate after-

sale software customization and system integration support. The Group continues to be the sole supplier to many of its customers and has not experienced customer defections since its formation in 1995. The Group believes that its cooperative approach to working with digital TV operators and broadcasters has helped to develop strategic alliances that significantly enhance the Group's competitiveness and help secure its business in the long term.

The Group also maintains close commercial and technical relationships with key digital TV semiconductor component vendors, and works actively with

them, assisting them to refine their new products by contributing to the definition of such products and then testing and debugging them before their release to the market for volume production. This cooperation enables access to new components and technologies before they are released to the broad market, thereby accelerating ADB Group's time-to-market.

## Manufacturing and operations

The Group outsources its entire manufacturing, while retaining procurement of key components, total quality management ("TQM"), logistics and production planning. This allows it to control key aspects of the manufacturing process and to ensure high quality of products, without the capital investment and management requirements of a fully integrated manufacturing operation.

ADB Group also began in 2005 to ship products manufactured at a new manufacturing facility based in Wolow, western Poland and managed by Cal-Comp Electronics, the Group historical manufacturing partner, in partnership with SONO Polska. The expected benefits include a diversification of the manufacturing sources and a production site close to its research and development centres and European customer base, within the borders of the European Union.

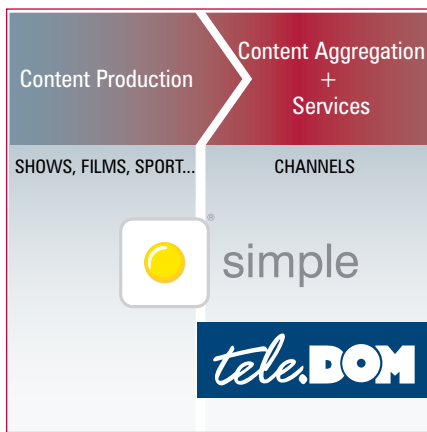
The Group's headquarters are located in Bellevue, Geneva, Switzerland, and its central marketing functions are located in Grand-Saconnex, Geneva, Switzerland. The research and development departments are located in Zielona Gora, Poznan, Wroclaw and Katowice, Poland, and Kharkov, Ukraine, while the industrial engineering group resides in Taipei, Taiwan – close to the outsourced manufacturing activities. As of December 31, 2005, the Group employed 571

persons, including 351 persons engaged in research and development activities.

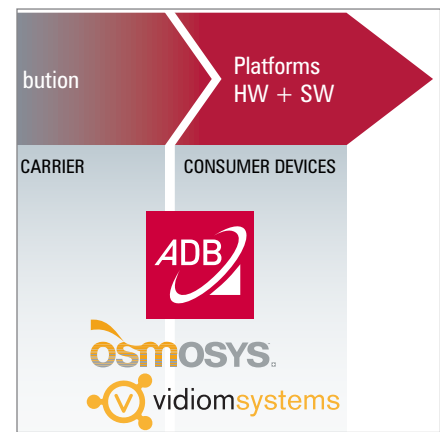
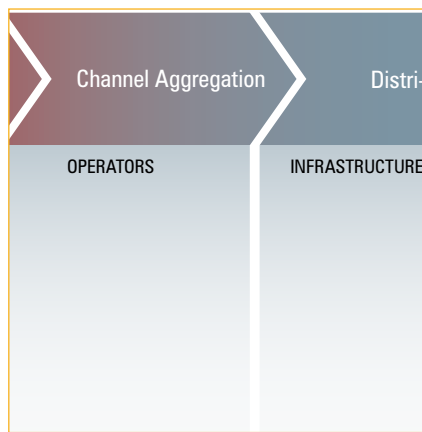
ADB Group's optimized geographical allocation of resources provides several competitive advantages. In particular:

- contract manufacturing, in-house TQM, and procurement of key components in Asia allow to maintain low inventory levels and low investments in fixed assets, while ensuring fully scalable production capacity, high manufacturing efficiency and optimized cash management
- research and development and product management functions are located in Poland and Ukraine. The Group believes that Poland and Ukraine will continue to be a competitive location for its research and development activities as they enjoy a relatively high level of education in fundamental sciences, a motivated base of engineers, a relatively competitive cost and are close to the important European customer base
- marketing and sales functions are headquartered in Switzerland, in close proximity to the Group's main markets and give direction to the two regional marketing centers in Asia-Pacific and the United States.

The Group believes that the strength of its management team and the low rate of employee turnover provide a significant competitive advantage. The members of the management team have strong backgrounds in the television and semiconductor industries, with an average industry-related professional experience of more than 20 years. Most team members had prior professional relationships with one another well before joining the Group. This management team has steered the Group through its expansion phases and through the industry-wide downturn of the high-tech sector during 2001 and 2002. Throughout this complete economic cycle, the Group has not made any employee redundant for economic reasons, nor did the Group cancel or downsize any major product development or marketing project. In addition, the Group's employee turnover rate was below 5% in 2005, which the Group regards as relatively low compared to other companies in the industry. The Group attributes the stability of its employee base to the provision of a performance-oriented remuneration (including the employee stock ownership plan of 2004), a quality working environment, well defined career plans, training activities, incentive trips, and other benefits, each of which the Group regards as highly competitive.



ADB Group involvement



## Leverage core strengths to invest in long-term sustainable growth

Building on its key technology capabilities, its deep understanding of digital TV broadcasting requirements and opportunities and its expertise in interactive digital TV systems, ADB Group has launched two new initiatives at the end of the year 2005: tele.DOM and SIMPLE.

These two new initiatives are active in the content and services domains that are tightly linked to the Group's core business, and respond to a demand

born from the evolution of broadcasting towards multi-platform, interactive content requirements. The Group believes that technology and specific content are becoming every day more dependent one on the other: technology platforms generate new forms of contents, which in turn generate new devices requirements.

Consumers are increasingly requesting availability of content and services of their choice anytime,

anywhere, on any media. The Group believes that its specific capabilities allow it to complete its product offering with technology-related contents that will benefit its operator customers. As a result, the Group will enhance its presence in the value chain with an ad-hoc content and services offering, beyond its traditional presence on hardware and software platforms.



Late 2005, the Group has created tele.DOM S.p. z.o.o. in Poland ([www.teledom.tv](http://www.teledom.tv)), a wholly owned subsidiary delivering a totally integrated high-value added services platform currently based on a digital cable television network. Through a set-top box remote control and a wireless keyboard, the consumer can access on his TV screen a selection of services including e-mail, instant messaging, information and banking. tele.DOM has reached an agreement with a cable operator in Poland to operate and deliver its services on that operator's network.



SIMPLE Srl in Italy ([www.simple.tv](http://www.simple.tv)) is the Group's wholly owned subsidiary focusing on development of innovative digital contents, formats and services for the new digital multimedia terminal platforms such as interactive IPTV decoders, DVB-H and other portable platforms. SIMPLE is an end-to-end global provider that serves major telecommunication operators and broadcasters with a combination of new technologies, applications and original or repackaged contents for TV and new media environments.

# CORPORATE GOVERNANCE

**Note regarding this Corporate Governance report:**

This report details the principles governing the management and control mechanisms of the ADB Group, as required in order to comply with the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange, which entered into force on July 1, 2002. Unless otherwise mentioned, it has been prepared to reflect the situation as of December 31, 2005.

# GROUP STRUCTURE AND SHAREHOLDERS

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## Group structure

### Operational group structure

ADB was founded in 1995 as a digital TV software company and subsequently expanded into the design and manufacturing of digital TV equipment. Since its inception, ADB has expanded its business and has established offices in Australia, Italy, Poland, Taiwan (Republic of China), Spain, Switzerland, UK, Ukraine and the United States. Over the years, ADB has developed into a group of companies ("ADB Group" or the "Group"), whose growth has been financed by capital provided by the founders and by cash generated from operations. The Group did not rely upon external sources of equity prior to its Initial Public Offering ("IPO") in April 2005.

In 2003, ADB's MHP-based middleware development activities were separated from ADB and contributed to Osmosys, which was established to continue the development and marketing of MHP-based open-standard middleware and to capitalize on ADB's previous leadership position in MHP-based middleware by making it available to third parties, including operators, semiconductor manufacturers and other consumer electronics equipment vendors.

Advanced Digital Broadcast Holdings S.A. ("ADB Holdings" or the "Company") was incorporated in July 2004 in Geneva, Switzerland, and became the holding company of the Group with effect from January 1, 2005 through its merger with ADB-Advanced Digital Broadcast Ltd.

#### **ADB Holdings registered office:**

Impasse Colombelle 8  
1218 Grand Saconnex  
Geneva  
Switzerland

#### **ADB Group worldwide headquarters:**

Route de Lausanne 319  
1293 Bellevue  
Geneva  
Switzerland

ADB Holdings' shares are listed on the SWX Swiss Exchange since April 29, 2005 under the symbol ADBN, ISIN CH0021194664. As of December 31, 2005, the total market capitalization was approximately CHF 730 million and approximately 33% of ADB Holdings shares were considered to be "free float" on the SWX Swiss Exchange.

ADB Holdings manages the Group and its holdings and performs all Group general management and strategic duties. ADB Group has conducted two principal lines of business in 2005 (see also Note 32 of the Consolidated Financial Statements):

- Digital TV Equipment: development, design, contract-manufacture, marketing and sale of consumer premises equipment, including set-top boxes and integrated TV modules
- Middleware: open-standard middleware development, licensing and related services

Following continued growth of its core business, the acquisition of Vidiom Systems' business and the start of new business initiatives, the Group will operate three principal business segments in 2006:

- Digital TV Equipment: development, design, contract-manufacture, marketing and sale of consumer premises equipment, including set-top boxes and SOMs. This segment operates essentially under the Group's ADB and i-CAN brands
- Software and Services: software products including middleware development, licensing, development tools, and services including testing, integration and other services. This segment operates essentially under the Group's Osmosys and Vidiom Systems brands
- New Initiatives: interactive applications, new media, content and services. This segment operates essentially under the Group's tele.DOM and SIMPLE brands

The business segments are supported by three main functional organizations:

- manufacturing and logistics are conducted in Taiwan under the management of ADB Regional President of Asia-Pacific. Assembly is subcontracted to companies operating in Thailand, China and Poland
- core research and development is performed by the technology group in Poland, Ukraine and Taiwan under the management of ADB Chief Technology Officer
- all operations in the main regions (Poland, Asia-Pacific, Americas) are supported by and are under the management of respective ADB Regional Presidents

## The Group and its Affiliates

ADB Holdings owns, directly or indirectly, 100% of all the ADB Group companies. Note 1 of the Consolidated Financial Statements provides details

of each Group company. Except for ADB Holdings, no company of the Group is publicly listed on a stock exchange.

## Significant Shareholders

Pursuant to the Swiss Federal Act on Stock Exchanges and Security Trading (SESTA) and to the SWX Swiss Exchange Listing Rules and Directives, whosoever, directly, indirectly or in concert with third parties, acquires or sells, for his own account, in a company incorporated in Switzerland whose equity securities are listed, in whole or in part in Switzerland and thereby attains, falls below or exceeds the following threshold percentages of the voting rights, whether or not such rights may be exercised, shall be obliged to notify the company and the SWX Swiss Exchange:

- 5% of the share capital (or 304,100 shares)
- 10% of the share capital (or 608,200 shares)
- 20% of the share capital (or 1,216,400 shares)
- 33 $\frac{1}{3}$ % of the share capital (or 2,027,333 shares)
- 50% of the share capital (or 3,041,000 shares)
- 66 $\frac{2}{3}$ % of the share capital (or 4,054,667 shares)

To the knowledge of the Board of Directors of ADB Holdings, only one group of shareholders owns more than 5% of the Group's shares. This group is composed of Mr. Andrew N. Rybicki and members of

his family, who own 2,600,647 shares representing 42.8% of the Group's issued shares. The members of Mr. Rybicki's family in this group are: Maria Rybicki, Katherine Rybicki-Justo, Sofia Justo, Krystyna Turska-Krotofil, Magdalena Turska, none of whom individually holds 2% or more of the Group's shares and all of them collectively hold not more than 5% of the Group's shares. There is no shareholder agreement in place between the members of this shareholder group.

In March 2006 certain members of this group of shareholders decided to sell shares as described in the section *Significant events since December 31, 2005*.

## Cross-shareholdings

There are no cross-shareholdings in place within the Group.

# CAPITAL STRUCTURE

As of December 31, 2005, the share capital of the company is as follows:

Total outstanding shares:	6,082,000
Of which	
Shares held in treasury by ADB Holdings	34,280
Shares in circulation	6,047,720
Of which free-float	1,980,073
Authorized capital shares:	668,000
Conditional capital shares:	450,000
Of which shares to be issued for Directors	6,950

## Capital

The share capital of ADB Holdings amounts to CHF 1,520,500 and is composed of 6,082,000 fully paid-in registered shares with a par value of CHF 0.25 each.

## Authorized capital

### Maximum increase and duration

At the extraordinary shareholders' meeting held on March 24, 2005, it was resolved to create an authorized capital of CHF 562,500, consisting of up to 2,250,000 registered shares of CHF 0.25 nominal value each, allowing the Board of Directors to increase the share capital in one or several steps until March 24, 2007.

being 1,582,000 fully paid-in registered shares with a nominal value of CHF 0.25.

As a result, the remaining authorized capital as of December 31, 2005 amounts to CHF 167,000 consisting of 668,000 shares, each with a nominal value of CHF 0.25.

In connection with the IPO on April 29, 2005, the Board of Directors decided to increase the share capital of ADB Holdings in one step by CHF 395,500,

## Beneficiaries

The beneficiaries can be new or current shareholders of ADB Holdings. The statutory pre-emptive rights to which the existing shareholders of ADB Holdings are entitled under Swiss law are to be excluded if such capital increase is effected for the purpose of the takeover of enterprises, divisions thereof or participa-

tions in companies, the financing and refinancing of the acquisition of enterprises, divisions thereof or participations or of newly-planned investments or strategic investments of and with business partners.

## Terms and conditions of issuance

The Board of Directors can increase the share capital of ADB Holdings by any amount of the authorized capital at its discretion.

## Conditional capital

### Maximum increase and duration

The conditional capital of ADB Holdings is CHF 112,500 made up of 450,000 shares, each of CHF 0.25 nominal value. The conditional capital does not bear a time-limit.

### Beneficiaries

ADB Holdings' share capital may be increased through the issuance of fully paid-in shares, in proportion to the exercise of option rights which shall be attributed to employees or members of the Board of

Directors of ADB Holdings or affiliated companies. Existing shareholders' preferential subscription rights are excluded.

### Terms and conditions of issuance

The Board of Directors shall establish employee participation schemes (employee stock option plans and employee stock plans) and the shares shall be issued in accordance with such employee participation schemes. The conditions of exercise of the options

shall be set by the Board of Directors. Issuance at a price below the market price is authorized. As of December 31, 2005, ADB Holdings had only implemented a participation scheme for the Board of Directors. Under this scheme, established in August 2005, the Board of Directors has decided to grant

free shares to all Directors as a remuneration of their service for 2005. The total number of shares granted is 6,950. The shares shall be issued out of the conditional capital during 2006.

## Changes in capital over the last three financial years

Note 7 of the Statutory Financial Statements provides details on the historical changes in capital of the Company.

## Shares and participation certificates

Each of the 6,082,000 registered shares carries one vote at shareholders' meetings, which may be exercised only after a shareholder has been registered in the Group's share register as a shareholder with voting rights.

As registered shares, the shares are in collective custody with a depository institution (SIS SegalInter-Settle AG, Olten) in book-entry form only, without any right for shareholders to request printed share certificates.

All shares carry dividend rights. ADB Group did not declare any dividend payable in 2005, and the Board of Directors does not intend to propose a dividend to the General Meeting of Shareholders.

All the issued share capital is fully paid-in.

## Profit sharing certificates

ADB Holdings has not issued any non-voting equity security such as participation certificates or profit sharing certificates.

## Limitations on transferability and nominees registration

ADB Holdings' shares are registered shares, the transfer of which (for as long as they are book-entry shares) is effected by use of a share registration form and by a corresponding entry in the books of a bank or a depository institution following an assignment in writing by the selling shareholder and notification to ADB Holdings of such assignment.

There are no transfer restrictions with regard to the shares. The Board of Directors will update the share ledger after receiving the respective request of a shareholder to be entered as a shareholder into ADB Holdings' share ledger. A purchaser of shares will be recorded in ADB Holdings' share register as a shareholder with voting rights if the purchaser discloses its name, citizenship or registered office and address and gives a declaration that it has acquired the shares in its own name and for its own account. Failing such registration, a shareholder may not vote at or participate in a shareholders' meeting but still be entitled to receive dividends and other rights with financial value such as pre-emption rights.

No action has been or will be taken in any jurisdiction other than Switzerland that would permit a public offering of ADB Holdings' shares or the possession, circulation or distribution of any material relating to the shares in any jurisdiction where action for that purpose is required. Accordingly, the shares may not be offered or sold, directly or indirectly, and no offering material or advertisements in connection with the shares may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

ADB Holdings has agreed not to offer or sell any shares, or securities that are exchangeable or exercisable for such shares, without the prior written consent of Credit Suisse First Boston, global coordinator, until 12 months after the IPO. Certain of ADB Holdings' pre-IPO shareholders have also entered into arrangements designed to "lock-up" such shareholders for 12 months. Accordingly, those shareholders have severally agreed not to offer or sell any shares, or securities that are convertible into or exchangeable or exercisable for such shares, without prior written consent of Credit Suisse First Boston until 12 months after the first day of listing, i.e. April 28, 2006. As of December 31, 2005 no shares have been sold by these shareholders.

In addition to the above, 900,000 shares are held by employees and management of the company and are restricted from trading according to the provisions of their grant. Restrictions are as follows: for management, one third of shares are available for sale one year after IPO, one third two years after and one third after three years. For employees one third of shares are available for sale one year after IPO, one third eighteen months after and one third after two years. As of December 31, 2005 no shares have been sold by employees and management.

In March 2006 Credit Suisse has allowed certain pre-IPO shareholders and certain employees and managers of the Group to sell shares as described in the section *Significant events since December 31, 2005*.

## Convertible bonds and warrants/options

ADB Holdings has not issued any convertible bonds or other instruments at December 31, 2005.

## Significant events since December 31, 2005

### Acquisition of the business of Vidiom Systems Corporation

On January 31, 2006, ADB Group completed the acquisition of the business of US-based Vidiom Systems Corporation as publicly announced on December 22, 2005. According to the terms of this transaction, a portion of the consideration was paid in newly issued registered shares. The total number of new shares issued was 83,065, and all those shares are of the same nature as all other shares of the Group. The shares are listed on the SWX Swiss Exchange and freely tradable, subject to the restrictions below. All

the new shares were issued out of the authorized capital. In relation to this transaction, Credit Suisse First Boston as the sole book-runner and lead manager of the IPO, has waived the applicable lock-up restrictions that the Company entered into in relation to its IPO in April 2005.

Pursuant to the terms of the transaction, these shares are subject to the following trading restrictions:

- 75% of the shares, or 62,299, are locked-up until January 31, 2007
- 25% of the shares, or 20,766, are tradable immediately, subject to a limit of the daily trading volume calculated as a percentage of the overall daily trading volume average of ADB Holdings shares

### Secondary share offering

On March 30, 2006, certain pre-IPO shareholders and certain employees and managers of the Group have decided to sell some of their ADB Holdings shares through an accelerated book building process. The total number of shares sold pursuant to this offering was 882,000.

As a consequence, after the closing of this acquisition and the secondary offering, the share capital of the company at the date of this report is as follows:

Share capital of the company at the date of this report :	
Total outstanding shares:	6,165,065
Of which	
Shares held in treasury by ADB Holdings	34,280
Shares in circulation	6,130,785
Of which free-float	2,882,839
Authorized capital shares:	584,935
Conditional capital shares:	450,000
Of which shares to be issued for Directors	6,950

The group of shareholders comprised of Andrew N. Rybicki and members of his family owns at the date of this report 2,100,647 shares representing 34.1% of the Group's issued shares.

# BOARD OF DIRECTORS

## Members of the Board of Directors of the Company

Name	Year of Appointment	Year of Birth	Nationality	Executive/ Non-Executive	Position
Andrew N. Rybicki	2004	1948	USA	Executive	Chairman of the Board of Directors, CEO & President of the Group
Philippe Lambinet	2005	1957	France	Executive	Vice Chairman of the Board of Directors, COO of the Group and CEO of ADB
Jean-Christophe Hocké	2004	1969	Switzerland	Non-executive	Member of the Board of Directors
Hsien-ming "Simon" Lin	2005	1952	Taiwan	Non-executive	Member of the Board of Directors
Marc Odendall	2005	1957	France	Non-executive	Member of the Board of Directors
Thomas Steinmann	2004	1961	Switzerland	Non-executive	Member of the Board of Directors

**Andrew N. Rybicki** is Chairman of the Board of Directors, Chief Executive Officer and President of the Group. He co-founded the Group in 1995. Prior to that, Mr. Rybicki held several technical, business and marketing positions at Nokia Corp. and Salora OY between 1974 and 1978, Blonder-Tongue Laboratories Inc. between 1979 and 1988, and was an engineering director at General Instruments Corp. between 1988 and 1990. From 1990 to 1996, Mr. Rybicki served as marketing director for STMicroelectronics' Asia Pacific region where he initiated and led the effort of business and product development of the world's first highly integrated, complete chipset for digital TV set-top boxes. He earned an MSc in Electronics Engineering from Technical University of Poznan, Poland in 1973.

**Philippe Lambinet**, member of the Board of Directors, Chief Operating Officer (COO) of the Group and CEO of ADB SA, joined the Group in 2001 and is a member of the Board of Directors since 2005. Mr. Lambinet has held several positions in the computer, semiconductor and electronics industries where he worked with Control Data Corp. from 1979 to 1980 and Thomson from 1981 to 1987. He worked from 1987 until 2000 at SGS-THOMSON (subsequently STMicroelectronics). His last position was Group Vice President, General Manager of the digital video division which he helped establish as the world leader in chipsets for digital set-top boxes. Mr. Lambinet earned an MSc in electronics from the Ecole Supérieure d'Electricité Paris in 1979.

**Jean-Christophe Hocké** is a member of the Board of Directors since 2004. Since January 2004 Mr Hocké is a partner of the Geneva based law firm Python Schifferli Peter where he has been working since 1994. In 1993 and 1994, he worked as a legal trainee with GOLENBOCK, EISEMANN, ASSOR, BELL & Partners, New York. Mr. Hocké holds a law degree from the University of Geneva (1993).

Jean-Christophe Hocké has, from time to time, provided legal advice to ADB Group, the terms and conditions of which were at arm's-length.

**Hsien-ming "Simon" Lin** is a member of the Board of Directors since 2005. Mr. Lin worked as a design engineer for the research and development division of Sinotek Engineering Company from 1977 to 1979, when he joined Acer as a regional sales manager. Mr. Lin held numerous key positions at Acer including President and CEO of Acer Inc. from 1997 to 2001. Mr. Lin has managed the split of Wistron Corporation from Acer Inc. in order to establish a separate company focusing on OEM/ODM services. Since 2001, Mr. Lin is the Chairman and CEO of Wistron Corporation, a Taiwan corporation with over U.S.\$ 4.7 billion in revenue. In this position, he also directed the subsequent public listing of Wistron's shares on the Taiwan Stock Exchange. He earned a Bachelor of Science degree from the National Chiao Tung University in 1975.

ADB Group and Wistron Corporation have agreed the terms and conditions under which Wistron Corporation may undertake the assembly of the Group's digital TV equipment, such terms and conditions being at arm's length.

**Marc Odendall** is a member of the Board of Directors since 2005. Mr. Odendall worked for the Matuschka Group, Munich, from 1983 to 1984, for JPMorgan, Paris, from 1984 to 1989 and for CSFB, Paris, from 1990 to 1993, before joining Merrill Lynch, Paris, in 1994 where he worked until he joined Deutsche Morgan Grenfell, Paris and London, in 1996. From 1998 to 2001, Mr. Odendall worked with CSFB, London. Since 1997 he was Head of The Technology Group Europe and he was a Senior Advisor to that group from 2002 to 2003. Since 2002, he is a venture philanthropist and administrator of various foundations. Mr. Odendall graduated from Sciences Po-Paris in 1979, law faculty in 1980 and ESSEC in 1983.

Marc Odendall has, from time to time, provided financial advice to ADB Group, the terms and conditions of which were at arm's-length.

**Thomas Steinmann** is a member of the Board of Directors since 2004. Mr. Steinmann has been a partner with the Geneva based law firm Python Schifferli Peter since 1995, where he previously worked as an associate from 1990 to 1994. In 1990 and 1991 he worked as an associate with Gibson, Dunn & Crutcher, New York. He holds bachelor's degrees in law and in political science from the University of Lausanne (1983) and a doctorate in law from the University of Lausanne (1991). Since 1995, Mr. Steinmann has been a Professor in legal and tax aspects of international transactions at the business school of the University of Lausanne (HEC). He is the author or co-author of numerous publications.

Thomas Steinmann has, from time to time, provided legal advice to ADB Group, the terms and conditions of which were at arm's-length.

In December 2005, **Mr. Philippe Geyres**, a board member elected in 2005, resigned from the Board of Directors for personal reasons.

## Other activities and vested interests

	Outside ADB Group	Inside ADB Group
Andrew N. Rybicki	<p>Sole shareholder and CEO of:</p> <ul style="list-style-type: none"> <li>■ Alliance Technology Ltd.</li> <li>■ Broadcast Software Systems International Ltd.</li> </ul> <p>33.8% shareholder and member of the Board of Directors of Waxess Inc.</p>	<p>Member of the Board of Directors of</p> <ul style="list-style-type: none"> <li>■ ADB SA</li> <li>■ ADB Spain SLU</li> <li>■ ADB UK</li> <li>■ ADB Taiwan</li> <li>■ Osmosys SA</li> <li>■ Vidiom Systems, Inc.</li> <li>■ SIMPLE Srl</li> </ul>
Philippe Lambinet	None	<p>Member of the Board of Directors of</p> <ul style="list-style-type: none"> <li>■ ADB Australia</li> <li>■ ADB UK</li> <li>■ ADB Italy</li> <li>■ ADB Taiwan (supervisor)</li> <li>■ Osmosys SA</li> <li>■ Vidiom Systems, Inc.</li> <li>■ SIMPLE Srl</li> </ul> <p>CEO of ADB SA</p>
Jean-Christophe Hocké	<p>Member of the Board of Directors of</p> <ul style="list-style-type: none"> <li>■ Cycladic Capital Management Ltd</li> <li>■ Frick Capital SA, Byron Investments Services SA</li> <li>■ Standard Atlantic (Suisse) SA</li> </ul>	<p>Member of the Board of Directors of</p> <ul style="list-style-type: none"> <li>■ ADB SA</li> <li>■ Osmosys SA</li> </ul>
Simon Lin	<p>Chairman &amp; CEO of Wistron Corp.</p> <p>Chairman of</p> <ul style="list-style-type: none"> <li>■ AOpen Inc.</li> <li>■ Wistron NeWeb Corp.</li> <li>■ AnexTEK Global Inc.</li> <li>■ Wistron Information Technology &amp; Services Corp.</li> <li>■ PlayCoo Corp.</li> <li>■ Wistron Optronics Corp.</li> </ul>	None
Marc Odendall	<p>Member of the Boards of</p> <ul style="list-style-type: none"> <li>■ Initiative pour l'Investissement Positif, Geneva (founding member and member of the executive committee)</li> <li>■ African Medical and Research Foundation, Nairobi</li> <li>■ STMicroelectronics foundation</li> <li>■ Alfa France</li> <li>■ Pasquale Pistorio foundation</li> </ul> <p>Chairman of the Board of African Medical and Research Foundation, Paris</p> <p>Chairman of the Management Institute of Paris</p> <p>Administrator and philanthropic and capital markets advisor to the Lemantrust, Geneva</p> <p>Service to the Board of Langlade Asset Management, London and Saint Honoré</p> <p>Microfinance, Paris.</p>	None
Thomas Steinmann	<p>Member of the Board of Directors of:</p> <ul style="list-style-type: none"> <li>■ Synthesis Bank</li> <li>■ T-Systems Schweiz SA</li> </ul>	<p>Member of the Board of Directors of ADB SA</p>

Other than the above, the members of the Board of Directors do not hold other offices or carry out other principal activities which are of importance to the Group.

## Elections and terms of office

According to the Articles of Association, the Board of Directors consists of at least three members who are elected for a term of one year, their mandate expiring at the ordinary shareholders' meeting following the end of such one year term. Members may be re-elected. ADB Holdings' Board of Directors currently consists of six members.

	First election to the Board of Directors	Last election	Expiry date
Andrew N. Rybicki	20 July 2004	20 July 2004	Next shareholders' meeting
Philippe Lambinet	29 March 2005	29 March 2005	Next shareholders' meeting
Jean-Christophe Hocké	20 July 2004	20 July 2004	Next shareholders' meeting
Simon Lin	29 March 2005	29 March 2005	Next shareholders' meeting
Marc Odendall	29 March 2005	29 March 2005	Next shareholders' meeting
Thomas Steinmann	20 July 2004	20 July 2004	Next shareholders' meeting

## Internal organizational structure

### Allocation of tasks within the Board of Directors

The Board of Directors' non-transferable and inalienable duties according to Swiss company law include the ultimate strategic management and the supervision of ADB Group. The Board of Directors appoints the Group's management.

The Board of Directors is comprised as a minimum of the Chairman, the Vice-Chairman and at least one other Director. The Board of Directors may pass resolutions on all matters that are not reserved for the shareholders' meeting by law or by the Articles of Association. According to the Articles of Association, the adoption of resolutions by the Board of Directors requires the absolute majority of the votes made. In case of a split vote, the chairman has the casting vote. To validly pass a resolution, the majority of the members of the Board of Directors is required to be present. No quorum is required for a resolution implementing capital increases and the amendments of the Articles of Association in connection with

these capital increases pursuant to art. 651a, 652g and 653g of the Swiss Code of Obligations. Moreover, the Board of Directors may delegate the management and representation of ADB Group, either in whole or in part to one or several of its members (delegates) or to third parties in accordance with Organizational Regulations. The Board of Directors entrusts the running of day-to-day business matters to the Group Management under the chairmanship of the CEO, who is responsible for the operative management of the Group and for all affairs, which do not lie within the responsibility of the Board of Directors by law, statute, and Organizational Regulations.

The Board of Directors meets at least once a quarter. At the invitation of the Chairman, the members of Group Management and/or other employees and third parties may attend the meetings of the Board of Directors to report information. The committees, if any, report on their activities and results to the Board

of Directors. They prepare the business of the Board of Directors in their respective areas but do not have any decision-making authority with the exception of imminent threats or danger, or unless such authority has been conferred on them specifically. In such cases, they decide together with the Chairman. The overall responsibility of the Board of Directors is not limited by the committees.

The Chairman has the power to sign individually for ADB Holdings. All other members of the Board of Directors have the power to represent ADB Holdings by signing jointly with the Chairman, to the exception of two members of the Board of Directors that are domiciled in Switzerland who have the power to represent ADB Holdings by signing jointly.

## Members list, tasks and area of responsibility for each committee of the Board of Directors

### Audit Committee

In accordance with its Organizational Regulations, the Board of Directors has formed an Audit Committee to support its work. The Audit Committee consists of at least three members of the Board of Directors. Following resignation of Mr. Philippe Geyres, who was a member of this committee, the current members are temporarily two, Simon Lin and Marc Odendall. The term of office is one year. The Audit Committee meets at least once per year and provides an annual report on its activities to the Board of Directors.

The main task of the Audit Committee is to issue recommendations to the Board of Directors regarding the acceptance of the Company's annual financial statements. The Group's external auditors also report at least once a year to the Audit Committee regarding the conclusions of their audit and thereafter the Audit Committee oversees the auditing process and suggests improvements, should this prove necessary.

### Nomination and Compensation Committee

In accordance with its Organizational Regulations, the Board of Directors has formed a Nomination and Compensation Committee ("NCC") to support its work. The NCC consists of at least three members of the Board of Directors, a majority of which are non-executive members. Following resignation of Mr. Philippe Geyres, who was a member of this committee, the current members are temporarily two, Andrew N. Rybicki and Thomas Steinmann. The term of office is one year. The NCC meets at least once per year and provides an annual report

on its activities to the Board of Directors. The main tasks of the NCC are preparing the resolutions to be brought before the shareholders' meeting with regard to electing and dismissing members of the Board of Directors, preparing the personnel decisions to be made by the Board of Directors, such as proposals for the nomination and dismissal of the members of the Group Management, proposing adjustments in the compensation structure for the Board of Directors and the Group Management.

## Work methods of the Board of Directors and its committees

In 2005, the Board of Directors met 4 times.

The average attendance to the Board meetings, either in person or by telephone, was more than 90%. The Board meetings last typically 1 to 5 hours, depending on the complexity of the agenda. The subjects covered at the Board meetings included among others ADB Holdings' IPO, delegation of powers to management, various company

restructurings, review of financial statements and approval, evaluation of various risks, amendment of the bylaws, strategic initiatives, and compensation matters.

At each meeting, the Board of Directors requires the Group Management to present on specific topics.

## Definition of areas of responsibility

The Board of Directors decides on all Group activities for which it is responsible under Swiss law (especially art. 716a of the Swiss Code of Obligations on non-transferable and inalienable duties of the Board of Directors), the Articles of Association, and the Organizational Regulations. The Board of Directors has sole authority for the following:

1. to carry out the overall management of the Company and establish the necessary instructions
2. to establish the organization of the Company
3. to establish the accounting and financial control principles as well as the financial plan to the extent that it is necessary for the management of the Company
4. to appoint and remove the persons charged with the management and representation
5. to carry out the supervision of the persons responsible for the Group Management, notably in order to ensure that they observe the law, the Articles of Association, the Organizational Regulations and the given instructions
6. to establish the annual report, prepare the shareholders' meeting and execute its decisions and
7. to inform the judge in case of over-indebtedness.

In addition, the Board has exclusive power to adopt resolutions on the following objects:

1. to examine, if required, the professional qualifications of the specially qualified auditor
2. to hire and dismiss the Chief Executive Officer and other Chief Officers and fix their full compensation
3. to keep the shareholders' register
4. to approve the Company's 3-year business plan as well as the annual financial plan and budget
5. to decide on any single financial commitment of the Company in excess of U.S.\$ 1 million other than those contemplated in the business plan and/or budget, except the Groups Management's decision to invest the IPO proceeds in a secure financial instrument offered by an internationally recognized financial institution
6. to create, acquire, sell or dissolve subsidiary companies or divisions of the Company
7. to sign credit or loan agreements on behalf of the Company whether as lender or as borrower, in excess of U.S.\$ 1 million, or to enter into off-balance sheet agreements for a notional value in excess of U.S.\$ 1 million other than those contemplated in the business plan and/or budget
8. to enter into guarantee or security agreements of any kind for an amount in excess of EURO 50 million
9. to enter into continuing contracts exceeding a period of 5 years
10. to enter into any contract of an amount exceeding U.S.\$ 50 million
11. to make individual investments in excess of U.S.\$ 1 million other than those contemplated in the business plan and/or budget
12. to approve the choice of technical equipment (platforms), new lines of business (products and services), branding and corporate designs, and major public relations actions
13. to appoint the members of the Group Management, the Audit Committee, and the NCC; and
14. to initiate and settle judicial and administrative proceedings and disputes exceeding U.S.\$ 4 million.

The Board of Directors has delegated the operational management to the Group Management.

## Information and control instruments vis-à-vis the Group Management

The Board of Directors adopts the Company's Organizational Regulations, which in particular govern the organization, deliberations, powers and duties of the Group Management.

Due to the size of the Group, the Board of Directors has decided to delegate to the Management all internal audit tasks, and relies on the Audit Committee to supervise its audit duties.

The Group Management reports to the Board of Directors at each Board meeting about the evolution of business of the Group. Additionally, each member of the Group Management reports immediately any extraordinary event and any change within the Company to the Chairman and CEO.

The Group Management is not empowered to delegate the powers that have been delegated to it by the Board of Directors.

The Board of Directors and the Group Management periodically monitor and assess various risk factors bearing on ADB Group and its business. The Audit Committee and the Board of Directors can request specific audit assessments at their discretion, for example to evaluate specific risks bearing on the Group and its business. In 2005 the Group has in particular addressed the following matters:

- Foreign exchange risk: the Group decided the execution of U.S.\$/Euro hedging policy
- Credit risk on significant customers: the Group decided to insure the risk
- Credit lines for financing of significant new businesses
- Intellectual Property risk: the Group has filed 36 patents applications in 2005
- Financial reporting and control: the Group initiated a major enhancement of its Management Information System in 2005, which is expected to be completed in 2006
- Industrial espionage, confidentiality of critical information: the Group has implemented a specific encryption tool for electronic communications.

ADB Group disposes of a Management Information System that it is further developing in order to enhance scope, quality and timeliness of its financial reporting.

ADB Group Management continuously documents and implements policies regarding compliance with the Organizational Regulations of ADB Holdings and with regulations of all ADB Group's subsidiaries. Such procedures are available to the Board and its Committees at any time.

Companies belonging to ADB Group have typically one or more member of the Group Management serving on their Board of Directors. In all Boards of Directors of companies belonging to ADB Group there is at least one member of the Group Management or one employee who directly reports to a member of the Group Management.

ADB Group continuously works to improve, develop and increase the efficiency of the internal controls within the Group.

# GROUP MANAGEMENT

## Members of the Group Management

As appointed by the Board of Directors, the Group's Management team during 2005 consists of the overall management team of the Company (the "General Management") and the management teams of ADB (the "ADB Management") and Osmosys (the "Osmosys Management").

Name	Year of Appointment	Year of Birth	Nationality	Position
<b>General Management</b>				
Andrew N. Rybicki	1995	1948	USA	President & Chief Executive Officer (CEO)
Philippe Lambinet	2001	1957	France	Executive Vice President, Chief Operating Officer (COO)
Alessandro Brenna	2004	1965	Italy	Executive Vice President, Chief Financial Officer (CFO)
<b>ADB Management</b>				
Philippe Lambinet	2001	1957	France	President & Chief Executive Officer (CEO) ADB
David Kang	2001	1948	Taiwan	Corporate Vice President & President ADB Asia-Pacific
William G. Luehrs	2002	1944	USA	Corporate Vice President & President ADB Americas
Janusz C. Szajna	1995	1954	Poland	Corporate Vice President & President ADB Poland
Krzysztof Kolbuszewski	1995	1968	Poland	Corporate Vice President and Chief Technology Officer (CTO) ADB
Rick Smith	1998	1957	UK	Corporate Vice President Sales ADB
Belinda Wong	1998	1958	Portugal	Corporate Vice President Finance ADB
<b>Osmosys Management</b>				
Andrew N. Rybicki	1995	1948	USA	Osmosys Steering Committee acting with the functions of the President & Chief Executive Officer (CEO) Osmosys
Philippe Lambinet	2001	1957	France	
Krzysztof Kolbuszewski	1995	1968	Poland	
Anthony Smith-Chaigneau	2004	1959	UK	Vice President Marketing & Business Development
Arkadiusz Zdanowicz	2004	1968	Poland	Vice President and Chief Technology Officer (CTO) Osmosys

**Andrew N. Rybicki**, President & Chief Executive Officer (CEO), see *Members of the Board of Directors*.

**Philippe Lambinet**, Executive Vice President, Chief Operating Officer (COO), see *Members of the Board of Directors*.

**Alessandro Brenna**, Executive Vice President, Chief Financial Officer (CFO), joined ADB Group in 2004. He previously worked with Foster Wheeler Italiana from 1992 to 1993, McKinsey & Company from 1993

to 1996 and STMicroelectronics from 1996 to 2004. At STMicroelectronics, his last position was Director Financial Control of the Telecom Products Group, managing the financial aspects of an organization with sales of U.S.\$ 1.4 billion. Before that, Mr. Brenna worked as Director of Corporate Planning and Development and as Director of Investor Relations for STMicroelectronics. He holds a master degree in industrial technologies engineering from Politecnico di Milano (1990), an MBA from Insead (1994) and he is a CFA Charterholder (2002).

**David Kang**, Corporate Vice President and President ADB Asia Pacific, joined ADB in 2000. He worked from 1971 to 1977 then again from 1979 to 1989 with General Instruments in Taiwan, which has merged with Motorola and where he held several positions. Among the positions held, Mr. Kang was vice-president, materials and planning at Delta Electronics, Taiwan from 1989 to 1994. Furthermore, he was president and CEO of MAG Technology, a Taiwan based PC monitor manufacturer from 1994 to 1997, where he led the initial public offering in 1996. From 1997 to 2000, Mr. Kang worked as a private investor and business consultant. Mr. Kang was majoring in industrial engineering from Taipei Institute of Technology in Taiwan and holds an MBA from Oklahoma City University, Oklahoma, U.S.A.

**William G. "Bill" Luehrs**, Corporate Vice President and President ADB Americas, joined ADB in 2002. Bill has been involved in the cable and telecommunications industries for over 18 years. Prior to ADB, Mr. Luehrs has held general management positions at Motorola's Broadband Communications Group, Zenith Electronics, and Scientific Atlanta. Mr. Luehrs also enjoyed 17 years with General Electric, where he held a number of general management and strategic marketing positions. He received a B.Sc in electronic engineering from Marquette University in 1967 and an MBA from Gannon University in 1976.

**Janusz C. Szajna**, Corporate Vice President and President of ADB Poland, co-founded the Group in 1995. Mr. Szajna was a professor and department chair of computer engineering and electronics from 1991 to 1997 at the University of Zielona Gora. He brings to ADB more than 25 years of experience in engineering, science and general management and is responsible for the corporate research and development centre in Zielona Gora. Mr. Szajna earned his MSc in electrical engineering at Zielona Gora University, Poland, in 1978, his PhD in electronics at Wroclaw University of Technology, Poland, in 1982 and an Associate Professor degree (habilitation) in computer science from the National Academy of Science in Kiev, Ukraine, in 2001. He is the author or co-author of numerous scientific publications.

**Krzysztof Kolbuszewski**, Corporate Vice President and ADB Chief Technical Officer (CTO), co-founded the Group in 1995. Mr. Kolbuszewski is responsible for ADB's technical teams in Poland, Taiwan, Ukraine and the U.S. Mr. Kolbuszewski has served at ADB as one of the first programmers and group leaders between 1995 and 1997, as Engineering Director from 1997 to 1998, as Vice-President of Research and Development from 1998 to 2002, initiating and supervising developments of ADB's MHP solution. Currently, he oversees the design of various software solutions, set-top boxes, and the management of production, quality assurance and Intellectual Property Rights. Mr. Kolbuszewski earned an MSc in Automatics and Metrology from the University of Zielona Gora, Poland, in 1991 and an M.Sc. from The University of Bristol.

**Rick Smith**, Executive Vice President of Sales & Marketing, joined the Group in 1998. Prior to that, Mr. Smith was Associate Director of Sales & Marketing at Pace Microtechnology from 1995 to 1997. He previously held managerial positions in the electronics and technology industries with Hutchison Telecom, British Aerospace and ITT Marine Communications. Mr. Smith qualified as a Marine Radio and Communications Officer from Fleetwood College, England, in 1978.

**Belinda Wong**, Corporate Vice President of Finance, joined ADB in 1998. From 1995 to 1998, she was commercial manager of the branch office of CSR Group in Australia, one of the top ten companies in Australia in the sugar and building materials business. She worked from 1992 to 1994 with Ross System PLC, one of the biggest computer software companies in the U.S. Prior to that, Ms. Wong worked with CTM, a subsidiary company of Cable & Wireless PLC from 1981 to 1992 where she held several positions. Among the positions held, Ms. Wong was Financial Accounting Manager. Ms. Wong received a MBA degree from University of East Asia in Macau in 1992.

**Anthony Smith-Chaigneau**, Vice President Marketing Business Development, joined the Group in 2002. Prior to this, Mr. Smith-Chaigneau worked with the DVB Consortium as Director of Marketing and Communications from 1999 to 2002, on the market implementation of MHP. He also worked with the European Synchrotron Radiation Facility (ESRF) in France from 1991 to 1993, LAN-COM A.G., Switzerland, from 1993 to 1995, the United Nations (UNOG) from 1995 to 1996, with AT&T as a consultant in 1997 and with CDWorld from 1997 to 1999. He holds a High National Certificate in Telecommunications and Avionics Engineering from the Royal Air Force, U.K. where his career spanned from 1976 to 1991. He also completed an international advertising and marketing communications program at the Management Centre Europe, Brussels.

**Arkadiusz Zdanowicz**, Vice President, Osmosys Chief Technology Officer (CTO), joined ADB in 1996 before he moved to Osmosys in 2004. Prior to joining the Group, he worked as an assistant and lecturer at the University of Zielona Gora from 1993 to 1994, at Vadim (a computer company), Zielona Gora, in 1994, at Winbook Polska Sp. z o.o., Zielona Gora, in 1995 and at Winbook Center, Zielona Gora, in 1996, before joining ADB in Zielona Gora, where he worked from 1996 to 2004. Mr. Zdanowicz holds a MSEE degree in applied mathematics at Faculty of Basic Problems of Technology from the Technical University of Zielona Gora, Poland (1994).

In 2005 **Mr. Ronald B. Wing**, President & CEO of Osmosys resigned from his functions.

## Other activities and vested interests

	Outside ADB Group	Inside ADB Group
Andrew N. Rybicki	See above	See above
Philippe Lambinet	See above	See above
Alessandro Brenna	Member of the investment committee of the investment fund Emertec 2	Secretary of the Board of Directors of ADB Group
David Kang	None	Member of the board of ADB Taiwan
William G. "Bill" Luehrs	None	Member of the boards of <ul style="list-style-type: none"> <li>■ ADB Inc.</li> <li>■ Vidiom Systems Inc.</li> </ul>
Janusz C. Szajna	Associate Professor at Zielona Gora University, Poland	Member of the management board of ADB Poland
Krzysztof Kolbuszewski	None	Member of the management board of ADB Poland
Rick Smith	None	Member of the board of ADB Australia
Belinda Wong	None	Member of the board of ADB Taiwan

Other than the above, the members of the Group Management do not hold other offices or carry out other principal activities which are of importance to the Group.

## Changes since December 31, 2005

Since January 2006 the Group Management is as follows:

Name	Year of Appointment	Year of Birth	Nationality	Position
<b>General Management</b>				
Andrew N. Rybicki	1995	1948	USA	Chief Executive Officer (CEO) & President
Philippe Lambinet	2001	1957	France	Executive Vice President, Chief Operating Officer (COO)
Alessandro Brenna	2004	1965	Italy	Executive Vice President, Chief Financial Officer (CFO)
William G. Luehrs	2002	1944	USA	Executive Vice President, Chief Administrative Officer
Belinda Wong	2006	1958	Portugal	Executive Vice President Finance
François Pogodalla	2006	1969	France	Vice President Corporate Development
<b>Operational Management</b>				
David Kang	2001	1948	Taiwan	Executive Vice President, Regional President Asia-Pacific
Michael Hawkey	2006	1965	USA	Vice President, Regional President Americas
Janusz C. Szajna	1995	1954	Poland	Executive Vice President, Regional President Poland
Krzysztof Kolbuszewski	1995	1968	Poland	Executive Vice President, Chief Technology Officer (CTO)
Rick Smith	1998	1957	UK	Executive Vice President, Sales & Marketing
Timothy R. Wahlers	2006	1959	USA	Vice President, President & CEO, Vidiom Systems Inc.
Mariusz Z. Walkowiak	2006	1970	Poland	Vice President, Managing Director, Osmosys & tele.DOM
Armando Caltabiano	2006	1965	Italy	Vice President, Managing Director, SIMPLE

**François Pogodalla**, Vice President Corporate Development, joined ADB Group in 2005. Prior to this he was Director of Alliances and M&A within STMicroelectronics' Corporate Strategic Planning organization. During his career at STMicroelectronics, he occupied various functions ranging from engineering management to business and strategic planning. In addition to leading M&A activities and other corporate development projects for ADB Group, Mr. Pogodalla heads the Group's investor relations. He brings to the Group over 11 years of experience in the hi-tech industry. He holds a masters degree in computer science from University of Grenoble, France (1991), a computer and electronics systems architecture engineering degree from ENSIMAG (1993), and an MBA from EM Lyon (2000).

**Michael Hawkey** joined ADB as Regional President, Americas bringing more than 18 years of experience in the manufacturing, design, engineering, sales and marketing of semiconductors, software and digital video products earned by working with STMicroelectronics, Western Digital, ASICS Designs, Inc. and McDonnell Douglas. He is responsible for ADB's American operations as well as business development. Before joining ADB, Mr. Hawkey was Managing Director Satellite Business Unit and, before, Vice President of Marketing and Applications Engineering, Consumer Business Unit with STMicroelectronics. Mr. Hawkey holds a B.Sc. in Computer Engineering from Rose Hulman Institute of Technology, Terre Haute, (IN) and Graduate Studies in Electrical Engineering from the University of Missouri.

**Timothy "Tim" Wahlers** founded Vidiom Systems Corp., a company specialized in Interactive TV software products and services whose business was acquired by ADB Group in 2006. During the past 8 years, Mr. Wahlers has served as a consultant to CableLabs and the cable industry, assisting in the analysis and development of many OpenCable software documents and specifications including the OpenCable Application Platform (OCAP). Prior to Vidiom Systems, he was CTO and then President at OptImage Interactive Systems. Mr. Wahlers has been involved in the multimedia and interactive TV industries for over 19 years. His work history includes Xaos Tools, Philips/OptImage, and Commonwealth Edison. He received a B.Sc. degree in Nuclear Engineering from the University of Wisconsin in 1981. After the acquisition of its business by ADB Group, Vidiom Systems Corp. changed its name to TimRob, Inc, of which Mr. Wahlers is President, CEO and main shareholder.

**Mariusz Z. Walkowiak** is Managing Director of tele.DOM, Osmosys and a co-founder of the Group. Mr. Walkowiak graduated from Bristol University in 1993 and from University of Zielona Gora in 1994. After teaching at university, he started in 1995 working for ADB as a software engineer. He then held various positions within the Group in Poland, Taiwan and USA. Graduated from the London Business School ADP in year 2000, Mr. Walkowiak established the Product Marketing department of ADB and then started the interactive TV department in 2003. The latter was subsequently converted into tele.DOM.

**Armando Caltabiano** graduated in June 1990 from Politecnico di Milano with a degree in Electrical Engineering and specialization in software. He also holds a Master in Production and Inventory Management. Mr. Caltabiano joined STMicroelectronics as PLD software development engineer, test program development and product engineering. He then held various positions from engineering to marketing and business unit management, the most recent being Vice President and Divisional General Manager for the Retail Multimedia and STB Satellite Division, where he maintained and strengthened the market leadership in set-top boxes dedicated chips. Since Nov. 2005 he is Vice President, Managing Director of SIMPLE Srl.

The members of the Group Management do not carry out any activities or consultancy functions, and do not hold any offices, other than those set forth above.

## Definition of areas of responsibility

In addition to its general corporate management function, the General Management is primarily responsible for the:

- operational implementation of the Group's strategy
- allocation and use of resources in accordance with the budget
- operational management of the Group
- monitoring of compliance with the Organizational Regulations and with Group regulations by subsidiaries
- establishment of a management and corporate culture in line with the Group's objectives.

In addition to its general corporate management function, the ADB Management and the Osmosys Management (now Operational Management) is primarily responsible for implementing and monitoring the Group's strategy within the respective commercial unit and for their operational and financial management.

## Management contracts

There are no management contracts with third parties in the Group.

# COMPENSATION, SHAREHOLDINGS AND LOANS

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## Content and method of determining the compensation and the shareholding programmes

### Members of the Board of Directors

The compensation of the members of the Board of Directors is determined by the Board of Directors, upon proposal by the General Management to the NCC and to the Board, and recommendation by the NCC.

In addition, the members of the Board of Directors are entitled to claim reimbursement from ADB Holdings of business related expenses when attending Board meetings outside their home locations or traveling for ADB Holdings' related business.

The compensation of the members of the Board is made of:

- an annual cash compensation, regardless of the number of board meetings held during that year
- a free grant of shares (personal income tax and other personal taxes remaining the liability of each beneficiary) that can be increased on a yearly basis upon proposal of the NCC

### Members of the Group Management

The compensation of the following members of the Group Management is determined by the Board of Directors, upon proposal by the General Management to the NCC and to the Board, and recommendation by the NCC:

- Chief Executive Officer
- Chief Operating Officer

The compensation of the members of the Group Management include a fixed cash salary and a performance-related annual cash bonus.

## Compensation for acting members of governing bodies

### Non-executive members of the Board of Directors

The aggregate gross cash compensation consented to non-executive members of the Board of Directors for the year ended December 31, 2005 was CHF 150,728.

This amount includes all cash compensation consented for non-executive members of the Board of Directors who gave up on their functions during 2005.

## Executive members of the Board of Directors and members of the General Management

The aggregate gross cash compensation, including bonuses and benefits in kind, consented to the executive members of the Board of Directors and

members of the Group Management for the year ended December 31, 2005 was U.S.\$ 6.1 million.

This amount includes all cash compensation consented to members the Group Management who gave up on their functions during 2005.

## Additional severance payments

There were no severance payments to members of the Board of Directors or members of the Group Management during the year ending on December 31, 2005.

## Compensation for former members of governing bodies

There were no compensations to former members of governing bodies consented during the year ending on December 31, 2005.

## Share allotment in the year under review

### Non-executive members of the Board of Directors and parties closely linked to such persons

The aggregate free grant of shares to non-executive members of the Board of Directors (including Philippe Geyres, who resigned during 2005) for the year ended December 31, 2005 was 4,750 shares.

To the knowledge of the Board of Directors and of the Group Management, no shares were allotted to parties closely linked to such persons.

### Executive members of the board of directors, members of the Group Management and parties closely linked to such persons

The aggregate free grant of shares to executive members of the Board of Directors (including Andrew N. Rybicki in his function as Chairman of the Board of Directors and Philippe Lambinet in his function as member of the Board) for the year ended December 31, 2005 was 2,200.

To the knowledge of the Board of Directors and of the Group Management, no shares were allotted to parties closely linked to such persons.

## Share ownership

### Non-executive members of the Board of Directors and parties closely linked to such persons

The aggregate number of ADB Holdings shares held by non-executive members of the Board of Directors as of December 31, 2005 was zero. The 4,750 shares granted to non-executive members of the Board of Directors (including Philippe Geyres, who resigned during 2005) are to be distributed in 2006.

To the knowledge of the Board of Directors and of the Group Management, no shares were held by parties closely linked to such persons.

### Executive members of the Board of Directors, members of the Group Management and parties closely linked to such persons

The aggregate number of ADB Holdings shares held by executive members of the Board of Directors (including Andrew N. Rybicki in his function as Chairman of the Board of Directors and Philippe Lambinet in his function as member of the Board), members

of the Group Management, and parties closely linked to such persons as of December 31, 2005 was 3,392,953.

## Options

ADB Holdings has not implemented a stock options plan as of December 31, 2005. The Board of Directors has tasked the Group Management to propose an incentive stock options plan, and anticipates implementing it during 2006.

No options were held by non-executive members of the Board of Directors, executive members of the Board of Directors, and members of the Group Management and parties closely linked to such persons as of December 31, 2005.

## Additional fees and remunerations

The following fees were billed to ADB Group during the year ending December 31, 2005:

- Python Schifferli Peter, the law firm employing Thomas Steinmann and Jean-Christophe Hocké, for legal advisory services: CHF 0.6 million
- Odendall Foundation, a non-for profit organization owned by Marc Odendall, for financial advisory services: CHF 0.3 million

## Loans granted to and by members of the governing bodies

### Loans granted to members of the governing bodies

No loans were granted to non-executive members of the Board of Directors in 2005.

Loans to executive members of the Board of Directors and members of the Group Management

outstanding as of December 31, 2005 are described in Note 26 of Consolidated Financial Statements.

### Guarantees granted by members of the governing bodies to ADB Group

As is customary in Asian countries, Andrew N. Rybicki provided his personal guarantee for certain ADB Group's bank loans until the IPO.

## Highest total compensation

The highest aggregate total compensation consented to a member of the Board of Directors in 2005 is U.S.\$ 1.2 million.

# SHAREHOLDERS' RIGHTS

## Voting rights and representation restrictions

In shareholders' meetings, except as noted below, each shareholder has equal rights, including equal voting and financial rights. Each share is entitled to one vote.

Failing a proper registration of its shares in ADB Holdings share register (see "Inscription to the share register"), a shareholder may not vote at or participate in a shareholders' meeting but still be entitled to receive dividends and other rights with financial value such as pre-emption rights.

In Switzerland, resolutions generally require the approval of an absolute majority of the shares represented at a shareholders' meeting. A resolution passed at a shareholders' meeting with a super-majority of at least two-thirds of the shares and the absolute majority of the nominal capital represented at such meeting is required for: (i) changes in a company's purpose; (ii) the creation of shares with

privileged voting rights; (iii) restrictions on the transferability of registered shares; (iv) an authorized or conditional increase in a company's share capital; (v) an increase in a company's share capital by way of capitalization of reserves; (vi) the restriction or elimination of pre-emptive rights or (vii) a relocation of domicile. Pursuant to the Swiss Federal Merger Act, special quorum rules apply by law to a merger, demerger or conversion of a company. In addition, any article providing for a greater voting requirement than is prescribed by law or the existing Articles of Association must be adopted by such a super-majority.

A shareholders' meeting also has the power to vote by absolute majority on amendments to the Articles of Association, to elect the members of the Board of Directors and the independent auditors, to approve the annual report and the annual group accounts, to set the annual dividend and to discharge the directors from liability for matters disclosed to the sharehold-

ers' meeting. A shareholders' meeting, by an absolute majority, also has the power to order an independent investigation into specific matters proposed to the shareholders' meeting.

Shareholders of ADB Holdings can be represented by proxy at shareholders' meetings but solely by another shareholder. The Board of Directors is entitled to approve agreements with banks and professional asset managers to allow them to exercise the voting rights of shares deposited with them on behalf of the beneficial owners of the shares. At shareholders' meetings, votes are taken on a show of hands unless the shareholders' meeting resolves to have a ballot or such ballot is ordered by the Chairman of the shareholders' meeting. According to the Articles of Association, in case of a split vote, the Chairman has the casting vote.

## Statutory quorums

There is no provision in the Articles of Associations of ADB Holdings requiring a presence quorum for shareholders' meeting of the company.

## Convocation of the general meeting of shareholders

There is no provision in the Articles of Associations of ADB Holdings for the setting of rules for convocation of the general meeting of shareholders different from applicable law provisions.

Under Swiss law, a shareholders' meeting must be held within six months after the end of a company's preceding financial year. In the case of ADB Holdings, this means on or before June 30.

Shareholders' meetings may be convened by the Board of Directors or, if necessary, by a company's independent auditors. The Board of Directors is further required to convene an extraordinary shareholders' meeting if so resolved by a shareholders' meeting or if so requested by holders of shares holding in aggregate at least 10% of the nominal share capital of the Company. A shareholders' meeting is convened by publishing a notice of such meeting in the Swiss

Official Gazette of Commerce or by letter sent to each shareholder to the address registered in the shareholders register at least 20 days prior to such meeting.

## Agenda

The agenda is published in the convocation of the general meeting of shareholders.

In particular, according to the Articles of Association, shareholders holding shares with a value of at least 10% of the nominal share capital of the Company or

with a nominal value of CHF 150,000 have the right to request that a specific agenda item be discussed and voted upon at the next shareholders' meeting.

## Inscription in the share register

Pursuant to the Articles of Association, ADB Holdings' shares are registered shares, not issued in certificated form but delivered in book-entry form only, into collective custody at SIS SegalInterSettle AG, Olten. Shareholders do not have the right to ask for printing or delivery of share certificates.

The transfer of shares is effected by the use of a share registration form and by a corresponding entry in the books of a bank or a depositary institution (SIS SegalInterSettle AG, Olten) following an assignment in writing by the selling shareholder and notification to the Company of such assignment.

The Board of Directors will update the share register after receiving the respective request of a shareholder to be entered as a shareholder into ADB Holdings' share register. A purchaser of shares will be recorded in ADB Holdings' share register as a shareholder with voting rights if the purchaser discloses its name, citizenship or registered office and address and gives a declaration that it has acquired the shares in its own name and for its own account.

# CHANGE OF CONTROL AND DEFENSE MEASURES

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## Duty to make an offer

Pursuant to the applicable provisions of the Swiss Federal Stock Exchange Act, if a person acquires shares of a Swiss listed company, whether directly or indirectly or acting in concert with third parties, which, when added to the shares already held by such person, exceed the threshold of 33 1/3% of the voting rights (whether exercisable or not) of such company, that person must make a bid to acquire

all of the listed shares of the company. A company's articles of incorporation may either eliminate this provision of the Swiss Federal Stock Exchange Act or may raise the relevant threshold to 49% ("opting-out" or "opting-up" respectively). The Articles of Association of ADB Holdings do not contain an opting-out or an opting-up provision.

There is no obligation to make a bid under the foregoing rules if the voting rights in question are acquired as a result of a gift, succession or partition of an estate, a transfer based upon matrimonial property law, or execution proceedings.

## Clauses on change of control

There are no change of control clauses included in agreements and schemes benefiting members of the Board of Directors and/or Group Management.

# AUDITORS

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## Duration of the mandate and term of office of the independent auditors

Deloitte SA, Route de Pré-Bois 20, 1215 Geneva, has held the external audit mandate of ADB Holdings and ADB Group since the financial year ended December 31, 2004 and is elected as external auditor until the end of 2005 financial year. Peter Quigley has been the lead auditor since the 2004 audit.

## Auditing fees

Deloitte received a fee of CHF 0.5 million for auditing the 2005 financial statements of ADB Group.

## Additional fees

Deloitte received additional fees of CHF 1.4 million for consultancy and other services mostly related to the Company IPO and its acquisition activities.

## Supervisory and control instruments vis-à-vis the auditors

The Audit Committee is responsible for evaluating the independent auditors on behalf of the Board of Directors.

## INFORMATION POLICY

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ADB Group regularly informs investors of the developments pertaining to its business, its organization, its financial results and all other applicable matters in compliance with the rules of the SWX Swiss Exchange, including the rules regarding Ad-Hoc Publicity and Financial Reporting.

Information is mainly issued under the form of Press Releases issued in English.

Financial information is published twice a year through an annual results release followed by the

annual report (within 4 months from the end of the reporting fiscal year), and an interim financial report for the six months following the end of the previous fiscal year.

In relation to any material news, and in any event in relation to annual and interim financial reporting, ADB Group also organizes public telephone conference calls the details of which are provided in the related press release.

All parties interested in receiving ADB Group press releases can subscribe to our mailing lists by sending a request to Investor Relations.

ADB Group's website contains all published information as well as the principal dates of the institutional calendar.

### **ADB Group web site:**

[www.adbholdings.com](http://www.adbholdings.com)

Financials:

[www.adbholdings.com/investor/financials.htm](http://www.adbholdings.com/investor/financials.htm)

Calendar:

[www.adbholdings.com/investor/calendar.htm](http://www.adbholdings.com/investor/calendar.htm)

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# CONSOLIDATED FINANCIAL STATEMENTS

# ADVANCED DIGITAL BROADCAST HOLDINGS SA AND SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENT

YEARS ENDED 31 DECEMBER 2005 AND 2004  
(Expressed in United States Dollars)

	NOTES	2005	2004
		\$	\$
Revenue	3	251,994,226	176,413,564
Cost of sales		<u>161,192,144</u>	<u>116,753,595</u>
Gross profit		<u>90,802,082</u>	<u>59,659,969</u>
Research and development expenses	5	(39,326,391)	(26,390,769)
Selling, general and administrative expenses	5	(30,335,573)	(21,694,095)
Other operating (expenses) income, net	4	<u>(12,789)</u>	<u>343,431</u>
		<u>(69,674,753)</u>	<u>(47,741,433)</u>
Profit from operations		21,127,329	11,918,536
Finance costs	7	<u>(3,388,104)</u>	<u>(1,586,004)</u>
Profit before tax		17,739,225	10,332,532
Income tax expense	8	<u>(3,459,936)</u>	<u>(2,255,860)</u>
Profit for the year		<u>14,279,289</u>	<u>8,076,672</u>
Earnings per share	9, 20		
Basic		2.58	1.99
Diluted		2.58	1.99

# ADVANCED DIGITAL BROADCAST HOLDINGS SA AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

31 DECEMBER 2005 AND 2004

(Expressed in United States Dollars)

	NOTES	2005	2004
		\$	\$
<b>ASSETS</b>			
Non-current assets			
Intangible assets	10	12,253,959	8,600,986
Property and equipment	11	14,229,785	13,470,841
Deferred income tax assets	8, 21	1,323,995	395,759
Due from shareholders	26	12,356,043	12,878,435
Other	13	477,695	1,210,953
		<u>40,641,477</u>	<u>36,556,974</u>
Current assets			
Inventories	14	24,295,171	17,030,775
Other current assets		6,900,365	3,863,998
Other receivables	13	411,911	1,256,783
Trade receivables, net	12	76,774,952	48,745,906
Available-for-sale investments	12	16,541,765	-
Cash and cash equivalents	12	41,569,298	30,619,346
		<u>166,493,462</u>	<u>101,516,808</u>
Total assets		<u>207,134,939</u>	<u>138,073,782</u>
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves			
Share capital	20	1,304,838	1,200,000
Share premium		69,489,621	-
Other reserves	21	(2,201,497)	311,666
Retained earnings		19,018,013	16,591,368
Treasury shares		(7,033)	-
Total equity		<u>87,603,942</u>	<u>18,103,034</u>
Non-current liabilities			
Long-term bank loans	15	3,011,452	3,238,383
Deferred income tax liabilities	8	69,512	-
Retirement benefit obligations	24	3,236,982	527,207
		<u>6,317,946</u>	<u>3,765,590</u>
Current liabilities			
Bank loans	15	38,227,373	22,410,410
Trade and other payables	19	32,734,590	56,041,070
Accrued expenses	16	35,623,624	29,720,664
Provisions	17	2,347,778	2,447,682
Taxes payable		1,743,891	2,225,719
Other current liabilities	18	2,535,795	3,359,613
		<u>113,213,051</u>	<u>116,205,158</u>
Total liabilities		<u>119,530,997</u>	<u>119,970,748</u>
Total equity and liabilities		<u>207,134,939</u>	<u>138,073,782</u>

# ADVANCED DIGITAL BROADCAST HOLDINGS SA AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED 31 DECEMBER 2005 AND 2004

(Expressed in United States Dollars)

	NOTES	2005	2004
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year		14,279,289	8,076,672
Adjustments for :			
Tax expense	8	3,459,936	2,255,860
Depreciation	11	2,391,902	1,709,144
Amortization	10	8,732,514	5,878,186
Finance costs	7	3,388,104	1,586,004
Interest income		(2,095,820)	(474,362)
Share-based payment expense	31	304,847	-
Provision for inventory		331,094	525,042
Others		268,673	128,364
Operating profit before working capital changes		31,060,539	19,684,910
Working capital changes :			
Trade receivables		(27,184,174)	(27,084,400)
Inventories	14	(7,585,465)	(5,891,148)
Trade and other payables		(23,306,480)	40,150,091
Accrued expenses	16	5,903,189	11,461,857
Provisions	17	(99,904)	856,958
Other current liabilities		(823,818)	2,646,567
Others		(2,139,161)	(2,448,870)
Retirement benefit obligations		149,775	118,753
Cash generated from operations		(24,025,499)	39,494,718
Interest paid		(3,388,334)	(1,589,218)
Tax paid		(3,948,339)	(169,469)
Net cash (used in) provided by operating activities		(31,362,172)	37,736,031
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment	11	(3,804,970)	(3,761,092)
Proceeds from sale of property and equipment		11,350	261,010
Purchase of intangible assets	10	(12,527,781)	(7,613,790)
Purchase of available-for-sale investments	12	(16,957,791)	-
Interest received		1,931,872	474,362
Net cash used in investing activities		(31,347,320)	(10,639,510)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in bank loans		15,590,032	3,622,072
Decrease (increase) in loans to shareholders	26	522,392	(6,252,343)
Dividends		-	(305,137)
Issuance of capital stock	20	57,367,138	10,999
Net cash provided by (used in) financing activities		73,479,562	(2,924,409)

# ADVANCED DIGITAL BROADCAST HOLDINGS SA AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED 31 DECEMBER 2005 AND 2004

(Expressed in United States Dollars)

	2005	2004
	\$	\$
TRANSLATION ADJUSTMENT ON FOREIGN CURRENCY	179,882	(476,015)
NET INCREASE IN CASH	10,949,952	23,696,097
CASH, BEGINNING OF YEAR	30,619,346	6,923,249
CASH, END OF YEAR	41,569,298	30,619,346
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Time deposits	34,489,088	12,238,064
Cash and bank balances	7,080,210	18,381,282
	41,569,298	30,619,346

## CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE

31 DECEMBER 2005 AND 2004

(Expressed in United States Dollars)

	NOTES	2005	2004
		\$	\$
Net loss on available-for-sale investments	12, 21	(415,476)	-
Deferred tax asset arising from net loss on available-for-sale investments		32,532	-
Actuarial losses directly recognised in equity	21	(2,560,000)	-
Deferred tax assets arising from direct recognition of actuarial losses in equity	21, 24	832,000	-
Translation adjustments	21	(402,219)	965,155
Net (loss) income recognised directly in equity		(2,513,163)	965,155
Profit for the year		14,279,289	8,076,672
Total recognised income and expense for the year		11,766,126	9,041,827

# ADVANCED DIGITAL BROADCAST HOLDINGS SA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED 31 DECEMBER 2005 AND 2004

(Expressed in United States Dollars unless otherwise stated)

### 1. GENERAL INFORMATION

Advanced Digital Broadcast Holdings SA ("ADB") and its subsidiaries (together the "Group") are engaged in the development and sale of equipment, services and software for digital television and broadband data communication industry world-wide, and rely on third-party contract manufacturers for the production of equipment.

In 2004, the Group's ultimate holding company was ADB-Advanced Digital Broadcast Ltd. (the "Predecessor Company"), a company incorporated on 16 May 1995, under the laws of the British Virgin Islands. On 24 March 2005, the Predecessor Company merged with the Company, a Swiss company incorporated on 26 July 2004, in the Canton of Geneva, with retroactive effect of the merger as of 1 January 2005. The result of the merger is that the Company is the surviving entity. Since 29 April 2005, shares of the Company are publicly traded on SWX, the Swiss Exchange, under the ticker ADBN.

The accompanying financial statements include the consolidated results of operations of ADB from 1 January 2005 and of the Predecessor Company for all previous periods presented (collectively the "Company").

As of 31 December 2005, companies in which ADB has effective control are summarized as follows:

Entity	Country of Incorporation	Issued and Fully Paid Shares / Registered Capital	Percentage of Ownership	Principal Activities
Advanced Digital Broadcast (Australia) Pty Ltd. ("ADBA")	Australia	1 share of AUD 1 each / AUD 1	100%	Marketing, sales and technical support
Advanced Digital Broadcast Italia S.r.l. ("ADBIS")	Italy	EUR 50,000	100%	Marketing, sales and technical support
ADB-Advanced Digital Broadcast Ltd. Representative Office ("ADBRO")	Philippines	Not Applicable	100%	Closed in January 2006
Advanced Digital Broadcast Polska Sp. z.o.o. ("ADBP")	Poland	16,000 shares of PLN 500 each / PLN 8,000,000	100%	Research and development
Advanced Digital Broadcast Spain S.L.U. ("ADBS")	Spain	1,000 shares of EUR 3.00506 each / EUR 3,005.06	100%	Marketing, sales and technical support
Advanced Digital Broadcast SA ("ADBG")	Switzerland	100 shares of CHF 1,000 each / CHF 100,000	100%	Marketing and sales
Advanced Digital Broadcast Holdings SA Taiwan Branch	Taiwan, ROC	NTD 119,700,000	100%	In liquidation
Advanced Digital Broadcast Ltd. ("ADBT")	Taiwan, ROC	1,000,000 shares of NTD 10 each / NTD 10,000,000	100%	Marketing, sales, technical support, manufacturing control and procurements
Advanced Digital Broadcast (UK) Ltd. ("ADBUK")	U.K.	10 shares of GBP 1 each / GBP 10	100%	Marketing and sales
Advanced Digital Broadcast Inc. ("ADBI")	U.S.A.	1,500 shares, no par value	100%	Marketing, sales and technical support
Osmosys Technologies Sp. z.o.o. ("OSMOP")	Poland	400 shares of PLN 500 each / PLN 200,000	100%	Research and development
Osmosys SA ("OSMOG")	Switzerland	10,000 shares of CHF 10 each / CHF 100,000	100%	Marketing and sales
Osmosys Inc. ("OSMOI")	U.S.A.	1,500 shares, no par value	100%	Marketing and sales
ADB Ukraine Ltd. ("ADBUKR")	Ukraine	1 share of UAH 600,000 / UAH 600,000	100%	Research and development
SIMPLE S.r.l. ("SIMPLE")	Italy	EUR 100,000	100%	Digital TV content development, marketing and sales
tele.DOM Sp. z.o.o. ("tele.DOM")	Poland	1,000 shares of PLN 50 each / PLN 50,000	100%	Digital TV content and interactive systems development, marketing and sales

ADBA was incorporated in Australia on 27 October 1998, with an initial share capital of AUD \$ 1, as a technical support, marketing and sales support centre to provide after sales service (software) and to conduct marketing, sales and promotional activities.

ADBIS, a technical support, marketing and sales support centre, was incorporated on 1 July 2004 in Italy with an initial share capital of EUR 50,000.

ADBRO provided software and engineering support for interactive digital TV systems. It was located in Manila, the Republic of the Philippines, and was set up as the representative office on 6 July 2000. ADBRO was closed on 17 January 2006.

ADBP, a technical, engineering, software research and development centre, was incorporated on 2 October 1995 in Poland, with an initial share capital of PLN 4,000 divided into 80 shares of PLN 50 per share. During 1998, ADBP increased its capital by PLN 7,996,000 through issuance of 159,920 new shares valued at PLN 50 each. In 2002, par value of ADBP's stock was increased from PLN 50 to PLN 500, and the number of shares was reduced from 160,000 shares to 16,000 shares.

ADBS, a technical support, marketing and sales support centre, was incorporated on 12 June 2000 in Spain with an initial share capital of 500,000 pesetas then converted into EUR 3,005.06, divided into 1,000 shares of EUR 3.00506 per share.

ADBG, a marketing and selling centre, was incorporated in Switzerland on 8 May 2001 with an initial share capital of CHF 100,000, divided in 100 shares of CHF 1000 per share.

The Predecessor Company setup its Taiwan Branch (the "Branch") on 23 May 1996, in Taipei, Taiwan, the Republic of China (ROC) with registered capital of NT \$ 2,500,000 as a centre providing local sales support, procurement, manufacturing control and technical support services. On 5 December 2002, the registered capital of the Branch was increased to NT \$ 119,700,000. Since the beginning of 2004 the majority of the activities of the Branch were transferred to ADBT. In March 2005, following the merger between the Company and the Predecessor Company, the Branch has been registered as the Company's Taiwan Branch. On 31 December 2005, the Company decided to liquidate the Branch.

ADBT was incorporated on 30 December 2003 in Taipei, Taiwan, the Republic of China (ROC) with registered capital of NT \$ 1,000,000 as a centre providing local sales support, procurement, manufacturing control and technical support services. On 19 August 2004, the registered capital of ADBT was increased to NT \$ 10,000,000. In 2004, ADBT has taken over most of the functions of the Branch and during 2005 the transfer of the Branch activities to ADBT was completed.

ADBUK, a marketing and sales support centre, was incorporated in United Kingdom on 22 November 2004, with an initial share capital of GBP 10, divided into 10 shares of GBP 1 per share.

ADBI, a technical support, marketing and selling centre, was incorporated on 23 February 2000, a Delaware Corporation, with no initial share capital. Its main office is located in Chicago, Illinois.

OSMOP, a software research and development centre, was incorporated on 23 July 2003 in Poland, with an initial share capital of PLN 200,000 divided into 400 shares of PLN 500 per share.

OSMOG, a marketing and selling centre, was incorporated in Switzerland on 23 July 2003, with an initial share capital of CHF 100,000, divided into 10,000 shares of CHF 10 per share.

OSMOI, a marketing and selling centre, was incorporated on 26 August 2004, as a Delaware Corporation, with no initial share capital. On 1 February 2006, following the acquisition of the main assets of Vidiom Corporation by the Group (see Note 27), the company changed its name to Vidiom Systems Inc. The scope of activities has been enlarged to include also research and development and technical support. The main office is currently located in Denver, Colorado, with major locations also in Portland, Oregon, and De Moines, Iowa.

ADBUKR, a research and development centre, was incorporated on 4 October 2005 in Ukraine, with an initial share capital of UAH 600,000.

SIMPLE, a digital TV content development, marketing and selling centre, was incorporated on 15 November 2005, with an initial share capital of EUR 100,000.

tele.DOM, a digital TV content and interactive systems development, marketing and selling centre, was incorporated on 7 November 2005 in Poland, with an initial share capital of PLN 50,000, divided into 1,000 shares of PLN 50 per share.

Osmosys Holding SA, the holding company of all Osmosys entities, was incorporated in Luxembourg on 25 February 2004, with an initial share capital of EUR 31,000, divided into 15,500 shares of EUR 2 per share. Osmosys Holding SA was dissolved on 29 December 2005.

These financial statements are presented in United States dollars as this is the functional currency for the majority of the transactions of the Group. Foreign operations are consolidated in accordance with the policies set forth in Note 2.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

All significant accounting policies of the Group in 2005 are the same as those applied in 2004, except for the Group's adoption of new or revised IFRS effective 1 January 2005, as described below.

These financial statements have been prepared on an accrual basis and the historical cost basis except for the revaluation of financial instruments.

### Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

The impact of these changes in accounting policies is discussed in this note. The impact on basic and diluted earnings per share is disclosed in Note 9.

The Group adopted IFRS 2 for the first time on 1 January 2005. As a result of this adoption the Company has incurred share based compensation expense generated by the distribution of shares to members of its Board of Directors. This share allocation was decided in August 2005 and is described in Note 31.

The Group has also adopted IFRS 3 for the first time on 1 January 2005. There has been no impact on the 2005 and 2004 consolidated financial statements as no business combination has taken place. The acquisition, on 1 February 2006, of the majority of the operating assets of Vidiom System Corporation, as described in Note 27, will generate a purchase accounting impact under IFRS 3 on the Group's 2006 consolidated financial statements.

The Group has decided to adopt, from 1 January 2005, the new immediate recognition option under IAS 19. Under this option, the actuarial gains/losses from valuating the assets and liabilities of defined benefit pension plans at fair value at the balance sheet date are immediately recognized in the balance sheet with a corresponding movement in equity.

The Group has moreover decided to recognize as available-for-sale all its financial investments made during September 2005 and to recognize all unrealised gains and losses on these investments against its equity in accordance with IAS 39. The impact of adopting these new accounting policies is presented in the Consolidated Statements of Recognized Income and Expenses.

Finally, the Group has entered during July 2005 into currency derivative transactions as described in Note 25. The purpose of these transactions is to hedge the cash flow of revenue denominated in Euro against the fluctuations of the Euro to \$ exchange rate. The profit from this revenue cash flow hedging is recognized as revenue as described in Note 3.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from participating in a specific market - Waste Electrical and Electronic Equipment
IFRIC 7	Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2

Management is currently unable to determine the possible impact, if any, of the adoption of these Standards and Interpretations on the financial statements of future periods.

### Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the costs of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the Group.

There have been no acquisitions from the inception of the Company to 31 December 2005. The first acquisition was made on 1 February 2006 and is described in Note 27.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

## Business Combinations

The acquisition of assets or shares of an acquiree is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of all assets transferred, all liabilities incurred and assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs incurred by the Group in the process of finalizing the acquisition and directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

## Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value-added tax and other sales related taxes.

Sales of goods are generally recognised when goods are delivered and title has passed. Sales and related costs of software designed and supplied by third parties and/or by the Group are recognized upon the completion of the inspection and acceptance by customers. Revenues from services are recognized upon delivery of service.

For Middleware, the group charges royalties to customers for the use of its products. In addition, royalties are charged to customers for the transfer of the right to use certain third party intellectual property.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

## Cost of Sales

Cost of sales includes material costs, contract manufacturing costs, and freight and duties incurred for sales.

For Middleware, certain royalty costs, incurred in connection with royalty revenues charged to customers, are included in cost of sales.

## Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group only held operating leases at 31 December 2005 and 2004.

Rental expense under operating leases is charged to income on a straight-line basis over the term of the relevant lease.

## Foreign Currencies

Transactions in currencies other than United States Dollars are recorded at the rate of exchange prevailing on the dates of transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in the profit or loss for the period.

Beginning July 2005, the Group started hedging the foreign exchange exposure of its non United States Dollar revenue cash flows by entering into forward currency derivatives. The Group's accounting policies in respect of such derivative financial instruments are explained below in the section Financial Instruments, Derivative Financial Instruments of this Note.

On consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

## Borrowing Costs

All borrowing costs are recognized in the profit or loss in the period in which they are incurred.

## Retirement Benefit Costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due. Payments made to state-managed retirement schemes are dealt with as payments to defined contribution schemes, where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement scheme.

For defined benefit retirement schemes, the costs of providing benefits are determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Until 31 December 2004 actuarial gains and losses that exceeded 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of the plan assets were amortized over the expected average remaining working lives of the participating employees and recognized in income. As of 1 January 2005, the Group has decided, in accordance with IAS 19, to recognize actuarial gains and losses in the period in which they occur directly in equity. The effects of this new policy are presented in the Consolidated Statement of Recognised Income and Expense.

Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and deductions in future contributions to the plan.

## Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of operations because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are neither taxable nor deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited in the statement of operations, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and when the group intends to settle its current tax assets and liabilities on a net basis.

## Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any recognized impairment loss.

Depreciation is provided on the straight-line method over the estimated useful lives of the related assets:

Buildings	10 to 50 years
Furniture and fixtures	2 to 5 years
Equipment	2 to 10 years

Equipment includes machinery, vehicles, and general equipment.

Land and construction in progress are carried at cost, less any recognised impairment loss. Depreciation of construction in progress commences when the assets are ready for their intended used.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

## Internally-Generated Intangible Assets - Software Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- the product is clearly defined and the costs attributable to the product can be separately identified and measured reliably;
- the technical feasibility of the product can be demonstrated;
- the enterprise intends to produce and market or use the product;
- the existence of a market or, if to be used internally rather than sold, its usefulness to the enterprise, can be demonstrated; and
- adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product.

The extent of capitalization is limited to that amount which, taken together with further related costs, will be recovered from related future economic benefits.

Internally-generated intangible assets are amortized on the straight-line basis over their useful lives, generally 18 to 24 months. The Group begins amortization when the products are available for general release to customers or put to use. Such amortisation of software development costs is recorded as research and development cost under operating expenses. Where no internally-generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred.

## Other Intangible Assets

Other intangible assets primarily include rights to use land in Poland and purchased computer programs. The amortization period for these intangibles is based on the estimated useful lives, generally 18 months to 24 months, except the right to use of land in Poland whose life is 92 years.

## Impairment of Tangible and Intangible Assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The Group does not have any indefinite life intangible assets.

Recoverable amount is the higher of fair value less costs to sell 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 assessment of the time value of money.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset

(cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The Group purchases key component raw materials, which are shipped to and paid by its contract manufacturers, which invoice the Group for the cost of manufacturing, inclusive of the cost of key and other raw materials used in production. Based on the substance of the outsourcing contracts, inventories include these key components raw materials, work-in-process, and finished goods.

The Group recognizes the cash received or receivable from contract manufacturers with respect to key components as accrued expenses.

## Financial Instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

### Derivative Financial Instruments

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. Interest rate risk arises from bank loans (Note 15).

The Group uses derivative financial instrument (notably foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations impacting its cash flow from non United States Dollar revenue. These hedging relationships do not qualify for hedge accounting as defined by IAS 39. Therefore, the Company recognizes derivative instruments as either assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. The unrealized gains and losses are recorded through the statement of income. At 31 December 2005 all derivative instruments were settled and therefore no amounts were recorded in the consolidated balance sheet.

The gains and losses on derivative financial instruments utilised in hedging the foreign currency revenues are included in Revenues (Note 3).

The use of financial derivatives is governed by the Group's policies which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

### Available-for-sale Investments

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss of the period.

### Trade Receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

## Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its obligations.

### Bank Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

There were no direct issue costs incurred for the years ended 31 December 2005 and 2004.

## Trade Payables

Trade payables are not interest bearing and are stated at their nominal value.

## Provisions

The Group records provisions when it has an obligation, legal or constructive, to satisfy a claim; it is probable that an outflow of Group resources will be required to satisfy the obligation, and reliable estimate of the amount can be made.

In the case of litigation and claims relating to services rendered, the amount that is ultimately recorded is the result of a complex process of assessment of a number of variables, and relies on management's informed judgment about the circumstances surrounding the past provision of services. It also relies on expert legal advice and actuarial assessments. Changes in estimates are reflected in the profit and loss account in the period in which the change occurs.

Provision for warranty costs is recognized at the date of sale of the relevant products, at management's best estimate of the expenditure required to settle the Group's liability.

## Earnings Per Share

Basic earnings per share are calculated by dividing the Group's profit for the year by the weighted average number of shares outstanding during the year, excluding treasury shares. For diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming conversion of all potential dilutive shares. Group profit for the year is also adjusted to reflect the net after-tax impact of conversion.

For year 2004, the Company had no instruments with dilutive effects. In year 2005 the share grant to members of the Board of Directors was the only dilutive instrument outstanding as described in Note 31.

## Freight and Related Expenses

Freight and related expenses are recognised in cost of sales as incurred.

## Warranty and Product Reworking Expenses

Warranty and product reworking expenses are included in the selling, general and administrative caption in the Consolidated Statement of Operations. The Group provides for warranty costs when products are sold, based on management's best estimate of warranty claims on products sold.

## Use of Estimates

The preparation of consolidated financial statements and related disclosures in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in accounting for bad debt provisions on trade receivables, inventory allowances, depreciation, employee benefits, taxes, provisions, and contingencies. Estimates and assumptions are reviewed periodically and the effects of any changes of estimates are immediately reflected in the statement of operations.

## Equity Compensation Plan

In 2004 no expense was recognised in the profit and loss account for shares granted to employees (see Note 31).

During 2005, the Group has provided rights to ownership of shares to members of its Board of Directors (see Note 31). IFRS 2 Share-based Payment, adopted since 1 January 2005, requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date.

For 2005, the impact of share-based payments is a net charge to income of \$ 304,847. At 31 December 2005, the amount recorded in equity relating to share-based payments in the Consolidated Balance Sheet amounted to \$ 304,847.

## Factoring of Trade Receivables

During 2005, the Group began factoring certain of its trade receivables, which meet the criteria for derecognition as defined in IAS 39. The Group derecognises its trade receivables when substantially all of the risk and rewards of ownership have transferred to the counterparty, which is generally when cash is received from the coun-

terparty. In 2005, the counterparties to these transactions were third party banks who, for a fee, accepted the risks and rewards of ownership for certain of the Group's trade receivables.

## Critical accounting in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described in this note, management has made business judgements. Beyond estimates, which are explained above, the judgements which in management's opinion have the most significant effect on the financial statements are:

### Revenue recognition and warranty provisions

Management has considered the criteria set out in IAS 18 for recognition of revenue from sale of goods. Accordingly, revenue is recognized when the Group has transferred to the buyer the significant risk and rewards of ownership of the goods. Following detailed quantification of the Group's liability in respect to eventual rectification work, and of the agreed limitation on the customer's ability to require further work or replacement of the goods, management is satisfied that the significant risk and rewards for the goods which have generated revenue have been transferred and that recognition of revenue and recognition of the corresponding provision for warranty costs in the current year are appropriate.

### Contingent Asset

Note 13 describes a court settlement between the Group and one of its customers. At each balance sheet date, management is required to consider whether it is appropriate to recognise the income and contingent asset awarded to the Group as a receivable, in accordance with IAS 37. At 31 December 2005, management has deemed it appropriate not to recognise the income for all payments not received as of the date of the approval of the financial statements by the Board of directors. In making its judgement, management determined that the income from the settlement was not virtually certain prior to collecting the cash from the customer in question. The amount currently not recognised is approximately \$ 0.9 million.

### Classification of Investments

Note 12 describes the Group's investment in certain financial assets classified as "Available-for-Sale Investments". In accordance with IAS 39, management is required to designate the classification of these assets into categories, which then dictates how to account for the initial and subsequent measurement of these assets. Management determined that its significant investment in non-derivative financial assets should be designated as available-for-sale as they are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Therefore, unrealised gains and losses on these investments are recorded directly in Equity.

### Derecognition of Financial Assets

As described in this note, management has determined that certain of the Group's receivables meet the derecognition requirements of IAS 39. The result of this accounting treatment is that approximately \$ 13 million in Trade receivables are not recognised in the Group's balance sheet at 31 December 2005. As part of this judgement, management was required to assess if substantially all the risks and rewards of ownership were transferred to the counterparty. Management determined this to be the case as, in its assessment, one of the more significant risks that is entirely transferred to the counterparty is the credit risk associated to the trade receivable.

## Key sources of estimation uncertainty

Key assumptions concerning future business, and other key sources of estimation uncertainty, that, at the balance sheet date, have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

### Recoverability of Internally-Generated Intangible Asset

During the year, management has regularly tested the recoverability of all its internally-generated intangible assets arising from the Group's capitalization of software development costs. These assets are included in the Group balance sheet at 31 December 2005 and 31 December 2004 for an amount of approximately 11.7 million and 8.2 million, respectively. Customer demand has reconfirmed management's previous estimates of sufficient anticipated revenues and margins from the project. Increased competition and price pressure were also considered by management when assessing future revenue and anticipated margins on these products. Following this analysis, management is confident that the carrying amount of the assets should be recovered in full. The nature and value of these assets are regularly and closely monitored. Adjustments may be made in future periods if future market activity indicates that such adjustments are appropriate.

### Recoverability of Tax Assets

Management has estimated the recoverability of all its tax assets recorded in the balance sheet at 31 December 2005. For each entity concerned and on the basis of the local tax regulations and the updated future business perspectives of each entity, management has concluded that the carrying amount of the assets should be recovered in full.

### 3. REVENUE

An analysis of the Group's revenue for the years ended 31 December 2005 and 2004 is as follows:

	2005	2004
	\$	\$
Sales of goods	237,188,810	169,331,625
Service and licensing income	11,984,896	6,607,577
Gains arising on foreign currency derivatives (see Note 25)	724,700	-
Total operating revenue	249,898,406	175,939,202
Interest income	2,095,820	474,362
Total revenue	251,994,226	176,413,564

### 4. OTHER OPERATING (EXPENSES) INCOME, NET

Net exchange (loss) gain	(1,318,739)	468,468
Provision for inventory	(331,094)	(525,042)
(Loss) gain on disposal of property and equipment	(172,569)	81,343
Other income, net (see Note 13, Note 17 and Note 22)	1,809,613	318,662
	(12,789)	343,431

### 5. PROFIT FROM OPERATIONS

Profit from operations for the years ended 31 December 2005 and 2004 has been arrived at after charging the following:

Research and development expenses		
Incurred and expensed	11,861,642	8,195,182
Amortisation of software development costs (see Note 10)	8,630,780	5,848,028
Royalty expenses (see Note 29)	18,833,969	12,347,559
	39,326,391	26,390,769
Selling, general and administrative expenses		
Selling and marketing expenses	18,563,004	15,583,624
General and administrative expenses	7,672,238	2,865,101
Other	4,100,331	3,245,370
	30,335,573	21,694,095
Depreciation of property and equipment (see Note 11)	2,391,902	1,709,144

Cost of sales for the Digital TV Equipment segment is mainly comprised of components and, to a much lower extent, assembly fee, freight and duties. Cost of sales for the Middleware segment is mainly comprised of the cost to the Company of the engineering hours devoted to develop the software products and services that are delivered to customers according to customer specifications.

## 6. STAFF COSTS

The monthly average number of employees was 512 and 381 in 2005 and 2004, respectively.

The staff costs were \$ 30,910,939 and \$ 18,148,113 in 2005 and 2004, respectively.

## 7. FINANCE COSTS

	2005	2004
	\$	\$
Interest on bank loans	2,035,255	1,201,600
Other financial expense	720,319	384,404
Foreign exchange loss	632,530	-
	<u>3,388,104</u>	<u>1,586,004</u>

Finance costs of 2005 include a one time foreign exchange loss, incurred in connection with the IPO proceeds.

## 8. TAXES

Current tax		
Foreign tax	1,575,778	2,278,252
Domestic tax	1,659,060	-
Deferred tax		
Foreign tax	174,881	(22,392)
Domestic tax	50,217	-
	<u>3,459,936</u>	<u>2,255,860</u>

In accordance with the regulations of the British Virgin Islands, the Predecessor Company was not subject to income tax. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Profit before tax consisted of the following:

British Virgin Islands	-	714,333
Switzerland	15,466,875	11,860
Other jurisdictions	2,272,350	9,606,339
Profit before tax	<u>17,739,225</u>	<u>10,332,532</u>

The differences between the provision (credit) for income taxes and income taxes computed at statutory income tax rates are explained as follows:

Tax at the local rates applicable to profits in the countries concerned	2,676,519	2,218,008
Final taxation of previous periods	677,815	-
Effect of different tax rates of subsidiaries	105,602	37,852
	<u>3,459,936</u>	<u>2,255,860</u>

In 2005, the effective tax rate is 19.5% compared to 21.8% in 2004. The difference in effective tax rate is mainly the result of the modification to the legal and business structure prior to the IPO, which has changed the mixture of taxes levied in the various tax jurisdictions. In 2005, the tax rate obtained by applying to each affiliate the statutory tax rate prevailing in the country of operation is approximately 15% (in 2004 approximately 21%). The difference between the 2005 effective tax rate and the average statutory tax rate is due to differences in estimated taxes due and the final taxation levied by the fiscal authorities.

At the end of 2005, the Group has completed the transfer of substantially all of its commercial activities from ADBT to ADBG and has started liquidation of the Branch. As a result of the completion of this process, the effective tax rate for the Group should continue to decline in 2006.

Deferred tax assets and liabilities recognised by the Group and movements during the years 2005 and 2004 are as follows:

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
	\$	\$	\$	\$
Components of deferred income tax balance				
Inventory provisions not currently deductible	45,781	-	153,928	-
Retirement provisions not currently deductible	990,227	-	89,673	-
Net operating losses carryforward	232,423	-	50,217	-
Others	55,564	(69,512)	101,941	-
	<u>1,323,995</u>	<u>(69,512)</u>	<u>395,759</u>	<u>-</u>

	Non Currently Deductible Inventory Provisions	Non Currently Deductible Retirement Provisions	Net Operating Loss Carryforwards	Others	Total
	\$	\$	\$	\$	\$
At 1 January 2004	104,271	59,613	118,315	55,621	337,820
Credit (charge) to income	37,593	24,706	(69,911)	30,004	22,392
Exchange difference	12,064	5,355	1,813	16,315	35,547
At 31 December 2004	153,928	89,674	50,217	101,940	395,759
Credit to equity	-	832,000	232,423	33,082	1,097,505
Credit (charge) to income	(104,477)	72,780	(50,217)	(143,184)	(225,098)
Exchange difference	(3,670)	(4,227)	-	(5,786)	(13,683)
At 31 December 2005	45,781	990,227	232,423	(13,948)	1,254,483

At 31 December 2005 and 2004, the Group has unused tax losses of \$ 8.0 million and \$ 0.4 million respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of these losses for \$ 0.2 million and \$ 0.1 million, respectively.

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share ("EPS") for the years ended 31 December 2005 and 2004 is based on the following data:

### Earnings

	2005	2004
	\$	\$
Earnings for the purposes of basic earnings per share being net profit attributable to equity (holders of the parent)	14,279,289	8,076,672
Effect of dilutive potential ordinary shares	-	-
Earnings for the purposes of diluted earnings per share	<u>14,279,289</u>	<u>8,076,672</u>

### Number of shares

Weighted average number of ordinary shares for the purpose of computing basic earnings per share (see Note 20)	5,540,839	4,063,614
Effect of dilutive potential ordinary shares :		
Vesting of shares granted to members of the Board of Directors (see Note 26, Note 31)	2,139	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>5,542,978</u>	<u>4,063,614</u>

For the purpose of computing basic earnings per share for the years presented, effect of share swap arising from the merger between the Company and the Predecessor Company (see Notes 1 and 20) has been taken retroactively into consideration when calculating the weighted average number of ordinary shares outstanding during years 2005 and 2004.

## Earnings per share

Basic earnings per share are computed dividing the Group's profit for the year by the weighted average number of outstanding shares. Basic earnings per share amount to \$ 2.58 per share and \$ 1.99 per share in year 2005 and year 2004, respectively.

Diluted earnings per share are computed dividing the Group's profit for the year by the weighted average number of outstanding and dilutive potential ordinary shares. Diluted earnings per share amount to \$ 2.58 per share and \$ 1.99 per share in 2005 and 2004, respectively.

The adoption in year 2005 of the new accounting policies described in Note 2 has no material impact on the Earnings per share of both 2005 and 2004.

## 10. INTANGIBLE ASSETS

	Intangible Assets			
	Software Development Costs	Right to Use of Land	Computer Programs and Other	Total
	\$	\$	\$	\$
<b>COST</b>				
At 1 January 2004	8,664,334	169,101	142,955	8,976,390
Additions	7,485,808	41,525	86,457	7,613,790
Retirement	(5,110,930)	-	-	(5,110,930)
Reclassification	59,414	-	(59,414)	-
Exchange differences	-	49,038	50,705	99,743
At 31 December 2004	11,098,626	259,664	220,703	11,578,993
Additions	12,194,737	-	333,045	12,527,782
Retirement	(7,824,491)	-	-	(7,824,491)
Exchange differences	-	(18,854)	(21,283)	(40,137)
At 31 December 2005	15,468,872	240,810	532,465	16,242,147
<b>ACCUMULATED AMORTIZATION</b>				
At 1 January 2004	2,084,504	10,241	86,616	2,181,361
Charge for the year	5,848,028	1,888	28,270	5,878,186
Retirement	(5,110,930)	-	-	(5,110,930)
Reclassification	53,340	-	(53,340)	-
Exchange differences	-	2,843	26,547	29,390
At 31 December 2004	2,874,942	14,972	88,093	2,978,007
Charge for the year	8,630,780	4,163	97,571	8,732,514
Retirement	(7,710,208)	-	-	(7,710,208)
Exchange differences	-	(1,109)	(11,016)	(12,125)
At 31 December 2005	3,795,514	18,026	174,648	3,988,188
<b>CARRYING AMOUNT</b>				
At 31 December 2005	11,673,358	222,784	357,817	12,253,959
At 31 December 2004	8,223,684	244,692	132,610	8,600,986

## 11. PROPERTY AND EQUIPMENT

	Land and Buildings	Furniture and Fixtures	Equipment	Construction in Progress	Total
	\$	\$	\$	\$	\$
<b>COST</b>					
At 1 January 2004	7,028,350	3,634,996	3,032,795	29,969	13,726,110
Additions	230,461	892,461	1,883,409	754,761	3,761,092
Disposals	(25,012)	(136,302)	(224,917)	-	(386,231)
Reclassification	-	104,868	(104,868)	-	-
Exchange differences	858,401	297,901	731,694	161,365	2,049,361
At 31 December 2004	8,092,200	4,793,924	5,318,113	946,095	19,150,332
Additions	49,870	988,648	2,584,513	181,939	3,804,970
Disposals	(4,415)	(74,124)	(214,257)	-	(292,796)
Reclassification	889,537	-	37,556	(927,093)	-
Exchange differences	(335,149)	(162,731)	(323,414)	(64,842)	(886,136)
At 31 December 2005	8,692,043	5,545,717	7,402,511	136,099	21,776,370
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2004	536,248	1,421,110	1,560,264	-	3,517,622
Charge for the year	189,413	794,351	725,380	-	1,709,144
Disposals	-	(68,016)	(138,548)	-	(206,564)
Reclassification	2,019	81,037	(83,056)	-	-
Exchange differences	148,994	145,474	364,821	-	659,289
At 31 December 2004	876,674	2,373,956	2,428,861	-	5,679,491
Charge for the year	234,820	706,641	1,450,441	-	2,391,902
Disposals	(3,735)	(57,947)	(161,254)	-	(222,936)
Exchange differences	(60,299)	(87,948)	(153,625)	-	(301,872)
At 31 December 2005	1,047,460	2,934,702	3,564,423	-	7,546,585
<b>CARRYING AMOUNT</b>					
At 31 December 2005	7,644,583	2,611,015	3,838,088	136,099	14,229,785
At 31 December 2004	7,215,526	2,419,968	2,889,252	946,095	13,470,841

The fire insurance coverage as at 31 December 2005 for the Group's property and equipment amounted to \$ 13.2 million. Amounts pledged or secured in relation to bank loans are reported in Note 15.

During 2004, the Group acquired buildings and equipment located in Taiwan from a related party, controlled by the majority shareholder, at book value. Based on the substance of the transaction, the property and equipment, together with the mortgage financing assumed as part of the consideration paid, have been shown as owned by the Group in 2004. Accordingly, the income statement reflects charges for interest and depreciation.

Construction in progress at 31 December 2005 and 2004 principally relates to building improvements in process at ADBP.

## 12. OTHER FINANCIAL ASSETS

### Trade Receivables, Net

Trade receivables, net at 31 December 2005 and 2004 comprise amounts receivable for the sales of goods and engineering services of \$ 76,774,952 and \$ 48,745,906, respectively.

In accordance with the Group policy, the average credit terms provided on sales of goods are generally 30 days to 60 days, with one major customer exception for whom credit terms are extended to 180 days. No interest is charged on the receivables. As at 31 December 2005 and 2004, the allowance for estimated irrecoverable amounts from the sales of goods and engineering services was \$ 416,886 and \$ 391,743, respectively. This allowance has been determined by reference to past default experience.

Management considers that the carrying amount of trade and other receivables approximates their fair value.

## Available-for-Sale Investments

	2005
	\$
Fair value	<u>16,541,765</u>

The Group has invested part of its cash proceeds from the IPO in structured financial instruments that allow for returns that may be greater than time deposit investments, and if held until maturity, provide for capital repayment plus a minimum return. Despite the fact that these financial instruments ensure a guaranteed capital amount on their expiration date and a minimum return, the fair market value at any time during life of these instruments can result in an unrealised gain or loss. The majority of the instruments have expiration dates in 2007, but the Group has the right to sell the investments at any time prior to the expiration dates. In addition, the Group's investment advisors have provided ADB with credit facilities, whereby the Group can receive cash advances against a significant portion of the underlying investment value at market interest rates. This gives the Group access to additional funds without the need of liquidating the investment positions.

As at 31 December 2005, the fair value of the Group's available-for-sale investments is \$ 16,541,765, including an unrealised loss of \$ 416,026. This unrealised loss has been recorded in equity according to IAS 39 as reported in the Consolidated Statements of Recognised Income and Expense.

## Cash and Cash Equivalents

Cash balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

## Credit Risk

The Group's principal financial assets are bank balances, cash, trade receivables, and due from shareholders (see Note 26), which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group has limited credit risk exposure to its trade receivables as these receivables are generally covered by either irrevocable letters of credit or credit insurance. Amounts presented in the balance sheet are net of allowance for doubtful receivables, estimated by the Group's management based on experience and assessment of the current economic environment.

Credit risk on liquid funds is limited. Counterparties are principally banks and institutions with high credit-ratings as assigned by international credit-rating agencies.

## Foreign Currency Risk

The Group is exposed to the effects of fluctuation in exchange rates of foreign currencies. In 2004 the Group did not enter into foreign exchange contracts to hedge against currency exchange rate fluctuations, as Management believed that the relationship between United States dollars denominated revenue and expense provided an adequate natural hedge for the Group. In 2005, the growing proportion of sales denominated in Euro has triggered the Group's decision to adopt a cash-flow hedging strategy for its revenue (see Note 25).

## 13. OTHER RECEIVABLES

Other receivables represent an amount due from a company, which was one of the Group's significant customers. At present, the Group continues to have sales to this customer. The original amount of receivables due from this customer was approximately \$ 16.8 million, which arose from sales in fiscal year 2001. When this customer was unable to pay its creditors, it was forced into a restructuring by a Court. On 10 September 2003, the creditor settlement plan approved by the Court, awarded ADB a maximum settlement of approximately \$ 12.6 million or 75% of the total receivables due. The maximum settlement required this customer to make fixed payments of approximately \$ 7.5 million during 2004 to 2006, as well as to pay proceeds arising on the future disposal of some of its subsidiaries, estimated at a maximum of \$ 5.1 million.

During 2004, ADB received approximately \$ 8.9 million in cash, consisting of \$ 4.5 million of quarterly payments based on the settlement plan, plus \$ 4.4 million awarded from this customer's disposal of its subsidiaries. Based on the amount of cash received, including the cash from disposal of the subsidiaries, ADB estimated that as of 31 December 2004 it would still receive a total settlement of approximately \$ 10.1 million out of the \$ 11.9 adjusted settlement to which it was entitled. As this customer continued to be in financial difficulty, the Group continued to carry an allowance of \$ 1.8 million as of 31 December 2004, such allowance covering payments to be received from Q4 2005 onwards.

Having received the payments due for Q4 2005 and Q1 2006, the Group has partially reversed its allowance on this receivable for a total amount of \$ 838,822 and has recorded the corresponding profit as other income in 2005 (see Note 4). The total allowance on this receivable as of 31 December 2005 was reduced to approximately \$ 1.0 million.

The difference between the total estimated settlement of \$ 10.1 million and the \$ 8.9 million of cash received in 2004, or approximately \$ 1.2 million, is classified as other receivables at 31 December 2004. The payment that was received in early 2006 for Q1 2006, or approximately \$ 0.4 million, is classified as other receivables at 31 December 2005.

Management considers that the carrying amount of other receivables approximates their fair value.

## 14. INVENTORIES

	2005	2004
	\$	\$
Finished goods	3,514,422	-
Raw materials	1,204,318	3,988,204
Held by contract manufacturers		
Key components	18,228,106	11,961,291
Work-in-process	1,281,257	1,545,202
Finished goods	345,677	1,057,301
Total gross inventories	24,573,780	18,551,998
Less inventory allowance	(278,609)	(1,521,223)
Total inventories	24,295,171	17,030,775

The Group purchases key component raw materials, which are shipped to and paid by its contract manufacturers, which subsequently invoice the Group for the cost of manufacturing, inclusive of the cost of key and other raw materials used in production. Based on the substance of the outsourcing contracts, inventories include these key components raw materials, work-in-process, and finished goods.

The significant reduction of the inventory allowance is due to the execution in 2005 of all the write-offs and scrapping provisioned in 2004 or earlier.

## 15. BANK LOANS

Bank loans	41,238,825	25,648,793
The borrowings are repayable as follows:		
On demand or within one year	38,227,373	22,410,410
In the second year	174,001	171,047
In the third to fifth years inclusive	448,594	482,147
After five years	2,388,857	2,585,189
Less amount due for settlement within 12 months (shown under current liabilities)	38,227,373	22,410,410
Amount due for settlement after 12 months	3,011,452	3,238,383

Bank loans as of 31 December 2005 and 2004 represent short and long-term bank borrowings, with weighted average interest rates at 4.75% and 3.93% per annum and denominated in United States Dollars. The majority of the borrowings are classified under current liabilities, as they are repayable on demand or within one year. Short-term bank borrowings are secured by letters of credit. Bank loans, which are arranged at floating interest rates expose the Group to cash flow interest rate risk.

At 31 December 2005 and 2004, long-term bank borrowings are secured by land, building and equipment included in the consolidated balance sheet for approximately \$ 6.1 million and \$ 6.3 million, respectively.

Management estimates that the carrying amount of the Group's borrowings approximates their fair value as they are principally arranged at floating rates. Due to these arrangements the Group is principally exposed to cash flow interest rate risk.

## 16. ACCRUED EXPENSES

	2005	2004
	\$	\$
Accrued royalty expenses	7,122,416	13,132,966
Accrued liabilities for key-components shipped to and paid or payable by contract manufactures (Notes 2 and 14)	18,228,106	11,961,291
Others	10,273,102	4,626,407
	<u>35,623,624</u>	<u>29,720,664</u>

## 17. PROVISIONS

Provisions at 31 December 2005 and 2004 consist of the following:

	Provision for Warranty	Legal Fees and Royalty Claims	Total
	\$	\$	\$
At 1 January 2004	1,015,287	575,437	1,590,724
Charge for the year	1,635,084	467,282	2,102,366
Utilization of provision	(1,115,096)	(130,312)	(1,245,408)
At 31 December 2004	1,535,275	912,407	2,447,682
Charge for the year	1,697,850	-	1,697,850
Utilization of provision	(884,888)	(662,407)	(1,547,295)
Reversal of provision for legal fees	-	(250,000)	(250,000)
Exchange difference	(459)	-	(459)
At 31 December 2005	<u>2,347,778</u>	<u>-</u>	<u>2,347,778</u>

Provisions for legal fees and royalty claims were made over several years to 31 December 2004 and relate to legal fees provided for debt recovery, other litigation (see Note 13 and Note 21) and possible liabilities to be incurred in connection with a royalty claim started in late 2004 by a third-party for potential infringement of intellectual property rights. Almost all of these matters have been positively resolved during 2005 and the related provision fully used, with the exception of the provision of \$ 250,000 for legal fees that remained not utilized. As all the matters with high risk of legal fees are closed as of 31 December 2005, the provision for legal fees has been fully reversed, generating a profit recorded as other income (see Note 4).

The movement in the provision for the employee benefit obligations is reported in Note 24.

## 18. OTHER CURRENT LIABILITIES

	2005	2004
	\$	\$
Customer payments received in advance	2,229,593	2,441,897
VAT payable	136,592	297,641
Others	169,610	620,075
	<u>2,535,795</u>	<u>3,359,613</u>

## 19. OTHER FINANCIAL LIABILITIES

Trade and other payables principally comprise amounts outstanding for purchases and ongoing costs. The average credit period provided for trade purchases is 60 days to 75 days.

Management consider that the carrying amount of trade and other payables approximates their fair value.

## 20. CHANGES IN EQUITY AND SHARE CAPITAL

The consolidated statement of changes in equity for the years ended 31 December 2005 and 2004 is as follows:

	Share Capital	Share Premium	Other Reserves	Retained Earnings	Own Shares	Total
	\$	\$	\$	\$	\$	\$
Balance of ADB-Advanced Digital Broadcast Ltd. and subsidiaries at 1 January 2004	1,000,001	-	(653,489)	9,008,833	-	9,355,345
Issuance of capital stock	10,999	-	-	-	-	10,999
Earnings distribution						
Cash dividend	-	-	-	(305,137)	-	(305,137)
Stock dividend	189,000	-	-	(189,000)	-	-
Profit for the year	-	-	-	8,076,672	-	8,076,672
Translation adjustments	-	-	965,155	-	-	965,155
Balance of ADB-Advanced Digital Broadcast Ltd and subsidiaries at 31 December 2004	1,200,000	-	311,666	16,591,368	-	18,103,034
Net assets of Advanced Digital Broadcast Holdings SA at 1 January 2005, before merger	79,160	-	-	(16,363)	-	62,797
Merger adjustments	(302,411)	12,138,692	-	(11,836,281)	-	-
Balance of Advanced Digital Broadcast Holdings SA at 1 January 2005, after merger	976,749	12,138,692	311,666	4,738,724	-	18,165,831
Net loss on available-for-sale investments	-	-	(415,476)	-	-	(415,476)
Deferred tax asset arising from net loss on available-for-sale investments	-	-	32,532	-	-	32,532
Actuarial losses directly recognised in equity	-	-	(2,560,000)	-	-	(2,560,000)
Deferred tax assets arising from direct recognition of actuarial losses in equity	-	-	832,000	-	-	832,000
Translation adjustments	-	-	(402,219)	-	-	(402,219)
Net loss recognised directly in equity	-	-	(2,513,163)	-	-	(2,513,163)
Issuance of capital stock	328,089	57,046,082	-	-	(7,033)	57,367,138
Recognition of share based payments	-	304,847	-	-	-	304,847
Profit for the year	-	-	-	14,279,289	-	14,279,289
Balance at 31 December 2005	1,304,838	69,489,621	(2,201,497)	19,018,013	(7,033)	87,603,942

Share capital of the Company at 31 December 2005 consists of the following:

	2005
	Number of shares
<b>Authorized</b>	
Ordinary shares of CHF 10 each	
Balance brought forward at 1 January 2005	10,000
Increase on 24 March 2005	102,500
Share split on 24 March 2005 from CHF 10 each to CHF 0.25 each	4,387,500
	<u>4,500,000</u>
Increase of authorized capital on 24 March 2005	2,250,000
	<u>6,750,000</u>
<b>Issued and fully paid</b>	
Ordinary shares of CHF 10 each	
Balance brought forward at 1 January 2005	10,000
Issued common shares on 24 March 2005	102,500
Share split on 24 March 2005 from CHF 10 each to CHF 0.25 each	4,387,500
	<u>4,500,000</u>
New issuance of common shares on 28 April 2005 in connection with IPO	1,582,000
	<u>6,082,000</u>
Balance brought forward at 31 December 2005	<u>6,082,000</u>
	<u>6,047,720</u>
of which shares in circulation	6,047,720
of which own shares held by Company	<u>34,280</u>

The Company has one class of ordinary shares, which carry no right to fixed income. The nominal value of each Company share is CHF 0.25.

The Authorised capital can be used by the Company's Board of Directors to increase the Company' share capital by a maximum of 668,000 registered shares of CHF 0.25 each, fully paid-in, in one or several steps, until 27 March 2007. Statutory pre-emptive rights of the existing shareholders of the Company can be excluded if the capital increase is effected for the purpose of:

- a capital increase in the context of an initial public offering made on the occasion of the listing of the shares at a stock exchange ;
- a green-shoe option in favour of a bank or a consortium in the context of a placement at a market price in a maximum amount of 15% of the initially subscribed shares in connection with an initial public offering ;
- the takeover of enterprises, divisions thereof or participations in companies ;
- the financing and refinancing of the acquisition of enterprises, divisions thereof or participations or of newly-planned investments ; or
- strategic investments of and with business partners.

In February 2006, the Company issued 83,065 shares from its Authorised capital as explained in Note 27.

In addition to the Authorized capital, the Company share capital may also be increased by a maximum of 450,000 registered shares of CHF 0.25 each, fully paid-in (the "Conditional capital"), in proportion to the exercise of option rights which shall be attributed to employees or members of the Board of Directors of the Company or of affiliated companies of the Group. Existing shareholders' preferential subscription rights are excluded. The Board of Directors must establish the employee participation scheme (employee stock option plans and employee stock plans) and the shares shall be issued in accordance with such employee participation schemes. The conditions of exercise of the options are set by the Board of Directors. As of 31 December 2005 no shares of the Conditional Capital have been issued by the Company. 6,950 shares of the Conditional Capital were granted in 2006 by the Company as explained in Note 26 and Note 31.

On 24 March 2005, the Group's capital increase and share split did not change the percentage of ownership of each shareholder of the Company. The 4,500,000 shares outstanding and in circulation after 24 March 2005 reflect the ownership of the Group as of beginning of year 2005 and up until before the IPO. After adding the increase in shares issued and in circulation following the IPO, the total weighted average number of share of 2005 is 5,540,839 shares.

Shares of the Company were listed on the Swiss public stock exchange (the "SWX") on 29 April 2005 through an IPO. In connection with the IPO, the Company has sold 1,547,720 newly issued shares at the gross price of CHF 51.00 each. Of the 1,547,720 newly issued shares, 27,759 shares were sold through the partial exercise of the green-shoe by the consortium of the banks leading the IPO. The total gross proceeds to the Company from the IPO amounted to CHF 78,933,720.

During 2005 no dividend was declared, payable or paid by the Company to its shareholders.

## 21. OTHER RESERVES

	Other Reserves			
	Investments revaluation	Actuarial losses directly recognised in equity	Translation reserve	Total
	\$	\$	\$	\$
At 1 January 2004	-	-	(653,489)	(653,489)
Exchange difference	-	-	965,155	965,155
At 31 December 2004	-	-	311,666	311,666
Net loss on available-for-sale investments (see Note 12)	(415,476)	-	-	(415,476)
Deferred tax asset arising on net loss on available-for- sale investments	32,532	-	-	32,532
Actuarial losses directly recognised in equity (see Note 24)	-	(2,560,000)	-	(2,560,000)
Deferred tax assets arising from direct recognition of actuarial losses in equity	-	832,000	-	832,000
Exchange differences	-	-	(402,219)	(402,219)
At 31 December 2005	(382,944)	(1,728,000)	(90,553)	(2,201,497)

## 22. CONTINGENT LIABILITIES

A former contract manufacturer (the "Manufacturer") of the Predecessor Company has been in financial difficulty since early 2001. Since then the Manufacturer and the Predecessor Company have had various claims against each other arising from their business relationship, which commenced in 1995 in relation to design, manufacturing and sale of digital TV equipment.

Based on the Company's best assessment, it was determined that the receivables from the Manufacturer would not be collectible in the foreseeable future. Accordingly, the Company made a full valuation allowance on its net receivable from the Manufacturer prior to 31 December 2001.

In March 2004, the Predecessor Company received a court judgment to pay the Manufacturer the amount claimed of \$ 4.5 million. After this judgment, the Predecessor Company filed an appeal to the superior court with the intention of vigorously contesting this judgment. According to the assessment of the Predecessor Company management and its independent legal advisors, it was believed that the Predecessor Company should be successful in the appeal and not owe any amount to the Manufacturer. Furthermore, even in the unlikely event that the Predecessor Company would lose the final appeal, the Predecessor Company was eligible to ask to offset the claimed amount against the outstanding receivable still due from the Manufacturer. On these grounds, no accrual was made for the aforementioned claimed amount as of 31 December 2004.

On 27 April 2005, the Superior Court revised the judgment made by the District Court and canceled the injunction made to the Predecessor Company to pay the amount claimed to the Manufacturer. Although the Manufacturer has further made an appeal to the Supreme Court, the appeal was definitively rejected on 27 July 2005 and the case was definitively closed accordingly. As a result, a previous non-cash charge against income of approximately \$ 0.8 million was reversed, generating other income as recorded in Note 4.

In December 2004, Spanish Customs Authorities issued customs assessments to one of the major customers of the Group, claiming that the products supplied by the Group to this customer during 2003 and 2004 do not meet the required specifications to be exempt from import duties that were not paid by this customer or by the Group. The Spanish Customs Authorities are claiming approximately Euro 3 million in customs duties, VAT, and interest related to products shipments made during 2003 and 2004. In the event of a negative outcome concerning the claim, the customer has requested indemnification from the Group for any and all amounts due to the Spanish Customs Authority.

The Group is convinced that the claim by the Spanish Customs Authorities is unjustified as the products shipped to this customer met the required specifications to be exempt from the import duties. In order to avoid paying the taxes, VAT, and penalties, the Spanish Customs Authorities have requested that the Group prove that the products shipped are within the required specifications.

The Group and the customer have appealed all claims from the Spanish Customs Authorities and are in process of proving their case to the authorities. Both the Group and its legal advisors believe the probability of winning the appeal is high. Based on the above facts, the Group has not provided any amounts in relation to the above claim in the 2005 or 2004 accounts. As of 31 December 2005, the case is still in the appeal process and no decision has been made by the authorities.

In order to appeal all claims, the customer was obliged to provide a bank guarantee to the Spanish Customs Authorities for a total value of approximately Euro 3 million. While co-operating in full with the Group and its legal advisors for a common effort in the appeal proceedings, the customer has requested a corporate guarantee from the Company for the amount claimed by the Spanish Customs Authorities excluding VAT. The Company has provided such corporate guarantee to the customer in the first half of 2005 for an amount of approximately Euro 2.6 million.

Shipments of the same digital TV equipment object of these customs assessments were made all along 2005 and were accepted by the Spanish Customs authorities as meeting the requirements for exemption from import duties.

## 23. OPERATING LEASE ARRANGEMENTS

### The Group as Lessee

On 31 December 2005 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	\$
Within one year	646,695
In the second to fifth years inclusive	659,431
	<u>1,306,126</u>

Operating lease payments recognized as an expense for the years ended 31 December 2005 and 2004 amounted to \$ 1,394,249 and \$ 1,081,023, respectively.

## 24. RETIREMENT BENEFIT SCHEMES

### Defined Contribution Schemes

The Group operates defined contribution retirement schemes for all qualifying employees of certain subsidiaries. Assets of the schemes are held separately from those of the Group in funds under the control of trustees. If employees leave the schemes prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Employees of certain Group subsidiaries are members of a state-managed retirement schemes operated by the respective governments. The subsidiaries are required to contribute specified percentages of payroll costs to the retirement schemes to fund the benefits. The only obligation of the Group with respect to the retirement schemes is to make the specified contributions.

The total cost charged to income during years 2005 and 2004 was \$ 603,072 and \$ 372,464, respectively, and represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As of 31 December 2005 and 2004, contributions of \$ 105,560 and \$ 106,335, respectively, and due with respect to the current reporting period had not been paid over to the schemes.

### Defined Benefits Schemes

The Group operates defined benefits schemes for qualifying employees of certain subsidiaries. Under these schemes, the employees are entitled to retirement benefits whose value depends on factors such as years of services and average compensations before reaching the eligible retirement age. No other post-retirement benefit is provided. The schemes are funded schemes.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligations were carried out on 31 December 2005 by Mr. George Yeh, Fellow of Taiwan Institute of Retirement Benefit Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost was measured by using the project unit credit method.

	Valuation at	
	2005	2004
Key assumptions:		
Discount rate	3.25%	3.25%
Expected return on scheme assets	3.25%	3.25%
Expected rate of salary increase	3.50%	3.00%

Amounts recognized in income with respect to these defined benefit schemes are:

	Years Ended	
	2005	2004
	\$	\$
Current service cost	251,254	130,491
Interest cost	31,457	22,078
Expected return on scheme assets	(7,746)	(5,779)
Amortization of un-recognised net actuarial gain/loss	-	2,437
	<u>274,965</u>	<u>149,227</u>

Charges for the years 2005 and 2004 of \$ 274,965 and \$ 149,227, respectively, have been included in selling, general and administrative expenses of the same years.

The amount included in the balance sheet arising from the Group's obligations with respect to its defined benefit retirement schemes is:

Present value of defined benefit obligations	(3,547,061)	(980,070)
Fair value of scheme assets	310,079	217,359
Unrecognised net actuarial loss	-	235,504
Retirement benefit obligations	<u>(3,236,982)</u>	<u>(527,207)</u>

Changes in the present value of defined benefit obligations in the years 2005 and 2004 are:

At 1 January	980,070	560,648
Service cost	251,254	130,491
Interest cost	31,457	22,078
Actuarial (gains) and losses	2,366,231	206,034
Exchange difference	(81,951)	60,819
At 31 December	<u>3,547,061</u>	<u>980,070</u>

Changes in the present value of the fair value of scheme assets in the years 2005 and 2004 are:

At 1 January	217,359	152,194
Expected return on scheme assets	7,746	5,779
Actuarial gains and (losses)	(2,053)	(5,556)
Exchange difference	(6,950)	10,532
Contributions from the sponsoring companies	93,977	54,410
At 31 December	<u>310,079</u>	<u>217,359</u>

The analysis of the scheme assets and the expected rate of return at the balance sheet date are:

	Expected Return		Fair Value of Assets	
	2005	2004	2005	2004
			\$	\$
Pension deposits	<u>3.25%</u>	<u>3.25%</u>	<u>310,079</u>	<u>217,359</u>

As of 31 December 2005 and 2004, the actual return on plan assets was \$ 3,757 and \$ 2,996, respectively.

The estimated amounts of contributions expected to be paid by the scheme during the current financial year is \$ 0.

In 2005 the actuarial loss of approximately \$ 2.56 million was recognized directly against equity in accordance with the provisions of IAS 19.

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

### Currency derivatives

The Group did not have any derivative financial instruments as of 31 December 2004. In the second half of 2005, the Group began utilising derivative financial instruments in accordance with its policy for hedging Euro denominated revenue cash flows. The instruments consist of foreign currency forward contracts to manage its Euro to \$ exchange rate exposures.

At 31 December 2005, all of derivative financial instruments had been settled. For 2005, the net gain on forward contracts was \$ 724,700, recorded as gain on foreign currency derivatives within revenue (see Note 3).

The Group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

## 26. RELATED PARTY TRANSACTIONS

### Remuneration of Key Management Personnel

Remuneration of the directors, and key management personnel of the Group, is set out below:

	2005	2004
	\$	\$
Employee salaries and benefits	6,539,165	4,711,666

All employee salaries and benefits consist of short-term employee benefits. In 2004, in addition to the remuneration received, key management personnel were granted 1,229,667 shares of stock of the Predecessor Company. The Group recorded no compensation expense related to this grant for the reasons explained in Note 31. In 2005 members of the Board of Directors were compensated with 6,950 shares of the Company to be issued from the Conditional capital during 2006. The Group recorded a compensation expense in 2005 as disclosed in Note 31.

### Due from Shareholders

As of 31 December 2005 and 2004, the amount due from shareholders was \$ 12,356,043 and \$ 12,878,435, respectively. Interest is charged on the outstanding balances at United States Dollar LIBOR + 1%; in 2005 the interest rate charged was 4.8%. As of December 31, 2004, the balance due from shareholders was scheduled to be repaid in amounts of \$ 4,784,081, \$ 4,094,354, and \$ 4,000,000 during the years 2005, 2006, and 2007, respectively. During 2005 \$ 1,120,533 was paid by shareholders, being \$ 598,141 of interest to service the debt and \$ 522,392 as partial repayment of the outstanding balance. The Company and the principal shareholder have agreed that the reimbursement amount not paid in 2005 and equivalent to \$ 4,261,689 be postponed for payment in 2007. The new schedule of repayment of the loan to shareholders is therefore \$ 4,094,354 and \$ 8,261,689 during the years 2006 and 2007, respectively.

The principal shareholder has also entered into a Deed of Pledge with the Company whereby he has agreed to pledge to the Company 114,000 of his shares of the Company. In case of failure by the principal shareholder to repay the loan, the contractual agreement allows the Company to realize immediately the pledged shares if both parties mutually agree so or, if the Company deems this appropriate. In connection with the execution of the Deed of Pledge, the principal shareholder has transferred 114,000 of his shares in the Company to the Company. The Company is holding these shares in escrow until realization of the loan and restitution to the principal shareholder is foreseen immediately after his full repayment of the outstanding loan. As of 24 January 2006, date of execution of the Deed of Pledge, the value of the pledged shares is \$ 12,072,398.

Management estimate that these assets' fair value is appropriately represented in the financial statements.

## 27. SUBSEQUENT EVENT

To strengthen the Group presence in the United States of America digital television market the Company and Vidiom System Corporation entered into an asset purchase agreement on 21 December 2005. Vidiom System Corporation is a software development and services company based in Denver, Colorado with 103 employees at the end of 2005. Vidiom System Corporation is specialized in Open Cable Application Platform ("OCAP") products and services. OCAP is a trademark of Cable Television Laboratories Inc. based in Denver, Colorado, the standardization body for the American digital cable TV industry. OCAP is the open standard middleware being proposed for adoption by the American digital cable TV industry.

Following approval by its Board of Directors on 31 January 2006, the Company completed on 31 January 2006 the acquisition of the majority of the operating assets of Vidiom System Corporation. In partial consideration of the purchase of these assets, the Company has issued on 2 February 2006 83,065 new shares out of its Authorized capital at an average price of CHF 117.30 each for a total aggregate value of approximately \$ 7.55 million. The final net cash outflow on acquisition, fair value of assets and liabilities acquired as well as the goodwill arising on this transaction cannot be provided at the time of the authorization for issue of these financial statements.

## 28. APPROVAL OF FINANCIAL STATEMENTS

The Board of directors is responsible for the preparation and the presentation of the financial statements. These financial statements were authorized for issue by the Board of directors on 27 February 2006 and will be submitted for approval at the Shareholders' Annual General Meeting to be held in June 2006.

## 29. MAJOR LICENSE AGREEMENTS

The Group has entered into various license agreements with respect to software developments for digital TV equipment, broadband communication and digital television related products. Royalty costs are included in research and development expenses as they are related to the use of third-party intellectual properties by Group's engineers in connection with their research and development activities.

## 30. SIGNIFICANT CONTRACT MANUFACTURER

Since 2000, the Group operates with one significant contract manufacturer, which produces all of the Group's digital TV equipment in one major location in Thailand. In 2005 the main contract manufacturer has started production in two new locations in Poland and in the People Republic of China. The Group has moreover finalized the conditions at which a new contract manufacturer may soon start assembly of the Group's digital TV equipment.

## 31. EQUITY COMPENSATION PLAN

Since 2000, Mr. Andrew N. Rybicki, Chairman, Chief Executive Officer, and majority shareholder of the Group, has communicated to employees his intention to distribute up to 20% (2.4 million shares) of the Predecessor Company, from his own shareholdings, to the employees. Accordingly, in December 2004, the Predecessor Company and Mr. Rybicki formalized the verbal agreement by creating the ADB Employee Stock Ownership Plan ("ESOP") in favour of the employees of the Group.

Prior to 31 December 2004, the Committee has executed the ESOP by granting 2,400,000 shares of the Predecessor Company to 419 employees at zero grant / exercise price and with no vesting provisions. As a result of the substance of the transaction, the Company has recorded no compensation expense in year 2004 in relation to this share distribution.

In August 2005 the Board of Directors has established a compensation plan for members the Board of Directors that included share based payments. Under this plan each member of the Board of Directors was entitled to receive shares with a zero grant / exercise price for each month he was a member of the Board of Directors during 2005. At 31 December 2005, members of the Board of Directors were entitled to receive from the Company an aggregate total amount of 6,950 shares.

The vesting of the rights to the shares under the plan has generated a dilutive effect on the number of potential ordinary shares outstanding that has been reflected in the calculation of the diluted earnings per share as reported in Note 9. The 6,950 shares will be issued and distributed out of the Conditional capital of the Company during 2006. In connection with the establishment of this compensation plan and following the provisions of IFRS 2, the Company has incurred in 2005 a total expense of \$ 304,847 recorded in the consolidated income statement and under the caption recognition of share based payments in equity.

## 32. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented in respect to the Group's business and geographical segments. The primary reporting format, business segments, comprises digital TV equipment and Middleware. The digital TV equipment segment includes the development of equipment and software for digital television and broadband data communication on a world-wide basis, and relies on third-party contract manufacturers for the production of equipment. The Middleware segment includes middleware software developed according to open standards, such as MHP, OCAP and related services. The secondary reporting format is structured by the three regions in which sales occur; 1) Europe, Middle East and Africa (EMEA), 2) Asia Pacific, including Australia and New Zealand and 3) Americas.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise items included in net financing cost and taxes. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

## Business Segments

Segment information about these businesses is presented below for 2005 and 2004.

2005	Middleware	Digital TV Equipment	Eliminations	Consolidated
	\$	\$	\$	\$
<b>REVENUE</b>				
External sales	5,469,936	244,428,470	-	249,898,406
Inter-segment sales	2,674,265	-	(2,674,265)	-
<b>Total operating revenue</b>	<b>8,144,201</b>	<b>244,428,470</b>	<b>(2,674,265)</b>	<b>249,898,406</b>
<b>RESULT</b>				
Segment result	811,057	18,220,452	-	19,031,509
Interest income				2,095,820
Profit from operations				21,127,329
Finance costs, net				(3,388,104)
Provision for income tax				(3,459,936)
Net profit				14,279,289
<b>BALANCE SHEET</b>				
Segment assets	6,166,797	146,187,215	(45,926)	152,308,086
Unallocated corporate assets				54,826,853
<b>Consolidated total assets</b>				<b>207,134,939</b>
Segment liabilities	2,565,501	74,028,707	(45,926)	76,548,282
Unallocated corporate liabilities				42,982,715
<b>Consolidated total liabilities</b>				<b>119,530,997</b>
<b>OTHER INFORMATION</b>				
Capital expenditure	1,672,246	14,660,506	-	16,332,752
Depreciation	105,351	2,286,551	-	2,391,902
Amortization of intangible assets	1,189,465	7,543,049	-	8,732,514

The majority of inter-segment sales are charged on a cost plus 5% margin basis.

2004	Middleware	Digital TV Equipment	Eliminations	Consolidated
	\$	\$	\$	\$
<b>REVENUE</b>				
External sales	3,257,780	172,681,422	-	175,939,202
Inter-segment sales	741,326	115,640	(856,966)	-
Total operating revenue	<u>3,999,106</u>	<u>172,797,062</u>	<u>(856,966)</u>	<u>175,939,202</u>
<b>RESULT</b>				
Segment result	<u>(245,778)</u>	<u>11,689,952</u>	<u>-</u>	11,444,174
Interest income				<u>474,362</u>
Profit from operations				11,918,536
Finance costs, net				(1,586,004)
Provision for income tax				<u>(2,255,860)</u>
Net profit				<u>8,076,672</u>
<b>BALANCE SHEET</b>				
Segment assets	4,295,133	89,249,059	(63,438)	93,480,754
Unallocated corporate assets				<u>44,593,028</u>
Consolidated total assets				<u>138,073,782</u>
Segment liabilities	1,233,969	90,925,705	(63,438)	92,096,236
Unallocated corporate liabilities				<u>27,874,512</u>
Consolidated total liabilities				<u>119,970,748</u>
<b>OTHER INFORMATION</b>				
Capital expenditure	<u>2,399,365</u>	<u>8,975,517</u>	<u>-</u>	<u>11,374,882</u>
Depreciation	<u>35,776</u>	<u>1,673,368</u>	<u>-</u>	<u>1,709,144</u>
Amortization of intangible assets	<u>321,480</u>	<u>5,556,706</u>	<u>-</u>	<u>5,878,186</u>

The majority of inter-segment sales are charged on a cost plus 5% margin basis.

## Geographical Segments

The following table shows the carrying amount of assets at 31 December 2005 and 2004 by geographical area:

	2005	2004
	\$	\$
EMEA	133,860,645	81,533,077
Asia Pacific	72,941,457	56,088,346
Americas	332,837	452,359
	<u>207,134,939</u>	<u>138,073,782</u>

The following table shows the carrying amount of capital expenditures at 31 December 2005 and 2004 by geographical area:

EMEA	15,068,914	4,521,779
Asia Pacific	1,165,069	6,811,588
Americas	98,769	41,515
	<u>16,332,752</u>	<u>11,374,882</u>

The following table provides an analysis of the Group's operating revenue for the years ended 31 December 2005 and 2004 by geographical market, irrespective of the origin of the goods/services:

EMEA	209,609,088	147,176,864
Asia Pacific	40,201,890	28,631,231
Americas	87,428	131,107
Total operating revenue	<u>249,898,406</u>	<u>175,939,202</u>

## Significant Customer Information

The following table provides an analysis of the Group's significant customer information for the years ended 31 December 2005 and 2004 with their comparative amounts:

Customer	2005		2004	
	Amount	% of Total Operating Revenue*	Amount	% of Total Operating Revenue*
	\$		\$	
A	41,645,096	16.7	-	-
B	30,404,061	12.2	528,426	0.3
C	23,573,830	9.5	35,778,496	20.3
D	16,469,772	6.6	17,284,210	9.8
E	16,457,522	6.6	8,932,522	5.1
F	11,817,010	4.7	5,400,918	3.1

\* Excluding gains from cash flow hedging, as reported in Note 3.

# REPORT OF THE GROUP AUDITORS

To the General Meeting of the shareholders of Advanced Digital Broadcast Holdings SA

As Group auditors, we have audited the consolidated financial statements (balance sheet, income statement, statement of recognised income and expense, cash flow statement and notes) on pages 46 to 76 of Advanced Digital Broadcast Holdings SA for the year ended 31 December 2005.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

DELOITTE SA



Peter Quigley  
Auditor in charge



Craig Dean

Geneva, 27 February 2006



# STATUTORY FINANCIAL STATEMENTS

# ADVANCED DIGITAL BROADCAST HOLDINGS SA, Grand-Saconnex

## BALANCE SHEET AT 31 DECEMBER 2005

(expressed in CHF, with 2004 comparative figures)

	NOTES	2005	2004
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		46,255,404	100,000
Due from group companies		13,040,293	-
Prepaid expenses and other receivables		<u>919,849</u>	<u>328,189</u>
<b>Total current assets</b>		<u><b>60,215,546</b></u>	<u><b>428,189</b></u>
<b>NON-CURRENT ASSETS</b>			
Financial investments	3	28,524,868	-
Rental guarantee deposits		19,550	-
Due from shareholders	4	16,792,983	-
Due from employees	5	738,083	-
Fixed assets, net	6	<u>415,951</u>	<u>-</u>
<b>Total non-current assets</b>		<u><b>46,491,435</b></u>	<u><b>-</b></u>
<b>TOTAL</b>		<u><b>106,706,981</b></u>	<u><b>428,189</b></u>
<b>LIABILITIES</b>			
Due to group companies		9,973,175	46,123
Other payables and accrued expenses		<u>2,537,716</u>	<u>300,753</u>
<b>Total liabilities</b>		<u><b>12,510,891</b></u>	<u><b>346,876</b></u>
<b>DEFERRED TRANSLATION GAIN</b>		<u><b>7,977,634</b></u>	<u><b>-</b></u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital - 6,082,000 bearer shares of CHF 0.25 each, fully paid	7	1,520,500	100,000
Share premium, net	7	82,264,654	-
Reserve for own shares	7	8,570	-
Retained earnings (deficit)		<u>2,424,732</u>	<u>(18,687)</u>
<b>Shareholders' equity</b>		<u><b>86,218,456</b></u>	<u><b>81,313</b></u>
<b>TOTAL</b>		<u><b>106,706,981</b></u>	<u><b>428,189</b></u>

## ADVANCED DIGITAL BROADCAST HOLDINGS SA, Grand-Saconnex

### STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED 31 DECEMBER 2005

(expressed in CHF, with 2004 comparative figures)

	NOTES	2005	2004 (5 months)
<b>INCOME</b>			
Financial income		2,498,902	-
Income from group companies		2,511,519	-
Foreign exchange gains		221,344	-
Other income		2,010	-
Non-recurring income	8	<u>1,842,924</u>	-
<b>Total income</b>		<b>7,076,699</b>	<b>-</b>
<b>EXPENSES</b>			
Payroll and related costs		502,712	-
Administrative and other expenses		1,930,895	18,687
Depreciation		133	-
Foreign exchange losses		877,823	-
Financial expenses		78,886	-
Non-recurring expenses	8	<u>1,242,831</u>	-
<b>Total expenses</b>		<b>4,633,280</b>	<b>18,687</b>
<b>NET INCOME (LOSS) BEFORE TAXATION</b>		<b>2,443,419</b>	<b>(18,687)</b>
Income tax	9	-	-
<b>NET INCOME (LOSS) AFTER TAXATION</b>		<b>2,443,419</b>	<b>(18,687)</b>
(DEFICIT), beginning of the year		<u>(18,687)</u>	-
<b>RETAINED EARNINGS (DEFICIT), end of the year</b>		<b><u>2,424,732</u></b>	<b><u>(18,687)</u></b>

See notes to financial statements

## NOTES TO THE STATUTORY FINANCIAL STATEMENTS

(Expressed in CHF unless otherwise stated)

### 1. ACTIVITIES

Advanced Digital Broadcast Holdings SA ("the Company") incorporated on 26 July 2004 in the Canton of Geneva, is the holding company of an international group of companies (together with its subsidiaries the "Group") that are engaged in the development and sale of equipment, services and software for digital television and broadband data communication industry worldwide, and rely on third party contract manufacturers for the production of equipment.

In 2005, the Company made an Initial Public Offering ("IPO") and since 29 April 2005 the shares of the Company are publicly traded on the SWX Swiss Exchange under the ticker ADBN.

In 2004, the ultimate parent company of the Group was ADB-Advanced Digital Broadcast Ltd. (the "Predecessor Company"), a company incorporated on 16 May 2005 under the laws of the British Virgin Islands. On 24 March 2005 the Predecessor Company merged with the Company, with retroactive effect to 1 January 2005 (Note 7). The details of the Company's subsidiaries are listed under Note 1 to the consolidated financial statements.

### 2. PRINCIPAL ACCOUNTING POLICIES

**Accounting basis** - The financial statements have been prepared in accordance with the provisions of the Swiss Code of Obligations. As permitted by the laws of Switzerland, the books of the Company are maintained in US dollars.

**Translation of foreign currencies** - Assets and liabilities expressed in foreign currencies at year-end are translated into US dollars at the rate of exchange prevailing at that date. Income and charges arising during the year in foreign currencies are translated into US dollars at rates of exchange in effect at the date of the transaction. Exchange differences are included in net income.

The US dollar financial statements have been translated into Swiss francs as follows:

- a. Assets (except investments) and liabilities - closing rate
- b. Investments and shareholders' equity - historical rate
- c. Income (except dividends) and expenses - average rate

For investments received by the Company as part of the merger, the exchange rate as of 1 January 2005 was used for the translation.

Translation gains are deferred and translation losses are included in the determination of net income.

The translation into Swiss francs should not be construed as representations that US dollar amounts could be converted into Swiss francs at these or any other rate of exchange.

**Financial investments** - Depending on the nature of the investment, financial investments are carried in the books at cost, less a provision for impairment where appropriate. Investments in subsidiaries are carried in the books at historical cost.

**Fixed assets** - Fixed assets are stated at cost less accumulated depreciation. Fixed assets are depreciated using the straight-line method over their useful economic life. The periods of depreciation are as follows:

- |                          |            |
|--------------------------|------------|
| ■ Leasehold improvements | 8 years    |
| ■ Furniture and fixtures | 2-5 years  |
| ■ EDP equipment          | 2-10 years |

**Taxation** - The Company, which benefits from the reductions available to holding companies, follows the policy of providing in each year for all income taxes, which will be assessed on the net income shown in the financial statements.

### 3. FINANCIAL INVESTMENTS

	CHF
Financial investments	22,335,669
Investments in subsidiaries	6,180,629
Own shares (Note 7)	8,570
Financial investments	<u>28,524,868</u>

The details of the Company's subsidiaries are listed under Note 1 to the consolidated financial statements.

### 4. DUE FROM SHAREHOLDERS

The amounts due from Shareholders were acquired through the merger. Interest is charged on the outstanding balances at US Dollar LIBOR + 1%. As of 31 December 2004, the balance due from shareholders was scheduled to be repaid in amounts of \$ 4,784,081, \$ 4,094,354, and \$ 4,000,000 during the years 2005, 2006, and 2007, respectively. During 2005 \$ 1,120,533 was paid by shareholders, being \$ 598,141 of interest to service the debt and \$ 522,392 as partial repayment of the outstanding balance. The Company and the main shareholder have agreed that the reimbursement amount not paid in 2004 and equivalent to \$ 4,261,689 be postponed for payment in 2007. The new schedule of repayment of the loan to shareholders is therefore \$ 4,094,354 and \$ 8,261,689 during the years 2006 and 2007, respectively.

The principal shareholder has also entered into a Deed of Pledge with the Company whereby he has agreed to pledge to the Company 114,000 of his Company shares. In case of failure by the principal shareholder to repay the loan, the contractual agreement allows the Company to realize immediately the pledged shares if both parties mutually agree so or, if the Company deems this appropriate. In connection with the execution of the Deed of Pledge, the principal shareholder has transferred 114,000 of his shares in the Company to the Company. The Company is holding these shares in escrow until realization of the loan and restitution to the principal shareholder is foreseen immediately after his full repayment of the outstanding loan. As of 24 January 2006, date of execution of the Deed of Pledge, the value of the pledged shares is CHF 15,207,600. At 31 December 2005, the amount due from the principal shareholder amounts to \$ 12.4 million (approximately CHF 16 million).

### 5. DUE FROM EMPLOYEES

Loans, which were acquired by the Company during the merger, were made to two employees of the Group. These loans are repayable over 10 years and bear interest at United States Dollars LIBOR + 1%.

### 6. FIXED ASSETS, NET

The majority of the Company's fixed assets were acquired in December 2005, when the Company prepared its move to new premises. At 31 December 2005, the Company's fixed assets are insured against the risk of fire by a related company (2004 - not applicable).

### 7. SHAREHOLDERS' EQUITY

#### Share Capital

The Company was incorporated on 29 July 2004 with 10,000 registered shares of CHF 10 nominal value. As a result of the merger (Note 10) 102,500 new bearer shares with a nominal value of CHF 10 were issued to the shareholders of the Predecessor Company in exchange for the net assets. Subsequently, the fully paid-in share capital consisted of 112,500 shares of CHF 10 amounting to CHF 1,125,000. At the Extraordinary Shareholders' Meeting held on 24 March 2005, the share capital was split into 4,500,000 registered shares of CHF 0.25 each.

On 28 April 2005, the Board of directors decided to increase the share capital of the Company by 1,582,000 registered shares of CHF 0.25 each. Subsequently, the Company has 6,082,000 registered shares of CHF 0.25 each, amounting to CHF 1,520,500.

Share capital of the Company at 31 December 2005, consists of the following:

	2005 Number of shares
<b>AUTHORIZED</b>	
Ordinary shares of CHF 10 each	
Balance brought forward at 1 January 2005	10,000
Increase on 24 March 2005	102,500
Share split on 24 March 2005 from CHF 10 each to CHF 0.25 each	<u>4,387,500</u>
	4,500,000
Increase of authorized capital on 24 March 2005	<u>2,250,000</u>
Balance carried forward at 31 December 2005	<u>6,750,000</u>
<b>ISSUED AND FULLY PAID</b>	
Ordinary shares of CHF 10 each	
Balance brought forward at 1 January 2005	10,000
Issued common shares on 24 March 2005	102,500
Share split on 24 March 2005 from CHF 10 each to CHF 0.25 each	<u>4,387,500</u>
Total	4,500,000
New issuance of common shares on 28 April 2005 in connection with IPO	<u>1,582,000</u>
Balance brought forward at 31 December 2005	<u>6,082,000</u>
of which shares in circulation	6,047,720
of which own shares held by company	<u>34,280</u>

The Company has one class of ordinary shares, which carry no right to fixed income. The nominal value of each Company share is CHF 0.25.

The Authorized capital can be used by the Company Board of Directors to increase the Company' share capital by a maximum of 668,000 registered shares of CHF 0.25 each, fully paid-in, in one or several steps, until 27 March 2007. The statutory pre-emptive rights of the existing shareholders of the Company can be excluded if the capital increase is effected for the purpose of:

- a capital increase in the context of a public offering made on the occasion of the listing of the shares at a stock exchange ;
- a green-shoe option in favour of a bank or a consortium in the context of a placement at a market price in a maximum amount of 15% of the initially subscribed shares in connection with an initial public offering ;
- the takeover of enterprises, divisions thereof or participations in companies ;
- the financing and refinancing of the acquisition of enterprises, divisions thereof or participations or of newly-planned investments ; or
- strategic investments of and with business partners.

In addition to the Authorized capital, the Company share capital may also be increased by a maximum of 450,000 registered shares of CHF 0.25 each, fully paid-in (the "Conditional capital"), in proportion to the exercise of option rights which shall be attributed to employees or members of the Board of Directors of the Company or of affiliated companies of the Group. Existing shareholders' preferential subscription rights are excluded. The Board of Directors must establish the employee participation scheme (employee stock option plans and employee stock plans) and the shares shall be issued in accordance with such employee participation schemes. The conditions of exercise of the options are set by the Board of Directors. As of 31 December 2005 no shares of the Conditional Capital have been issued by the Company.

In August 2005, the Board of Directors has established a compensation plan for members the Board of Directors that included share based payments. Under this plan each member of the Board of Directors was entitled to receive shares at zero grant / exercise price for each month spent in charge during 2005. At 31 December 2005, members of the Board of Directors were entitled to receive from the Company an aggregate total amount of 6,950 shares. The 6,950 shares are to be issued and distributed out of the Conditional capital of the Company during 2006. At present, these shares have not yet been issued or distributed.

## Share Premium

Share premium consists of the following:

	CHF
Share premium on merger with the Predecessor Company (see below)	13,861,781
Premium on IPO and green-shoe	78,546,789
Less : expenses incurred in relation to IPO	<u>(10,143,916)</u>
Share premium, net	<u>82,264,654</u>

The shares of the Company were listed on the Swiss public stock exchange (the "SWX") on 29 April 2005 through an IPO. In connection with the IPO, the Company has sold 1,547,720 newly issued shares at the gross price of CHF 51.00 each. Of the 1,547,720 newly issued shares, 27,759 shares were sold through the partial exercise of the green-shoe by the consortium of the banks leading the IPO.

Furthermore, in 2004, the ultimate parent company of the Group was the Predecessor Company. On 24 March 2005 the Predecessor Company merged with the Company, with retroactive effect to 1 January 2005.

The premium on the merger was computed as follows:

	CHF
Net assets acquired through merger	14,886,781
New shares issued	<u>(1,025,000)</u>
Share premium	<u>13,861,781</u>

102,500 new shares with a nominal value of CHF 10 were issued to the shareholders of the Predecessor Company in exchange for the net assets acquired through the merger.

## Own shares

The movements in treasury shares are as follows:

	Number	CHF
Balance as at 29 April 2005 (IPO)	62,039	15,510
Less : Sale of treasury shares for green-shoe	<u>(27,759)</u>	<u>(6,940)</u>
Treasury shares at 31 December 2005	<u>34,280</u>	<u>8,570</u>

## 8. NON-RECURRING INCOME & EXPENSE

Non-recurring income and expense consists of assets and liabilities acquired through the Merger for which valuation adjustments have been made in the current year.

## 9. TAXATION

The Company has incurred expenses in relation to the IPO which are deductible for tax purposes, and has therefore offset those expenses, which are accounted for in deduction of share premium, against taxable income. As a result, the Company is not liable for income tax in 2005.

## 10. AMOUNT DUE TO PENSION FUND

At 31 December 2005, there is an amount due to the employee pension fund of CHF 33,363 (2004 - nil).

## 11. COMMITMENTS

The Company has provided third party guarantees for an amount of approximately CHF 48 million (2004 - nil).

In 2005, the Company has committed to be party to a rental agreement with a related party for its new premises, for an expected gross rental expense of approximately CHF 25,000 per month.

## 12. CONTINGENT LIABILITIES

The Company is part of a group for VAT purposes with other affiliates of the Group in Switzerland. The Company is jointly and severally liable towards the tax authorities for current and future VAT payable for that VAT group.

## 13. SUBSEQUENT EVENTS

Details of subsequent events may be found in Note 27 to the consolidated financial statements.

## PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Board of directors of Advanced Digital Broadcast Holdings SA proposes that the balance of retained earnings at 31 December 2005 amounting to CHF 2,424,732 be dealt with as follows:

Transfer to General Reserve	760,250
Carry forward the balance	<u>1,664,482</u>
Total	<u><u>2,424,732</u></u>

# REPORT OF THE STATUTORY AUDITORS

To the General Meeting of the shareholders of Advanced Digital Broadcast Holdings SA, Grand-Saconnex

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) on pages 80 to 86 of Advanced Digital Broadcast Holdings SA for the year ended 31 December 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, the financial statements and the proposed appropriation of available earnings comply with Swiss law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

DELOITTE SA



Peter Quigley  
Auditor in charge



Craig Dean

Geneva, 27 February 2006







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