

Emblaze Ltd (LSE:BLZ)

("Emblaze" or "the Company")

Company Update

Interim Management Statement

Tel Aviv, Israel, 30 May, 2014

Interim Management Statement and Q1 Financial Statements

During the period commencing 1 January 2014 to 29 May 2014 (the "**Relevant Period**"), the Company has undergone several events and transactions. A summary of the material events and transactions that have taken place during the Relevant Period are set out below:

Highlights

- Revenues amounted to \$28 thousand for the period of three months ending 31 March 2014 (Q1.2013: \$600 thousand). The balance of cash and cash equivalent, short term investments and deposits in trust, as of 31 March 2014 is \$138,921 thousand (2013: \$159,617 thousand).
- The total issued share capital of the Company as at 29 May 2014 was 140,578,154 of which 109,990,252 ordinary shares are outstanding and 30,587,902 shares are held in treasury.
- In August 2013, a consortium of investors led by the Company announced its intention to acquire a controlling stake in IDB Holdings Ltd, one of Israel's largest holding companies, in consideration of an aggregate payment of NIS1,580 million. As such proposed transaction was classified as a reverse takeover under the listing rules made by the UK Listing Authority ("**UKLA**") pursuant to Part VI of the Financial Services and Markets Act 2000 (as amended) ("**FSMA**") (the "**Listing Rules**"), trading in the Company's shares was suspended on 15 August 2013 and restored on 9 January 2014, following the Israeli District Court decision to uphold a competing offer.
(See Company announcements dated 6 January 2014 and 9 January 2014)
- On 24 December 2013, BGI Investments (1961) Ltd. ("**BGI**") and B.G. Alpha Ltd. (together, the "**BGI Group**") made a tender offer (the "**Offer**") to holders of the Company's ordinary shares to acquire 5% of the voting rights in the Company at a price per share equal to £0.75. On 28 January 2014 the Offer was successfully completed and the BGI Group purchased an additional 5% of the voting rights in the Company.
(See Company announcements dated 13 January 2014, 16 January 2014, 24 January 2014 and 29 January 2014)
- Following the success of the Offer, the BGI Group together with Israel 18 B.V., BGI's parent company (together, the "**Extended BGI Group**") is entitled to exercise call options it has acquired. Upon the exercise of said call options, the Extended BGI Group will own shares, representing approximately 44.1% of the Company's Capital. In the meantime, following the grant of proxies made by Mr. Naftali Shani and Fortissimo Capital Management Ltd., amongst others, originally in favour of Israel 18 B.V., and in light of the shareholders agreement entered into between the members of the extended BGI Group, the BGI Group is entitled to vote the shares representing the Options not yet exercised, representing 13.55% of the Company's Capital.
(See Company announcements dated 11 February 2014, 14 February 2014, 20 February 2014, 24 February 2014, 21 March 2014, 27 March 2014 and 29 April 2014)
- Mr. Amnon Ben-Shay, who was appointed as a director of the Company on 14 August 2013, submitted his resignation from the board of directors of Emblaze (the "**Board**") on 12 January, 2014, due to other commitments preventing him from fulfilling the requirements of his position as a director.
(See Company announcements dated 13 January 2014)

- On 2 March 2014, the Company entered into an agreement to acquire from Zwi Williger ("ZW") and Joseph Williger ("JW" and, together with ZW, the "Sellers") a controlling stake in the share capital of Willi-Food Investments Ltd. ("WFI"), a company listed on the Tel Aviv Stock Exchange, which in turn owns approximately 58% of G Willi-Food International Ltd ("WFINT" and together with WFI, "Willi-Food"), a company listed on NASDAQ. Under the agreement, the Company: (i) acquired the Sellers' entire shareholdings in WFI, amounting in aggregate to 58 % of the shares of WFI (or approximately 55% on a fully diluted basis); and (ii) published a special tender offer (the "**Special Tender Offer**") addressed to all shareholders of WFI (including the Sellers) in accordance with Israeli Companies Law in order to acquire additional shares carrying 5% of the voting rights in WFI. The Special Tender Offer was completed on 1 May 2014 and the transaction completed on 4 May 2014. Following such completion, the Company acquired in aggregate 61.65% of the issued share capital of WFI (62.27% of its voting rights), for aggregate consideration of NIS284.7 million (U.S. \$82.3 million).
(See Company announcements dated 3 March 2014, 7 April 2014, 28 April 2014, 1 May 2014 and 7 May 2014)

Trading

The acquisition of the abovementioned stake in WFI is deemed a reverse takeover under the Listing Rules and trading in the Company's shares was accordingly suspended on 3 March, 2014. It is expected that such suspension will be lifted upon the publication of a prospectus by the Company in connection with the requirement on it to re-apply for the listing of its shares following completion of the transaction. The Company is currently in the process of preparing the prospectus. Until the Company has completed the formal application process and satisfied the UKLA as to its eligibility, there is no certainty that the UKLA will approve the re-listing of the Company's shares to trading on the Standard List. In such circumstances, the Company would cease to be listed although the board would actively explore the possibility of moving to AIM or an alternative listing or admission venue.

Intellectual Property

In July 2010, Emblaze filed a complaint against Apple Inc. ("**Apple**") for infringement of the Company's U.S. Patent No. 6,389,473 through Apple's HTTP Live Streaming protocol used in Apple products such as iPhones and iPads. The jury trial in this case has been rescheduled to take place in June 2014.

In October 2012, the Company filed a complaint for patent infringement against Microsoft Corporation ("**Microsoft**"). The complaint asserts that Microsoft's IIS Smooth Streaming system infringes Emblaze's U.S. patent No. 6,389,473 for media streaming technology.

Legal proceedings in these two cases are ongoing.

Jossef Schneorson, CEO, commented: "We are committed to actively seek to utilise the Company's resources in order to maximise value for its shareholders. We are hoping and believe that the acquisition of WFI will be a good and solid investment for Emblaze shareholders".

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Emblaze Ltd.

Emblaze Ltd. is traded on the London Stock Exchange (LSE: BLZ) since 1996. www.emblaze.com

EMBLAZE LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 MARCH 2014

UNAUDITED

IN U.S. DOLLARS

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Report on Review of Interim Condensed Consolidated Financial Statements

Board of Directors

Emblaze Ltd.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Emblaze Ltd. and its subsidiaries ("the Group") as of 31 March 2014 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, "Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Beer-Sheva, Israel
29 May 2014

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 March		31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	15,195	21,696	2,957
Short-term deposits	41,301	102,248	16,242
Short-term deposits held in trust	82,425	-	140,418
Financial assets at fair value through profit or loss	-	20,300	-
Available for sale financial assets	230	215	206
Prepaid expenses and other receivables	710	1,873	552
	139,861	146,332	160,375
NON-CURRENT ASSETS:			
Equipment, net	64	63	67
Total assets	139,925	146,395	160,442

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>31 March</u>		<u>31 December</u>
	<u>2014</u>	<u>2013</u>	<u>2013</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	323	146	699
Deferred revenues and accrued expenses	1,520	3,677	1,990
Short-term loan	-	-	18,813
Total current liabilities	<u>1,843</u>	<u>3,823</u>	<u>21,502</u>
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net	<u>41</u>	<u>24</u>	<u>40</u>
EQUITY:			
Share capital	416	416	416
Share premium	469,927	469,922	469,925
Treasury shares	(76,962)	(76,300)	(76,962)
Available for sale reserve	148	132	123
Accumulated deficit	<u>(255,048)</u>	<u>(251,261)</u>	<u>(254,189)</u>
Equity attributable to Company's equity holders	138,481	142,909	139,313
Non- controlling interests	<u>(440)</u>	<u>(361)</u>	<u>(413)</u>
Total equity	<u>138,041</u>	<u>142,548</u>	<u>138,900</u>
Total liabilities and equity	<u><u>139,925</u></u>	<u><u>146,395</u></u>	<u><u>160,442</u></u>

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

29 May 2014

Date of approval of the
financial statements

Abraham Wolff
Chairman of the Board

Israel Jossef Schneorson
CEO and Vice Chairman of
the Board

Eyal Merdler
CFO

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Three months ended		Year ended
	31 March		31 December
	2014	2013	2013
	Unaudited		Audited
U.S. dollars in thousands (except earnings (loss) per share)			
Revenues	28	600	1,882
Cost of sales	28	116	449
Gross profit	-	484	1,433
Operating expenses:			
Research and development	317	438	1,562
Selling and marketing	-	120	134
General and administrative	1,468	652	7,095
Total operating expenses	1,785	1,210	8,791
Operating loss	(1,785)	(726)	(7,358)
Financial income	911	558	5,208
Financial expense	(12)	(31)	(846)
Loss from continuing operations	(886)	(199)	(2,996)
Income from discontinued operations, net	-	267	181
Net income (loss)	(886)	68	(2,815)
<u>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods :</u>			
Gain (loss) from available-for-sale financial assets	25	-	(9)
<u>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods :</u>			
Remeasurement loss from defined benefit plans	-	-	(97)
Total other comprehensive income (loss)	25	-	(106)
Total comprehensive income (loss)	(861)	68	(2,921)
Net income (loss) attributable to:			
Equity holders of the Company	(859)	85	(2,746)
Non- controlling interests	(27)	(17)	(69)
Net income (loss)	(886)	68	(2,815)
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	(834)	85	(2,852)
Non- controlling interests	(27)	(17)	(69)
Total comprehensive loss	(861)	68	(2,921)
Basic and diluted net earnings per share attributable to Company's equity holders (in U.S dollars):			
Income (loss) from continuing operations	(0.01)	(*-	(0.03)
Income from discontinued operations	-	(*-	(*-
Net earnings (loss) per share	(0.01)	-	(0.03)

*) Less than USD 0.01 per share.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available-for-sale reserve	Accumulated deficit	Total		
	U.S. dollars in thousands							
Unaudited								
Balance as of 1 January 2014 (audited)	416	469,925	(76,962)	123	(254,189)	139,313	(413)	138,900
Loss	-	-	-	-	(859)	(859)	(27)	(886)
Other comprehensive income	-	-	-	25	-	25	-	25
Total comprehensive income (loss)	-	-	-	25	(859)	(834)	(27)	(861)
Cost of share based payment	-	2	-	-	-	2	-	2
Balance as of 31 March 2014	<u>416</u>	<u>469,927</u>	<u>(76,962)</u>	<u>148</u>	<u>(255,048)</u>	<u>138,481</u>	<u>(440)</u>	<u>138,041</u>
	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available-for-sale reserve	Accumulated deficit	Total		
	U.S. dollars in thousands							
Unaudited								
Balance as of 1 January 2013 (audited)	416	469,911	(76,275)	132	(251,346)	142,838	(344)	142,494
Income (loss)	-	-	-	-	85	85	(17)	68
Total comprehensive income (loss)	-	-	-	-	85	85	(17)	68
Cost of share based payment	-	11	-	-	-	11	-	11
Purchase of treasury shares	-	-	(25)	-	-	(25)	-	(25)
Balance as of 31 March 2013	<u>416</u>	<u>469,922</u>	<u>(76,300)</u>	<u>132</u>	<u>(251,261)</u>	<u>142,909</u>	<u>(361)</u>	<u>142,548</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to equity holders of the Company					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available for sale reserve	Accumulated deficit			
	U.S. dollars in thousands							
	Audited							
Balance as of 1 January 2013	416	469,911	(76,275)	132	(251,346)	142,838	(344)	142,494
Loss	-	-	-	-	(2,746)	(2,746)	(69)	(2,815)
Other comprehensive loss	-	-	-	(9)	(97)	(106)	-	(106)
Total comprehensive loss	-	-	-	(9)	(2,843)	(2,852)	(69)	(2,921)
Cost of share- based payment	-	14	-	-	-	14	-	14
Purchase of treasury stock	-	-	(687)	-	-	(687)	-	(687)
Balance as of 31 December 2013	<u>416</u>	<u>469,925</u>	<u>(76,962)</u>	<u>123</u>	<u>(254,189)</u>	<u>139,313</u>	<u>(413)</u>	<u>138,900</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended 31 March		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	(886)	68	(2,815)
Less - income from discontinued operations	-	267	181
Loss from continuing operations	(886)	(199)	(2,996)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities :			
Depreciation	9	7	31
Loss on disposal of fixed assets	12	-	-
Employee benefit liabilities, net	(41)	(10)	-
Cost of share-based payment	2	11	14
Change in financial assets at fair value through profit or loss	-	25	432
Interest income	(293)	-	(1,863)
Interest expense on short-term loan	7	(536)	86
Exchange rate differences on deposit and short-term loan	(611)	-	(3,438)
	(915)	(503)	(4,738)
Changes in asset and liability items:			
Decrease (increase) in receivables and prepaid expenses	83	(323)	494
Decrease in trade payables, other payables and accrued expenses	(804)	(21)	(1,468)
	(721)	(344)	(974)
Cash received (paid) during the period:			
Interest received	52	645	2,450
Interest paid	(92)	-	-
	(40)	645	2,450
Net cash used in operating activities from continuing operations	(2,562)	(401)	(6,258)
Net cash used in operating activities from discontinued operations	-	(190)	(189)
Net cash used in operating activities	(2,562)	(591)	(6,447)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	31 March		31 December
	2014	2013	2013
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(18)	(3)	(31)
Maturing of (investment in) short-term deposits, net	(24,516)	19,947	105,953
Withdrawal of (investment in) deposit held in trust	39,334	-	(118,253)
Purchase of financial assets at fair value through profit or loss	-	(8,368)	(13,352)
Proceeds from sale of financial assets at fair value through profit or loss and available for sale financial assets	-	1,403	26,441
Net cash provided by investing activities from continuing operations	<u>14,800</u>	<u>12,979</u>	<u>758</u>
<u>Cash flows from financing activities:</u>			
Purchase of treasury shares	-	(25)	(687)
Net cash used in financing activities from continuing operations	<u>-</u>	<u>(25)</u>	<u>(687)</u>
Net increase (decrease) in cash and cash equivalents	12,238	12,363	(6,376)
Cash and cash equivalents at the beginning of the period	<u>2,957</u>	<u>9,333</u>	<u>9,333</u>
Cash and cash equivalents at the end of the period	<u>15,195</u>	<u>21,696</u>	<u>2,957</u>
<u>Non-cash transactions:</u>			
Proceeds of short-term loan invested in deposit held in trust	<u>-</u>	<u>-</u>	<u>18,393</u>
Repayment of short-term loan from deposit held in trust	<u>(18,727)</u>	<u>-</u>	<u>-</u>

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

NOTES TO INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

Emblaze Ltd. ("Emblaze" or "the Company") is a corporation registered in Israel. As at the reporting date, the Company's shares are listed for trading on the Official List of the London Stock Exchange ("LSE") under the symbol BLZ. See Note 3 for details of suspension of trading in the Company's shares.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim condensed consolidated financial statements for three months ended 31 March 2014 have been prepared in accordance with IAS 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

- b. New standards, interpretations and amendments adopted by the Company:

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated annual financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014.

The nature and the impact of each new standard or amendment adopted are described below:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Company.

NOTE 3:- SUPPLEMENTARY INFORMATION**Shares purchase agreement Willi-Food Investment Ltd.**

1. On 2 March 2014, the Company entered into an agreement (the "WFI Agreement") to acquire from Zwi Williger ("ZW") and Joseph Williger ("JW" and, together with ZW, the "Sellers") a controlling stake in the share capital of Willi-Food Investments Ltd. ("WFI"), a company listed on the Tel Aviv Stock Exchange, which in turn owns approximately 58% of G. Willi-Food International Ltd ("WFINT" and together with WFI, "Willi-Food"), a company listed on NASDAQ (the "Acquisition"). Under the WFI Agreement, the Company: (i) acquired the Sellers' entire shareholdings in WFI, amounting in aggregate to 58 % of the shares of WFI (or approximately 55% on a fully diluted basis); and (ii) published a special tender offer (the "Special Tender Offer") addressed to all shareholders of WFI (including the Sellers) in accordance with Israeli Companies Law in order to acquire additional shares carrying 5% of the voting rights in WFI.

NOTE 3:- SUPPLEMENTARY INFORMATION (Cont.)**Shares purchase agreement Willi-Food Investment Ltd. (Cont.)**

The Special Tender Offer was completed on 1 May 2014 and the Acquisition completed on 4 May 2014. Following such completion, the Company acquired in aggregate 61.65% of the issued share capital of WFI (62.27% of its voting rights), for aggregate cash consideration of NIS 284.7 million (U.S. \$82.3 million). Upon the Acquisition, the Company nominated directors which comprise the majority of the board of directors of both WFI and WFINT.

2. Under the WFI Agreement, the Company granted the Sellers a put option to sell all or some of their shares in WFINT (whether held (3.89%) on the date of the WFI Agreement or those which they may hold following the exercise of employee options in WFINT) which amount to approximately 7% of the shares of WFINT on a fully diluted basis (the “WFINT Put Option Shares” and the “WFINT Put Option” respectively). The WFINT Put Option is exercisable by the Sellers for a period of four years commencing 11 months from completion of the Acquisition, at a price of US\$12 per share. The Company was granted a power of attorney which enables it to procure the Sellers to sell their WFINT shares to a third party at a price per share not below US\$12, subject to compliance with applicable laws, during the WFINT Put Option exercise period. The power of attorney may be cancelled by the Sellers at any time during that period, although such cancellation would lead to the immediate cancellation of the WFINT Put Option in respect of such WFINT Put Option Shares. The Sellers granted the Company an irrevocable proxy with respect to their holdings in WFINT, so as to allow the Company to vote such shares at shareholders' meetings of WFINT during the period commencing on completion of the Acquisition and expiring on the exercise or expiry of the WFINT Put Option.
3. Under the WFI Agreement, the Sellers agreed to continue to be engaged by WFINT as chairman of the board of WFINT (in respect of Zvi Williger) and president of WFINT (in respect of Joseph Williger), or as joint chief executive officers of WFI, for an additional period of between 18 months and three years commencing upon termination of their current service agreements with WFINT (September 2014). Subject to further agreement between the parties and to applicable law, the Sellers may continue their respective engagement following such period. In addition, each of the Sellers is prohibited from competing against Willi-Food in any material way, subject to certain agreed exceptions, for an additional period commencing on the termination of his respective engagement with WFINT and terminating on the later of two years from such termination, or four years from completion of the Acquisition. The Company requested the approval of the Israeli Anti-trust Authorities to extend the non-competition period to six years from the completion date. In consideration of such non-compete undertakings, each of the Sellers is entitled to an additional annual payment of NIS 1.5 million (approximately US \$0.4 million) following termination of his respective engagement, to be paid by the Company and subject to applicable law.

NOTE 3:- SUPPLEMENTARY INFORMATION (Cont.)**Shares purchase agreement Willi-Food Investment Ltd. (Cont.)**

4. Due to the extent of the trading activities acquired in relation to the existing activities of the Group, the Acquisition is deemed a reverse takeover under the listing rules of the UK Listing Authority (“UKLA”), and trading in the Company's shares was accordingly suspended on 3 March 2014. It is expected that such suspension will be lifted upon the publication of a prospectus by the Company in connection with the Company's application for the readmission of its shares for trading following completion of the Acquisition. The Company is currently in the process of preparing the prospectus. The application for the readmission is subject to the approval of the UKLA.

5. The Company will account for the Acquisition as a business combination and will begin consolidating the financial statements of WFI from the completion date of the Transaction on 4 May 2014.
The Company has elected to measure the non- controlling interests in WFI at fair value. The fair value of the non- controlling interest in WFI is based on the quoted market price of the shares of WFI on the completion date.
As of the date of the approval of the financial statements, the valuation by an independent valuation specialist of the fair value of the assets acquired and liabilities assumed in the business combination has not yet been finalized. Based on a provisional valuation, which is subject to change, the Company estimates that goodwill arising on the acquisition will amount to approximately US \$23 million.
