THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you should seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent adviser who is authorised for the purposes of the Financial Services and Markets Act 2000 and who specialises in advising on the acquisition of shares and other securities.

Your attention is drawn to Part II of this document, which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Group's business, financial position and prospects should be viewed in light of the risk factors set out in Part II of this document.

This document comprises an admission document for the purposes of the AIM Rules and a prospectus and has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended). A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Public Offers of Securities Regulations 1995.

The Directors of Telit Communications Plc whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings will commence in the Ordinary Shares on 4 April 2005.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

The London Stock Exchange has not itself examined or approved the contents of this document.

TELIT COMMUNICATIONS PLC

(Incorporated and registered in England and Wales under the Act with registered no. 5300693)

Placing of 16,428,571 Ordinary Shares at 140p per share and Admission to trading on AIM

Nominated Adviser and Broker

Seymour Pierce Limited

Share Capital on Admission

Authorised			*Issued and Fully Paid*	
Amount	*Number*		*Amount*	*Number*
800,000	80,000,000	Ordinary Shares of 1p each	£432,142.81	43,214,281

All of the Ordinary Shares will, upon Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission.

Seymour Pierce, which is authorised and regulated by the Financial Services Authority, is acting as nominated adviser and as broker exclusively for the Company (for the purpose of the AIM Rules) in connection with the Placing and Admission and will not be responsible to any other person for providing the protections afforded to customers of Seymour Pierce, or for advising any other person in connection with the Placing. The responsibilities of Seymour Pierce, as nominated adviser under the AIM Rules, are owed solely to the London Stock Exchange.

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The distribution of this document outside the UK may be restricted by law and therefore persons outside the UK into whose possession this document comes should inform themselves about and observe any such restrictions as to the Placing, the Ordinary Shares or the distribution of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended, or under the securities laws of Canada, Australia or Japan and they may not be offered or sold directly or indirectly within the United States, Canada, Australia, or Japan or to, or for the account or benefit of, US persons or any national, citizen or resident of the United States, Canada, Australia or Japan. This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful.

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	Yitzhak Apeloig, *Chairman* Oozi Cats, *Chief Executive Officer* Inbal Barak-Etzion, *Finance Director* David Hobley, *Non Executive Director* Andrea Mandel-Mantello, *Non Executive Director* All of: 110 Cannon Street, London EC4N 6AR
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Solicitors to the Company	Kirkpatrick & Lockhart Nicholson Graham LLP 110 Cannon Street London EC4N 6AR
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Solicitors to the Placing	Memery Crystal 44 Southampton Buildings London WC2A 1AP
Registrar	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

PLACING STATISTICS

Number of New Ordinary Shares being placed on behalf of the Company	16,428,571
Issue Price	140p
Number of Ordinary Shares in issue immediately following Admission	43,214,281
Percentage of the Enlarged Share Capital being placed	38.02%
Market capitalisation at the Issue Price	£60.5 million
Gross proceeds of the Placing	£23 million

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of dealings	4 April 2005
Delivery of Ordinary Shares into CREST accounts	4 April 2005
Despatch of definitive share certificates (where applicable) by	18 April 2005

GLOSSARY

ADSL	Asymetric Digital Subscriber Line A method for moving data over regular phone lines which is much faster than a regular phone connection with the wires coming into the user's premises being the same (copper) wires used for regular phone service. Unlike regular dialup phone service, ADSL provides a continuously-available connection. ADSL is asymmetric in that it uses most of the channel to transmit downstream to the user and only a small part to receive information from the user.
AMR	Automated Meter Reading A form of advanced (or enhanced) metering that uses communications devices to communicate data from the meter to the utility or (in an unbundled metering services environment) the meter reading or meter data management provider. AMR may be used to transmit simple energy usage data from the meter, or to transmit more complex measures of energy recorded in the meter, or to implement advanced functionality such as outage detection, remote programming of meters by an authorised party, or other functionality.
Branded EVAR	Branded Enhanced Value Added Reseller
CDMA	Code Division Multiple Access This code division technology was originally developed for military use. It is a technology for digital transmission of radio signals between, for example, a mobile telephone and a radio base station. In CDMA, a frequency is divided into a number of data packets that are encoded with unique identification tags. All of the data/voice is sent over a spread range of radio frequencies. The cell phone or data device receives all of the data packets but only re-assembles those packets with the correct code and transforms the broken-up bits of data into useful sound and data.
EDGE	Enhanced Data rates for Global Evolution An upgrade for GSM/GPRS networks that triples data speeds over standard GPRS.
GPRS	General Packet Radio Service A GSM data transmission technique that does not set up a continuous channel from a portable terminal for the transmission and reception of data, but transmits and receives data in packets enabling very efficient use of available radio spectrum.
GSM	Global System Mobile A digital mobile telephone system that uses a variation of time division multiple access. It is one of the most widely used of the digital wireless telephone technologies.
IP	Internet Protocol A protocol that enables packets of data to be transmitted throughout the Internet using the transmission control protocol ("TCP"). A data entity is broken into individual packets. Each packet is wrapped with header information that indicates where the packet came from, where it is going, and what part of a whole entity it belongs to. Once the packets arrive at their destination, they are reassembled into their original order by TCP.

MMI

Man Machine Interface
The means by which a human being interacts with a machine or device. In the past, knobs, dials and displays manipulated by a human being's hand were common interfaces on technical devices. Today, MMI includes more advanced functions such as voice recognition, speech synthesis and touch screens.

MNO's

Mobile Network Operator
The operator of a mobile network, for example, Orange or Vodafone.

m2m

machine to machine
machine-to-machine or machine-to-mobile communications, via wireless technologies such as mobile phone network technologies, Bluetooth, and RFID (radio frequency identification).

m2m Module

A cellular engine that allows communications between machines.

MQTT

MQ Telemetry Transport: Previously known as MQIsdp. A TCP/IP based protocol which delivers data from remote devices and data producers.

ODM

Original Design Manufacturing.

OEM

Original Electronic Manufacturing.

Protocol Stack

A particular software implementation of network protocol layers that work together. In the case of the Company the Protocol Stack implements GSM/GPRS network protocols.

PCB

Printed Circuit Board
Flat, multi-layer boards made of fiberglass with electrical traces. The board's surface and sublayers use copper traces to provide electrical connections for chips and other components. Examples of PCBs include: mother-boards, SIM cards, and credit card memory.

UMTS

Universal Mobile Telecommunications System
A so-called "third-generation (3G)", broadband, packet-based transmission of text, digitized voice, video, and multimedia at data rates up to 2 megabits per second (Mbps) that will offer a consistent set of services to mobile computer and phone users no matter where they are located in the world. Based on GSM.

WLL

Wireless Local Loop
The use of radio transmission (rather than cable) to provide connection between a handset (fixed or mobile) and a telecommunications base station connected to a public switched telephone network. Suitable for use in large facilities (such as airports or military bases) or in regional areas as a residential or business alternative to cabled networks.

DEFINITIONS

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

“Act”	the Companies Act 1985, (as amended)
“Admission”	the admission of the Enlarged Share Capital to trading on AIM becoming effective in accordance with the AIM Rules
"AIM”	the market known as AIM operated by the London Stock Exchange
"AIM Rules”	the rules of the London Stock Exchange governing admission to and the operation of AIM, (as amended from time to time)
"Articles”	the articles of association of the Company adopted on 24 March 2005, conditional on Admission
“Code”	the City Code on Takeovers and Mergers
“Company” or “Telit Plc”	Telit Communications Plc
“Combined Code”	The Principles of Good Governance and Code of Best Practice issued by the London Stock Exchange
“CREST”	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo
"CRESTCo”	CRESTCo Limited
"CREST Regulations”	the Uncertificated Securities Regulations 2001
“Dai Israel”	Dai Telecom Ltd, the Company’s Israeli subsidiary
“Dai Italy”	Dai Telecom S.p.A., the Company’s Italian subsidiary
“Directors” or “the Board”	the directors of the Company, whose names appear on page 3 of this document
“Enlarged Share Capital”	the Existing Ordinary Shares and the New Ordinary Shares
“ESOP”	the Company’s employee share option plan
“Existing Ordinary Shares”	the 26,785,710 Ordinary Shares in issue at the date of this document
“Group” or “Telit Group”	Telit Plc and its subsidiary undertakings
“Issue Price”	140p per Ordinary Share
“London Stock Exchange”	London Stock Exchange Plc
“New Ordinary Shares”	the 16,428,571 new Ordinary Shares to be issued by the Company, and subscribed for pursuant to the Placing
“NIS”	New Israeli Shekel
“Ordinary Shares”	ordinary shares of 1 pence each in the capital of the Company

"Placing"	the conditional placing by Seymour Pierce of the Placing Shares with institutional and other investors at the Issue Price pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 30 March 2005 between (1) Seymour Pierce, (2) the Company and (3) the Directors, further details of which are set out in paragraph 12 of Part V of this document
"POS Regulations"	the Public Offers of Securities Regulations 1995, (as amended)
"Seymour Pierce"	Seymour Pierce Limited
"Shareholders"	holders of Ordinary Shares
"UK"	the United Kingdom of Great Britain and Northern Ireland
"uncertificated" or "in uncertificated form"	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
"US" or "USA" or "United States"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction
"Warrant Instruments"	the warrant instruments adopted by the Company on 29 March 2005, details of which are set out in paragraph 12 of Part V of this document
"Warrants"	warrants to subscribe for Ordinary Shares on the terms of the Warrant Instruments

PART I

INFORMATION ON THE GROUP

INTRODUCTION

Telit Plc is a global business specialising in innovative customised mass production solutions for cellular communications. The Company has two distinct business operating divisions leveraging on its core intellectual property and know how:

- **The Data Products Division** which designs, develops, manufactures, markets and sells a range of data cellular communication products for the m2m market. The Company's technology and products enable other electronic devices and equipment manufacturers to utilise the widely deployed GSM/GPRS cellular infrastructure to relay and accept information without human intervention.
- **The Branded EVAR Division** which customises and distributes to mobile operators and to independent retailers, under the recognised brand "Telit", ODM's and OEM's cellular products, utilising its extensive in-house research and development resources.

The Company intends to continue the growth of its data products division by capitalising further on the strong growth of the cellular m2m market. It also intends to increase revenues from its Branded EVAR Division by building on the Company's success in the Israeli and Italian markets, increasing the Company's market share in those existing markets and diversifying the business model into other geographical regions where the Group is already setting up sales and marketing operations.

The Company operates in worldwide markets with its principal operating premises located in Trieste, Italy and Tel Aviv, Israel. Following Admission, Telit Plc intends to establish its head office operations in the UK.

The Group reported turnover in the year ended 31 December 2004 of €75.3 million.

HISTORY

Dai Israel was founded in 2000 by Polar Investments Ltd. (formerly Hapoalim Investments Ltd), an Israeli investment house and Mr Oozi Cats, the Chief Executive Officer of the Group. Dai Israel is primarily engaged in sourcing CDMA cellular handsets and accessories, developing these handsets to meet its customers specifications and distributing them in the Israeli market. In 2004, Dai Israel achieved approximately 36% market share of the Israeli CDMA market and approximately 12% market share of the entire Israeli handsets market.

As part of its strategy to expand activities globally into the GSM/GPRS market place in order to build on its Israeli activities, Dai Italy was formed in 2002 to purchase the assets and liabilities of an existing Italian business trading under the name "Telit".

Telit's origins date back to 1986 as an engineering company selling research and development services, relating to the communications industry, to multinational companies. It began manufacturing and marketing cellular handsets and other mobile communications devices, predominantly in Italy, under the "Telital" brand in 1997 and from 2000 under the now recognised Telit brand.

Over the last fifteen years, Telit has been designing and producing advanced wireless network technologies. This has resulted today in Dai Italy owning a portfolio of valuable patents and possessing strong in-house technologies including its own Protocol Stack and development expertise.

Immediately following the purchase by Dai Israel, the Company's management implemented a restructuring program in Dai Italy which involved:

- ceasing to manufacture handsets and entering into the Branded EVAR business, leveraging on its in house research and development capabilities and relying on the know how and business development skills of Dai Israel;
- taking a strategic decision in aiming to become a significant player in the fast growing m2m market place, leveraging on its in house research and development competencies and know how; and
- reducing the number of employees from 312 to around 140.

DATA PRODUCTS DIVISION

This division designs, develops, manufactures, markets and sells a range of data cellular communication products for the m2m market. The Company's technology and products enable other electronic devices and equipment manufacturers to utilise GSM/GPRS cellular infrastructure to relay and accept information without human intervention.

The Market

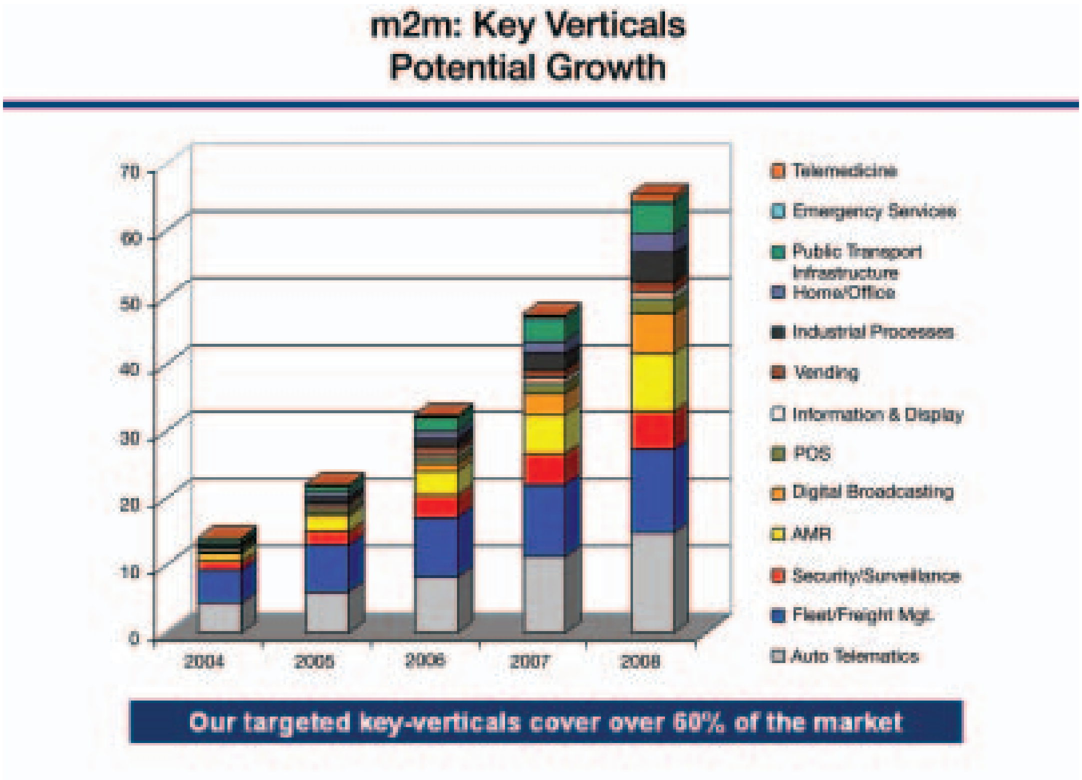
m2m communication is defined as automated communication between remote machines and central management applications or automated communication directly between remote machines. It provides real time monitoring and control without the need for human intervention.

The Directors believe there are a number of market drivers pushing the m2m market towards mass acceptance:

- **Financial Gains** – companies spend resources on monitoring and maintaining equipment manually and, more importantly, often suffer losses in malfunction, false alarms and leaks. These phenomena are repeated in many industries. It is becoming less sensible and more costly to send technicians or meter readers out in high cost vehicles just to retrieve simple pieces of data. Using m2m applications is one of the best solutions to make these tasks more efficient.
- **New Business Models** – GPRS remote connectivity enables new business models such as insurance companies to offer "pay as you drive" car insurance tariffs, thereby creating new markets for the company's products.
- **Need for demand-based, just in time servicing** – this allows companies to run their systems closer to capacity, manage resources more effectively and improve productivity while cutting costs. Fleet management is an example of an area driven by the need for improved productivity and efficiency.
- **Higher customer expectations** – customers increasingly expect better service in less time. Using m2m applications to make sure data is in the right place at the right time is likely to be an important step in this direction.
- **Policy, regulation and legislation** – compliance concerns particularly affect utilities and have been increasing the demand for automated meter reading in the electricity, gas and water industries. Legislation, such as requirements on the monitoring and recording of food temperature or environmental emissions, puts a legal or regulatory requirement on some industries to record and produce an audit trail for track/trace purposes. New laws, such as that recently passed in Sweden which requires power companies to collect meter data once a month, will require the adoption of new technologies such as cellular remote reading.

The key trends outlined above, amongst others, are, in the opinion of market analysts, driving the cellular m2m market towards 47% annual global growth in units which is predicted to reach approximately 65 million cellular modules worldwide by 2008, split between the following sectors:

Global Market for m2m Modules (millions of units)



Source: E-Principles, 2005

Traditionally the m2m market has utilised telemetry applications where, for example, a sensor may interact with a server to generate an alarm. However, the introduction of cellular wireless m2m has opened up a large number of new application possibilities as shown in the illustration above.

Lower connection costs and increasingly standardised interfaces are likely to widen the potential base of m2m applications. A point has been reached in many countries where the cost of being connected is very small compared with the resultant benefit.

Competition and m2m Market Share Forecasts 2004 to 2006

Siemens and Wavecom are currently the Group's main competitors in the cellular m2m modules market. Other major players are generally large cellular handset manufacturers, such as Nokia, Motorola, Sagem and Sony-Ericsson.

The Directors believe that in 2004, five companies accounted for over 40% of the global market in m2m devices, with a number of smaller companies accounting for the balance. The Directors believe that Telit Plc had approximately 1.5% of the market in 2004 (this market share having been achieved within a relatively short period of two years) and intend to build this market share to approximately 5% by the end of 2006.

The Company focused initially on the Italian market, which the Directors believe to be one of the more advanced cellular markets, and as a result the Directors estimate that the Company achieved a market share in 2004 of approximately 18% of the Italian m2m market.

The Company's Products

The Company's data products for the m2m market are based on its proprietary technology and know how developed in-house over many years. The Company builds its cellular engine with in-house designed hardware (including in house designed PCB) and software. The Directors believe that the Company is able to provide its customers with an efficient product development cycle and flexible, customisable and cost effective solutions.

At the heart of the Company's technology lies its Protocol Stack, the software for the cellular engine. The Directors believe that this software will form a dominant component for the next generation of cellular devices.

The Group's proven software assets, which are certified by the relevant regulatory and other bodies, comprise the following integral components:

- Proprietary full GSM/GPRS Protocol Stack which is the Company's set of protocols used in its development of cellular communications products.
- Comprehensive MMI which is the user interface that allows interaction between the user and the device.

The Group currently has three data products modules offered within the market:

The GM862 Module:

This family of data products has been in the market since 2002 and has received positive feedback from customers as being easy to integrate and exceptionally reliable. The Company sold over 200,000 units of the GM862 in 2004 and has sold more than 285,000 since it began marketing this product.

The GM862 family of products is typically used in the following market applications:

– Tracking systems – in combination with GPS technology, fleet management and asset tracking solutions can be implemented

– Security and surveillance – enabling cellular communication with alarm systems

– Automated vehicle location systems (AVL) – enabling location and monitoring capabilities

– Remote control and monitoring equipment

The EZ (Speak Easy) Connectivity Terminal:

This product is ready to use, plug and play into existing electronic systems designed to be connected as an external add on device. The product is ideal for the following market applications:

– Vending machines – enabling stock and maintenance information retrieval

– Telemetry applications – enabling information gathering from any electronic machinery and vehicles

– Healthcare/medical – enabling maintenance information retrieval monitoring capabilities

The Trizium Module:

This product is designed to suit mass market applications and high volume production at low integration cost. The Trizium is typically used in the following market applications:

– Handheld devices – such as PDA's and Smart phones

– Point of sales terminals (POS) – for flexible, mobile wireless connectivity with the clearing house usage and service provider

– Terrestrial and satellite TV and set top box – for the return communication channel for interactive and control services

– Automatic meter reading (AMR) – enabling meter control via cellular communication

All of the above product families are based on the same underlying proprietary technology, and they each enable global m2m communication capabilities, over GSM/GPRS networks, for numerous applications.

The Group continuously makes improvements to and updates its existing product range and, in addition, the Group is developing a new line of products, to supplement its existing range, which the Directors believe will provide enhanced performance at competitive prices. The first of these products is expected to be available to customers during 2005.

Distribution, Customers and Partners

The Group has implemented a targeted sales and marketing structure:

- Value Added Distributors (indirect sales) accounted for 74% of the Group's data products sales in 2004. The Group currently has a network of distributors in Italy, France, Germany, the UK, The Netherlands and Benelux, China, Israel, Denmark, Poland, Brazil and Romania.
- The Company's own sales offices have been established in Italy and Israel to intensify market penetration in leading m2m markets. The Group intends to open further offices in the UK, Germany, Spain and in the Nordic countries during 2005.
- Vertical Sales (direct sales) for the most relevant m2m sub-segments will be established in the Company's data products headquarters to target large customers directly. License agreements for remote territories are also handled by the division headquarters.

Many of the Group's customers are in the early design and field trials stage of adopting m2m capability, presenting, the Directors believe, a clear and present sales opportunity for the Company.

The Company is focusing on the following segments of the m2m market:

- Digital terrestrial and satellite set top boxes – Telit Plc is currently undergoing trials with Sky Italy and Mediasat utilising the Company's m2m technology. Italy has passed legislation requiring terrestrial television to be provided solely on a digital platform by 2007. The Company is collaborating with one of the advisory bodies of the Ministry of Telecommunications in Italy in order to prove that GPRS m2m can work commercially as an enabler of an "always on" return channel in digital terrestrial television with the aim that Telit Plc's modules will be widely adopted for this purpose.
- Automated meter reading – the AMR market relates to all utilities applications such as water, gas, oil and electricity. The AMR market is mainly driven by legislation, for example, in Sweden, a new law has been passed which requires electricity companies to collect meter data once a month from all customers meaning that power utilities in Sweden will need to install AMR units in meters in 5 million homes by 2009.
- Home and vehicle security alarm systems – the Directors believe that Telit Plc has achieved a dominant market share of this market (based on segment specific features) in Italy in 2004 and intends to replicate this in other countries. Telit Plc is targeting this market place and recently introduced a unique anti jamming solution into its offering for this segment.

- Fleet management systems – Telit Plc's modules when used with a GPS system, provide fleet managers with constant real time information on their fleets. The Company has recently won a major account from one of its competitors with the market leader in this market in Italy.
- Point of sale ("POS") – The aim is that Telit cellular modules will have the capacity to be used as the communication enabler between the POS terminal and the clearance houses. Telit Plc has supplied one of the leading POS manufacturers with its modules for trial in their systems. The aim is that Telit Plc's modules will be installed in future POS terminals. Telit Plc intends to pursue other main POS manufacturers.

Telit Plc intends to form partnerships with leading IT system integrators (e.g. IBM). Therefore the Company has implemented the IBM MQTT protocol into its products in order to give end-to-end connectivity where the m2m modules can directly communicate with IBM Websphere products. This will enable Telit Plc to collaborate with IBM on future projects. The Company is also in discussions with other systems integrators.

BRANDED EVAR DIVISION

The Branded EVAR division is involved in the vertical chain of the cellular handsets business; providing a wide variety of cellular handsets and accessories. The Company sources its products from OEMs & ODMs mainly in Korea and Taiwan, utilising its in-house research and development resources to modify them according to customers' specific requirements. These requirements may include hardware redesign to meet European quality standards, software development and integration to standard and nonstandard software, MMI changes, testing in-house and certification with labs in Europe including PABT and SETACOM, type approvals with the MNOs, packaging, sales & marketing, technical support and after sales support. All of the above products are branded as "Telit".

The Branded EVAR business model, which was first implemented in the Israeli market in 2001, achieving 12% market share in the year 2004 of the entire Israeli handsets market in only four years, has now been duplicated in the Italian market in 2004. The Branded EVAR division plans to replicate this model in other markets.

The Company seeks to complement rather than compete directly with premium products developed and marketed by the major mobile telecom operators.

The Directors believe that Telit Plc's Branded EVAR activity is an attractive channel to handset manufactures looking to enter the market, as it supplies them with:

- **Low entry cost to the European market** – manufacturers can introduce their products to the European market using Telit Plc's distribution channels, thereby not having to establish their own.
- **Fast to market** – with feedback from Telit Plc's established customer base, products are brought into the market only if proven to be attractive, well adapted and well priced thereby avoiding the need for manufacturers to spend time and money on developing products that may subsequently prove to be unsuitable.
- **Development, localisation, technical and product packaging** – the Telit brand is applied to the manufacturers' products and the Company provides its in-house technical services. This reduces the manufacturers' own costs.
- **After sales support** – in order to penetrate new markets, manufacturers often need to set up after sales support (labs, technicians etc.) Telit Plc offers its own after sales support service and combines these services for a number of manufacturers, thereby reducing costs.
- **Marketing & Sales support** – manufacturers can save money by relying on the already established marketing and sales support of Telit Plc.

The Market

The market for cellular phones is in a state of constant growth. Initially, creating new cellular subscribers fuelled the growth. Today, with over 1.5 billion active cellular lines, the market growth is still expanding with new subscribers in developing regions, but the dynamics of the market now tend to be more focused on the replacement cycles and future design, as well as technology and features of next generation phones.

There is a surge in cellular device replacements that utilise next generation cellular networks. The resultant swell of demand pushed the market to 34% growth during the first half of 2004 compared to the first half of 2003.

Six cellular phone brands currently dominate the cellular handset market. However, the Directors believe that cellular operators want to expand their sources beyond the major brands to reduce their dependency on the large vendors for three main reasons:

- Operators want to expand their product line, features and options for their subscribers.
- By diversifying the products offered with non-branded devices, operators can place price pressure on the established, large cellular phone vendors.
- Operators want to work with flexible vendors who are more willing to customise the devices to their specific needs and specifications.

Market analysts predict growth in the demand for non-brands from approximately 16% in quarter 4, 2003, to 30% in 2007. Telit Plc provides what the Directors believe to be an optimal product offering which includes:

- A portfolio of cellular handsets and accessories
- Rapid adaptation of products
- Flexible and fast customisation in-house

The Company's Branded EVAR Products

The Group partners with both OEMs and ODMs for cellular devices and accessories. The cellular market is dominated by the top six cellular phone brands which control over 70% of the market. The other 30% is divided into approximately 14% branded handsets and approximately 16% non-branded products. Within this 16% market share, there are many cellular phone developers and manufacturers that are looking for distribution channels. The Group brands its chosen products and pushes them through its distribution channels. The Group offers a comprehensive range of continually updated cellular phones and devices to the market. The Group seeks to achieve sole representation for manufacturers whenever possible, in order to minimize competition. Dai Israel has recently signed an agreement with TCL & Alcatel for the representation in the Israeli market.

Telit Plc sources its products from a number of handset OEM and ODM manufacturers. This number is constantly growing and the variety often changes due to the customer's demands and the manufacturer's availability. Appendix 1 shows the current product range of the Branded EVAR business division.

Telit Plc is able to provide localised products for each targeted market, distribute within each target market and ensure the existence of after sales support to customers in each such target market. In Italy and Israel, Telit Plc provides the after sales support to its customers through its own operation, whilst in other territories it is provided by its distribution partners.

Building on the existing customer base, the Company is diversifying its product offering into complementary yet synergistic other end user equipment such as ADSL, IP Phones, WLL Phones and UMTS phones. Progress has already been made to achieve this sales plan.

The Company is currently distributing these products in Italy via one of the operators and through direct selling to wholesalers and retailers, and in the Netherlands, Slovenia, Portugal, Istael, Mexico and Germany through operators.

Distribution and Customers

Depending on the market dynamics of the geographical region, the Group either distributes its products to cellular operators directly or through open market wholesale and retail channels. In some regions where cellular operators control the cellular phone distribution via aggressive subsidy plans, the Group is, either directly or in conjunction with its local distributor partner, working with the cellular operators. In other regions where cellular operators do not offer aggressive subsidies on phones, the Group works with a number of wholesale and retail stores in addition to working with the cellular operators to distribute the Group's products.

Telit Plc plans to build on its already established markets in Italy, Israel, Mexico, Holland, Germany, Slovenia and Portugal as well as targeting new markets to achieve its growth. Telit Plc's CDMA products penetrated the Israeli market in 2001, and since 2003 were branded Telit, and within these four years achieved overall market share in Israel of 12% and a 36% share of the Israeli CDMA market in the year 2004. The Company plans to replicate this achievement in its target markets.

RESEARCH AND DEVELOPMENT

The research and development division is responsible for the maintenance of the Company's current platforms and Protocol Stack as well as the development of new platforms and new products.

The division is driven by a management structure composed by Direction, Planning, Project Leaders and Departments Managers. Research and development division has the competence to cover all design phases, from product definition to mass production, including all prototyping phases, qualification and testing, product acceptance, production tools design and product maintenance during mass production phase. The division is organised into 4 separate departments to cover different areas: hardware, software, engineering and qualification.

Hardware Department

The Hardware department designs the hardware platform and the electrical parts of the Company's various products. It also evaluates new solutions that can be implemented on future products to enhance performance, achieve smaller dimensions and lower cost.

Software Department

One of the most important assets of Telit Plc is the software integrated by the Company into its products. Having control of all key software tasks, from hardware controls to protocol stack, allows Telit Plc to integrate new features necessary to reach the right position in the market, customise different products to satisfy specific requirements for network settings and allows swifter resolution of any problems that may occur in the product validation phase.

Product Engineering Department

Development of a product requires not only hardware and software development, but also the transformation of the reference design into real products that are capable of being mass produced. This is the responsibility of the engineering department which defines the identity of mobile phones or data products, implements the design mathematics, generates all files for mould developers and finally validates and eventually corrects the result of the final plastic parts of products. The department also generates all product documentation that will be used in the production line, in all technical and certifications manuals and documents. A specific team within the Product Engineering Department is in charge of the development of software and hardware related to mass production tools: this permits the Company to be completely independent from contract manufacturers regarding production fixture.

Qualification Department

The Qualification department covers different tasks related to product qualification, such as validation, field-testing and instrumental testing. All pre-qualification tests are performed by this group, including GSM test cases for RF and protocols. This will save time and money for certification process that is performed externally. The department works in contact with SW team to pre-test and qualify all new software features and perform all field test that are necessary on customer location for product acceptance phase. Before release to production a new software a deep regression test session is performed by Qualification team to check back compatibility that is a major request in m2m market.

OTHER DEVELOPMENTS

Catania Grant Application

On 31 July 2004 Dai Italy filed an application in relation to an investment of approximately €27 million from the Italian Government. Approximately 40% of this investment is a grant and the remaining part is a EURO loan bearing a floating rate of approximately 0.5% interest provided by Italian lending institutions, backed by the Italian Government. The investment is for opening a design centre, which will be owned and operated by Telit, in Catania (Scientific and Technological Park) in Sicily including recruitment of 100 R&D employees. The Company expects to hear if it has been successful in this application by mid 2005.

The timetable for completion of the program is approximately two and a half years. The primary activity of the design centre will be the development of new wireless platforms implementing EDGE and UMTS technologies.

Emily Project

EMILY is the acronym for European Mobile Integrated Location System. This project is part of the 5th Framework Programme funded by the European Commission concerning the research and technological development of Location Based Services (LBS) based on a hybrid solution combining GPS and GSM/GPRS.

It is a co-operative research project, where the Company co-operates with other partners:

– ERTICO ITS Europe, coordinator, based in Brussels;

– Bouygues Telecom, Network Operator, based in Paris;

– Cap Gemini Ernst &Young, systems integration and technology development, based in Paris;

– u-blox, based in UK, and Switzerland, that develops GPS receivers;

– UPC, Universitat Politècnica de Catalunya, based in Barcelona, develops the hybridisation algorithms.

The Company is involved in the cellular terrestrial user terminal utilised in the system.

The project is in the applied research phase and started at the beginning of 2003. It is planned to end in the first quarter of 2005.

INTELLECTUAL PROPERTY

The Group's core products are enhanced commercially by the fact that the Group has been applying for and has acquired patent and utility model rights for its products during their development. Granted patents are a form of monopoly protection which may be used to prevent people from copying the technology developed by others, and normally last for 20 years from the date of their filing. A Utility model is similar to a patent providing a similar monopoly protection for certain types of invention.

Though difficult to quantify, there is considerable commercial, and therefore financial, value in the Group's intellectual property portfolio. If a competitor wishes to use the products covered by any of the Group's granted patents or patent applications once granted, it will require a licence from the Group. In addition to filing for patent protection for technologies developed internally, the Group has acquired a number of patents by assignment following the acquisition of Telit.

The Group has patent applications pending and patents granted for a number of inventions and retains a team of qualified Patent and Trade Mark Attorneys to handle the filing, administration and prosecution of its intellectual property portfolio.

The Group generally files applications initially in Italy. The Italian application becomes the basis on which a PCT (Patent Co-operation Treaty) application is filed. Once the PCT examiner grants a positive opinion regarding the validity of the patent, Telit Plc decides in which additional countries to file the related national applications.

The Group has also protected its Telit brand through trade mark registrations in key countries and made a number of defensive trade mark registrations.

Further information on the Group's intellectual property portfolio is given in Appendix 2.

FINANCIAL SUMMARY AND CURRENT TRADING AND PROSPECTS

Set out below is a summary of the financial record of the Group for the three year period to 31 December 2004 which has been extracted without material adjustment from the Accountants' Reports set out in Part III of this document. In order to make a proper assessment of the financial position of the Group, investors should not rely solely on the summary information set out below but should read the whole of this document, including the Accountants' Reports set out in Part III of this document.

	Year ended 31 December 2002 €'000	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2004 €'000*
Revenue	24,194	24,828	75,343
Cost of sales	(19,035)	(20,304)	(63,174)
Gross profit	5,159	4,524	12,169
Operating income/(loss)	660	(10,757)	(1,764)

Trading since the year end has been in line with Directors' expectations and the Directors consider that this will continue to be the case for the remainder of the financial year.

The Directors believe that the Company is well positioned to achieve significant growth in its principal operating activities and look to the future with confidence.

DIRECTORS AND SENIOR MANAGEMENT

Yitzhak Apeloig, Chairman, aged 46

From February 2001 until the end of 2004 Mr. Apeloig was the CEO of Polar Infrastructure Ltd. Prior to this, from January 1998 until February 2001, Mr. Apeloig was the vice president of finance and chief financial officer of Polar Investments Ltd and from November 1994 to January 1998 Polar Investment Ltd controller and finance manager. Before Mr. Apeloig joined Polar, he was the vice president finance and chief financial officer of Magal Security Systems Ltd, a publicly traded company on NASDAQ, from November 1992 to November 1994. During his career Mr. Apeloig has been involved in the management of different business organisations including in the field of telecommunications. Mr. Apeloig holds a BA in Economics and Accounting from Tel Aviv University and is a Certified Public Accountant.

Oozi Cats, Chief Executive Officer aged 43

Mr. Cats has 18 years of experience creating and leading business ventures. Mr. Cats co-founded the Group in 2000, and has managed it since its inception. From 1994 to 1999 Mr. Cats founded and managed Auto Depot Ltd, the Israeli mass merchandising chain for vehicle supplies and services. From 1997 to 2002 Mr. Cats was a director at Hamashbir Mahsanei Ofna Ltd, an Israeli mass merchandising public company that is traded on the Tel Aviv Stock Exchange. Mr. Cats has studied at the University of Haifa.

Inbal Barak-Etzion, Chief Financial Officer, aged 33

Ms. Barak Etzion has been Chief Financial Officer of the Group since January 2002. Prior to this position, from 1999 to 2002, she was an executive of New Pharm Drugstores Ltd and April Cosmetics Chain Ltd, leading retailers with more than 60 stores throughout Israel, where she held the position of Chief Financial Officer from 2000. Ms. Barak-Etzion holds a BA in Business Administration and Accounting from the College of Management Academic Studies located in Rishon LeZion and she is a certified Public Accountant. She originally trained as an accountant at KPMG in Israel.

David Charles Denholm Hobley, Non Executive Director, aged 58

Mr. Hobley is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified at Deloitte and subsequently employed at Coopers and Lybrand Geneva. Since 1971, he has worked in investment banking firstly with SG Warburg & Co Ltd (later SBC Warburg) for some 25 years and then since 1998 with Deutsche Bank, London. In his banking career, he has undertaken significant M&A assignments, provided advice to Central Banks and Governments and undertaken many IPOs and privatisations. He is an independent director of Orange SA and of several Orange group companies.

Andrea Giorgio Mandel-Mantello, Non Executive Director, aged 46

Mr. Mandel-Mantello is the founding partner of AdviCorp PLC, a UK Investment Bank regulated by the UK Financial Services Authority. Prior to his work at Advicorp, Mr. Mandel Mantello spent 9 years at SBC Warburg ("SBCW" now known as UBS) in London in various senior management positions including Executive Director of SBC Warburg, member of the Board of SBC Warburg Italia SIM S.p.A, and Country Head for Israel. Prior to working at SBCW Mr. Mandel-Mantello spent 2 years at Chemical Bank International Ltd. in London and 3 years at Banca Nazionale dell'Agricoltura in Rome. Mr. Mandel-Mantello is a director of Coraline S.p.A. a company which has recently acquired the business of Frette S.p.A. Italy's leading producer and retailer of Home Ware; he is a director of MOTO S.p.A. a joint venture in the motorway restaurants business between Compass Group PLC and Cremonini S.p.A.; he is a director of B.O.S. Better On Line Systems, a Nasdaq listed Israeli company involved in VoIP and enterprise solutions. He holds a Bachelors degree in Economics and Political Science from Yale University.

Senior Management

Davidi Piamenta, aged 33 has been General Manager of the Branded EVAR Division since the end of 2003. Prior to this Mr. Piamenta was COO of Dai Israel. Before joining Dai Israel he was the technical manager of Miniline Communications Ltd, a value added reseller of cellular handsets and accessories. Mr. Piamenta also gained valuable experience in the Israeli Air Force technical division where he served for 8 years. He holds a BA from Champlain University.

Moti Elmaliach, aged 45, is the Chief Executive Officer of Dai Israel since July 2003. He has over 17 years of experience in management, marketing and business development. Prior to this position he was from 1998 to 2003 the CEO of Elgadphone Ltd, a subsidiary of Elgadcom Group with 320 employees, which is a leading Israeli telecommunications service integration company. He also served as Elgadphone's VP Marketing & Business Development. From 1993 to 1997 he was at Bezeq Call, a subsidiary of Bezeq Group, Israel's largest telephone and communication conglomerate, as manager of its Projects Department. Mr. Elmaliach holds a MBA in Business Development and a BA in Social Studies from Tel Aviv University.

Dominikus Hierl, aged 37, has been General Manager of the Data Products Division since September 2004. Prior to joining the Company, Mr. Hierl was the Vice President for Business Development at Siemens AG, Wireless Modules, responsible for the strategy and business development of the Wireless Modules Division (one of four divisions of Siemens Mobile) and a member of the management board of the division. During his six year tenure with Siemens, Mr. Hierl worked for Siemens Wireless Modules as a manager in several sales and marketing roles. Prior to working for Siemens, Mr. Hierl worked for 4 years for Rohde & Schwarz as sales manager. He is a graduate of Fachhochschule München in Electrical Engineering (Emphasis on Digital Electronics) and in Industrial Engineering.

Yossi Moscovitz, aged 48, is the Chief Operating Officer of Dai Italy. His previous role within Dai Italy was the head of the Data Products business division. Prior to working for Dai Italy, Mr. Moscovitz was responsible for the management of the Data Products activity of Dai Israel. Before joining Dai Israel he was the chief executive officer of Cell Data Ltd, an Israeli company engaged in the development and sales of data products utilising CDMA technology and the CEO of Microkim, an Israeli company operating in the field of wireless communications. Mr. Moscovitz holds a B.Sc.EE from the Technion, Israel's leading technological institute.

Merav Zimerman, aged 39, has been the vice president of Marketing & Sales of the Group since June 2001. Ms Zimmerman has 13 years of experience in branding and marketing of consumer goods that she acquired through her backround as a marketing director of some of the leading Israeli consumer products manufacturers. From 1998-2001 she was the marketing director of the soft drinks division at Tempo Beer

Industries one of Israel's leading suppliers of soft drinks and beer. Prior to this, from 1995-1998 she was a marketing director of "Gibor Sabrina" a world leader in womens underwear. Ms. Zimerman holds a BS in International Marketing and Trade from F.I.T. University in NYC.

SHARE OPTION SCHEME

The Company has, conditional on Admission, established a share option scheme in order to provide an incentive to executives and employees. Details of the Share Option Schemes are set out in paragraph 7 of Part V of this document. Following Admission it is the Directors' intention to grant options to some 125 employees throughout the Group, over 2,160,714 Ordinary Shares representing 5% of the Enlarged Share Capital.

REASONS FOR ADMISSION TO AIM AND USE OF PROCEEDS OF THE PLACING

The Directors believe that the Company is at a suitable stage in its development where an AIM listing is most appropriate in order to fund the next stage of development and growth within the Group, enhance the profile of the Group amongst its peers and its customers which will, in the opinion of the Directors, have a positive impact on future revenues, provide future access to the capital markets (although there is no current intention to raise further funds) and provide liquidity for investors through the ability to buy and sell Ordinary Shares.

The Directors further believe that the opportunity to motivate its employees through equity participation will enhance the Group's ability to attract and retain key employees.

The net proceeds of the Placing, which are expected to amount to £20.71 million, will be used by the Company for further research and development, to strengthen the Company's sales and marketing function, for investment in fixed assets and to provide working capital for the Group.

DETAILS OF THE PLACING

The Company is proposing to raise approximately £23 million (before expenses) through a conditional placing by Seymour Pierce of 16,428,571 Ordinary Shares at 140 per share.

Pursuant to the Placing Agreement, Seymour Pierce has agreed with the Company, on and subject to the terms set out therein, to use its reasonable endeavours to procure institutional and other investors to subscribe for the New Ordinary Shares at the Issue Price. The placing of the New Ordinary Shares at the Issue Price will raise approximately £20.71 million (net of expenses) for the Company.

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

(a) the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and

(b) Admission being effective no later than 4 April 2005 or such later date as Seymour Pierce and the Company may agree (not being later than 29 April 2005).

The New Ordinary Shares will represent approximately 38.02% of the Enlarged Share Capital. The New Ordinary Shares will be issued credited as fully paid and will rank *pari passu* with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after Admission.

On Admission, at the Issue Price, the Company will have a market capitalisation of approximately £60.5 million.

Admission, settlement and dealings

Application has been made for admission of the Enlarged Share Capital to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 4 April 2005.

Application has been made for all of the issued and to be issued Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place in CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the New Ordinary Shares will be registered in the names of the placees subscribing for them and issued either:

(a) in certificated form, where the placee so elects, with the relevant share certificate expected to be despatched by post, at the placee's risk, by 18 April 2005; or

(b) in CREST, where the placee so elects, and only if the placee is a "system member" (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the Placing Shares subscribed for or purchased expected to take place on 4 April 2005.

Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk.

Pending the dispatch of definitive share certificates (as applicable), instruments of transfer will be certified against the register.

LOCK-UP UNDERTAKINGS AND SIGNIFICANT SHAREHOLDER

Immediately following Admission, the Directors will be interested, in aggregate, in 2,812,499 Ordinary Shares, representing approximately 6.51% of the Enlarged Share Capital. The Directors have undertaken that, subject to certain exceptions, they will not sell or otherwise dispose of, or agree to dispose of, any of their respective interests in the Ordinary Shares held on Admission for a minimum period of 12 months following Admission and for the following 12 months will not sell or otherwise dispose of, or agree to dispose of 50% of their respective interests.

Further details of the Placing Agreement, including the lock-up undertakings given to Seymour Pierce, are set out in paragraph 12 of Part V of this document.

Following Admission, Polar Investments Ltd. will remain a significant Shareholder in Telit Plc retaining an interest in approximately 53% of the Enlarged Share Capital. Polar Investments Ltd. has entered into a controlling shareholders agreement with the Company, further details of which are set out in Part V of this document, and has also undertaken to the Company and Seymour Pierce that it will not sell or otherwise dispose of its interest in the Ordinary Shares for a minimum period of 12 months from Admission and for the following 12 months will not sell or otherwise dispose of, or agree to dispose of 50% of its interest.

Under Rule 9 of the Code, where any person acquires, whether by a single transaction or series of transactions over a period of time, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company which is subject to the Code, that person is normally required by the Panel to make a general offer to the shareholders of that company to acquire the balance of the equity share capital of the company for cash at the highest price paid by him or any person acting in concert with him in the previous 12 months.

Rule 9 of the Code also provides, *inter alia*, that where any person who, together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights of the company, acquires additional shares which carry voting rights, then that person is normally required to make a general offer to the other shareholders to acquire the balance of the shares not held by that person for cash at the highest price paid by him or any person acting in concert with him in the previous 12 months.

Under the Code, a concert party arises where persons acting together pursuant to an agreement or understanding (whether formal or informal) actively co-operate, through the acquisition by them of shares in a company, to obtain or consolidate control of that company. Control means the holding, or aggregate holdings, of shares carrying 30% or more of the voting rights of the company, irrespective of whether the holding or holdings give *de facto* control.

On Admission Polar Investments Ltd will hold 53% of the Company's issued voting share capital and, so long as it is interested in 50% or more of the voting share capital, will be entitled to

increase its interest in the voting rights of the Company without incurring an obligation under Rule 9 of the City Code on Takeovers and Mergers to make a general offer. However, if for any reason its interest falls below 50% in the future, then it will be subject to the restrictions outlined above.

DIVIDEND POLICY

It is the intention of the Directors to aim for capital growth in the medium term and accordingly over this period available profits will be utilised in further developing the Group. Thereafter, subject to available distributable reserves and retaining sufficient profits for re-investment in the Group, the Directors intend to follow a progressive dividend policy.

CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the Company. Following Admission, the Board intends to comply, where appropriate, given the Company's size and the constitution of the Board, with the Combined Code.

The Board has established an audit committee, comprising David Hobley, Andrea Mandel Mantello and Inbal Barak-Etzion, and a remuneration committee comprising David Hobley, Andrea Mandel Mantello and Yitzhak Apeloig. David Hobley is chairman of the audit committee and Andrea Mandel Mantello will be chairman of the remuneration committee. The committees have duties and responsibilities formally delegated to them by the Board.

The audit committee is primarily responsible for ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the auditors relating to the Company's accounting and internal controls and for reviewing the effectiveness of the Company's systems of internal control.

The remuneration committee has a primary responsibility to review the performance of the Company's executive directors and senior employees and to set their remuneration and other terms of employment. The remuneration committee is also responsible for administering the Share Option Schemes referred to in paragraph 7 of Part V of this document.

The Company has also adopted a code for dealings in its shares by Directors and senior employees which is appropriate for an AIM quoted company.

TAXATION

A general guide to the taxation of dividends for Shareholders who are resident in the UK is set out in paragraph 7 of Part V of this document and your attention is drawn to this section. Persons who are in doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their own professional advisers.

ADDITIONAL INFORMATION

Prospective investors should read the whole of this document which provides additional information on the Group and the Placing and not rely on summaries or individual parts only. In particular, the attention of prospective investors is drawn to Part II, which contains a summary of the risk factors relating to any investment in the Ordinary Shares.

PART II

RISK FACTORS

An investment in Ordinary Shares involves a high degree of risk. Accordingly, prospective investors in Ordinary Shares should consider carefully all of the information set out in this document and the risks attaching to an investment in the Company, including, in particular, the risks described below, prior to making any investment decision. The information below does not purport to be an exhaustive list or summary of the risks which the Group may encounter and is not set out in any particular order of priority. Investors should consider carefully whether an investment in the Company is suitable for them in the light of the information in this document and the financial resources available to them. The Group's business, financial condition or operations could be materially and adversely affected by the occurrence of any of the risks described below. In such case, the market price of the Ordinary Shares could decline due to any of these risks and investors could lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse affect on the Group.

Liquidity of the Ordinary Shares and volatility of their price

It may be more difficult for an investor to realise his or her investment in a company whose shares are traded on AIM than a company whose securities are listed on the Official List of the United Kingdom Listing Authority. AIM has been in existence since June 1995 but its future success and liquidity as a market for the Ordinary Shares cannot be guaranteed. The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a range of events and factors. These fluctuations may adversely affect the trading price of the Ordinary Shares, regardless of the Company's performance. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up, and investors may therefore not recover their original investment, especially as the market in the Ordinary Shares may have limited liquidity.

Current operating results as an indication of future results

Telit Plc's operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside of its control. Accordingly, investors should not rely on comparisons with the Group's results to date as an indication of future performance. Factors that may affect the Group's operating results include increased competition, an increased level of expenses as it continues to expand into new business areas, It is possible that, in the future, the Group's operating results will fall below the expectations of securities analysts or investors. If this occurs, the trading price of the Ordinary Shares may decline significantly.

Significant Shareholder

Following Admission, Polar Investments will hold approximately 53% of the Enlarged Share Capital. As a result, Polar Investments will be able to exert significant influence over the Company with respect to its corporate affairs requiring shareholder approval.

Dependence on key executives and personnel

Telit Plc's future success is substantially dependent on the continued services and performance of its executive directors and senior management and its ability to continue to attract and retain highly skilled and qualified personnel. The Directors cannot give assurances that members of the senior management team and the executive Directors will continue to remain with the Group. The loss of the services of the Directors, members of senior management and other key employees could damage the Group's business.

Further details on the Directors and senior management may be found in Part I of this document.

Management of growth

The ability of the Group to implement its strategy in a rapidly evolving market requires effective planning and management control systems. The Directors anticipate that further expansion will be required to respond to market opportunities and the potential growth in its client base. The Group's growth plans may place a significant strain on the Group's management and operational, financial and personnel resources. Therefore the Group's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Group's growth could have a material adverse effect on the Group's business, financial condition and results of operations.

Competition

The Directors intend to continue to invest in the development of potentially competitive and market-leading solutions. However, the cellular telecommunications market is becoming increasingly competitive and the Group may face significant competition, including from domestic and overseas competitors who have greater capital and other resources and superior brand recognition than the Group and may be able to provide better products or adopt more aggressive pricing policies. There is no assurance that the Group will be able to compete successfully in such a market place. The development of new technologies could give rise to significant new competitors to Telit Plc, which may have a material and adverse effect on its business.

Product lifespan and technological change

It should be recognised that as a telecommunications business the Company is in a market that sees continuous technological development. If competitors introduce new products that employ new technologies, or if new industry or government standards and practices emerge, the Group's existing technology and systems may become obsolete. The future success of the Company will depend on the Group's ability to:

- enhance its existing products and services;
- address the increasingly sophisticated and varied needs of its customers; and
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

Developing the Group's technology and product range entails significant technical and business risks. The Group may use or procure new technologies ineffectively or fail to adapt its systems to customer requirements or emerging industry standards. If the Group faces material delays in introducing new products, services or enhancements, it may be at a significant competitive disadvantage.

Product development

The Company's future success depends upon the Group's ability to develop and introduce new products, services or enhancements which meet the needs of its customers.

The Group may need to incur substantial product development expenditure to keep pace and ensure compatibility with new technology in its target markets. If the Group fails to develop and introduce new products, services or enhancements on a timely basis, its products and services may no longer be acceptable in the marketplace and the Group may be unable to attract new customers or retain existing customers.

Additionally, as is normal in the software and hardware industry, the Group has in the past experienced delays in the development, introduction and marketing of new or enhanced products, and there can be no assurance that the Group will not experience similar delays in the future. Any significant delays in product development or introduction could have a material adverse effect on the Group's business, financial condition and results of operations. Further, any failure by the Group to anticipate or respond adequately to changes in technology and customer preferences could have a material adverse effect on the Group's business, financial condition and results of operations.

Strategic partnerships

Part of the Group's strategy is to leverage its relationships with strategic partners. There can be no guarantee that the Group will be able to enter into further strategic alliances or partnership arrangements, or that potential and existing partners will not enter into relationships with competitors. The Group's failure to establish further strategic alliances or the loss of existing partners could have a material adverse effect on its business and financial condition.

Government and legislative change

There may be changes in future government policy in relation to mobile and cellular telecommunications which may have a material effect on the Group's business.

Share price effect of sales of Ordinary Shares by significant Shareholders

The market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares by significant Shareholders following expiry of the lock-up period (or earlier in certain circumstances), as detailed in the paragraph included lock-up undertakings and significant Shareholder in Part I of this document, or the perception that these sales could occur.

The need to raise additional capital in the future

The Group's capital requirements depend on numerous factors, including its ability to maintain and expand its customer base and potential acquisitions. It is difficult for the Directors to predict accurately the timing and amount of the Company's capital requirements. If the plans or assumptions set out in the Company's business plan change or prove to be inaccurate, or if the Company makes any material acquisitions, the Group may require further financing. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

Reliance on intellectual property

The continued success of the Group and its ability to compete effectively with other companies depends, amongst other things, on its ability and/or the ability of its licencees to obtain and maintain patent and other intellectual property protection and to exploit its products. The Group relies and will continue to rely on intellectual property laws and third party non-disclosure agreements to protect its intellectual property rights. Despite precautions which may be taken by the Group to protect its products, unauthorised parties may attempt to copy, or obtain and use its products and other technology incorporated in its products. Further, alternative technological solutions to the development of products similar to the Group's products are available to competitors or prospective competitors of the Group who may be able to work around copyright protection of specific software where patent protection is not available. To the extent that intellectual property rights protect the Group's products, litigation may be necessary to protect such rights and could result in substantial costs to, and diversion of effort by, the Group with no guarantee of success. The failure of the Group to protect its intellectual property rights, and the expense of doing so, could have a material adverse effect on its operating results and financial condition.

No assurance is given that the Group will develop products which are capable of being protected or that any protection gained will be sufficiently broad in its scope to protect the Group's intellectual property rights and exclude competitors from similar technology. The commercial success of the Group will also depend, in part, on its current and future products not infringing intellectual property owned by third parties. Competitors may have filed applications, or may have been granted, or may obtain patents or other intellectual property protection that may relate to products competitive with those of the Group. If this is the case, the Group may have to obtain appropriate licenses from the owners of such intellectual property or cease or alter certain activities, processes or products or develop or obtain alternative technology. There can be no assurance that, if any licences are required, the Group will be able to obtain them on commercially acceptable terms, if at all. Further, there can be no assurances that:

- patents will be issued with respect to applications now pending or which may be applied for in the future.

- patents granted to the Group will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights against third parties.
- the validity or scope of any patents which have been, or may in the future be, granted to the Group or that claims in relation to the patents will not be asserted by other parties.

The European Parliament is currently considering the scope of patent and copyright protection afforded to products enabled by software. Although this EU legislation review is currently facing significant delay, if legislation was passed removing patent protection for software enabled inventions, then EU legislation may not offer patent and copyright protection for the software underlying mobile phones even though such devices use software for their implementation.

Additionally, obligations imposed on third parties by the Group to maintain its confidential information and know-how may be breached or otherwise become known in a manner which provides the Group with no recourse.

Foreign Exchange

Part of the Group's revenue and expenses denominated in either NIS, USD or Euros. As a result, fluctuations in the exchange rate between either the NIS, USD or the Euro and sterling can have a material impact on the Group's financial results.

Safety concerns regarding cellular products

The alleged health risks surrounding the use of mobile phones have been well publicised in recent reports. Whilst there has been no conclusive proof to date that mobile phone use poses health risks, the Directors cannot rule out that this situation may change and in the future the Company could be subject to litigation from the end users of its branded mobile handsets.

Dependence on Key Customers and Suppliers

The Company has significant contracts with a limited number of suppliers, distributors and other business partners some of which may be terminated without cause or on written notice at the expiry of their term. Although the Company knows of no reason why such contracts should be terminated or will not be renewed on the same or more favourable terms the Directors cannot guarantee that the relevant parties commercial position or market conditions will not alter this position. Should any of these contracts be terminated or not be renewed, it could have a material adverse effect on the trading position and any future profitability of the Company.

Isreali Tax Ruling

As a result of a ruling by the Israeli tax authorities, if Telit Plc were to sell shares in Dai Israel or Polar Trade and Services Ltd, a liability to Israeli tax would arise on the difference between the sale proceeds and the original cost of Polar Investments' original holding in those shares. If Polar Trade and Services Ltd were to sell shares in Dai Israel, a similar liability would arise under Israel's general tax laws. The current rate of tax on such gains is 35%, falling to 34% in 2006. This may lead to a double taxation both by the UK tax authorities and the Israeli tax authorities. The Directors have no present intention to make any such disposals.

Product Liability and Insurance

The Group provides repair or replace warranties to its distributors and customers on the products that it sources and supplies. Accordingly, although the Group is confident as to the quality and workmanship of its products, the Group's business exposes itself to potential product liability and indemnity risks which are inherent in the manufacture and supply of its products. The Group has certain product liability insurance in place in Italy and, where negotiated, indemnity protection from its suppliers, but cannot guarantee that if a particular product developed a fault for which it became liable that it would be able to source repairs/replacements on a grand scale or that the level of insurance carried by the Group now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business. There is no guarantee that in the future the Group would be able to obtain product liability insurance.

PART III

FINANCIAL INFORMATION ON THE GROUP

PART A – ACCOUNTANTS' REPORT ON TELIT COMMUNICATIONS PLC ("THE COMPANY")

The following is the full text of a report on the Company from Baker Tilly, the Reporting Accountants, to the Directors of the Company and Seymour Pierce Limited.

BAKER TILLY

2 Bloomsbury Street
London WC1B 3ST
www.bakertilly.co.uk

The Directors
Telit Communications Plc
110 Cannon Street
London
EC4N 6AR

and

The Directors
Seymour Pierce Limited
Bucklersbury House
3 Queen Victoria Street
London
EC4N 8EL

30 March 2005

Dear Sirs

TELIT COMMUNICATIONS PLC ("the Company")

Introduction

We report in connection with the acquisition by Telit Communications Plc ("the Company") of the entire issued share capital of Polar Trade and Services Limited ("Polar Trade", which owns eighty percent of the issued share capital of Dai Telecom Limited, ("Dai Israel")) and twenty per cent of the issued share capital of Dai Israel and its wholly owned subsidiaries (together "the Group") and the proposed placing of ordinary shares of the Company ("the Placing") and admission of the ordinary share capital of the Company to trading on AIM. This report has been prepared for inclusion in the admission document dated 30 March 2005 ("the Admission Document").

The Company was incorporated on 30 November 2004.

The Company has not traded, prepared any financial statements for presentation to members, incurred neither profit nor loss, and has neither declared nor paid dividends or made any other distributions since the date of incorporation. There have been no transactions other than the allotment of shares described below and the execution of the material contracts referred to in paragraph 12 of Part V of the Admission Document. Accordingly, no income statement information is presented in this report.

Basis of preparation

The financial information set out below has been extracted from financial records of the Company for the period ended 31 December 2004, no adjustments being considered necessary. The financial information of the Company for the period ended 31 December 2004 was prepared in accordance with new International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and Interpretation issued by the International Accounting Standards Board (together referred to as "International GAAP"). No audited financial statements have been prepared for submission to members in respect of any period since incorporation.

The financial information set out below has been prepared in accordance with International GAAP specifically for inclusion in this report.

Responsibility

The financial records are the responsibility of the directors of the Company ("the Directors"). The Directors of the Company are also responsible for the contents of the Admission Document dated 30 March 2005 in which this report is included.

It is our responsibility to compile the financial information set out below from the Company's financial records and to make a report in accordance with the requirements of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed.

Basis of opinion

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

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

Opinion

In our opinion, the financial information set out below gives, for the purpose of the Admission Document, a true and fair view of the state of affairs of the Company as at 31 December 2004.

BALANCE SHEET

	As at 31 December 2004 £
Current assets	
Cash and cash equivalents	2
Capital and reserves	
Share capital	2

NOTES TO THE FINANCIAL INFORMATION

1. Share capital

The Company was incorporated on 30 November 2004 with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which two shares were in issue.

On 22 December 2004 the subscriber shares were transferred to Polar Investments Limited and to Polar Industries Limited in consideration of their undertakings to pay up such shares in full.

2. Post balance sheet events

On 17 February 2005 the Company allotted 49,499 ordinary shares of £1 each to Polar Investments Limited and 499 Ordinary Shares of £1 each to Polar Industries Limited. On 24 March 2005, 499 Ordinary Shares of £1 each were transferred from Polar Industries Limited to Polar Investments Limited.

On 24 March 2005 the Company passed an ordinary resolution to sub-divide the issued and the authorised ordinary shares of £1 each in the capital of the Company into 100 shares of 1 pence each. On 24 March 2005, the Company passed an ordinary resolution to increase the authorised share capital of the Company from £50,000 to £800,000 by the creation of 75,000,000 new Ordinary Shares of 1p each.

By a Share Purchase Deed dated 24 March 2005 Polar Investments Ltd. transferred to the Company the entire issued share capital of Polar Trade and Services Ltd. (made up of 1,136 ordinary shares of NIS0.10 each) and 20% of the issued share capital of Dai Israel (250 ordinary shares of NIS0.10 each). The consideration for the transfer of these shares was the issue by the Company to Polar Investments Ltd. of 17,901,785 ordinary shares of 1 pence each in the capital of the Company. Under the terms of the Share Purchase Deed, the Company may not sell its shares in Polar Trade and Services Ltd or Dai Israel for a period of two years.

Under the terms of the Share Purchase Deed, on 24 March 2005 the Company allotted 3,883,925 Ordinary shares of 1p each to the following persons in consideration for their waiver of options held by them over shares in Dai Israel and Polar Trade and Services Ltd.

3. Nature of financial information

The financial information presented above in respect of the period ended 31 December 2004 does not constitute statutory accounts for that period.

4. Consent

We consent to the inclusion of this report in the Admission Document dated 30 March 2005 and accept responsibility for this report for the purposes of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

Baker Tilly
Chartered Accountants
Registered Auditor

PART B – ACCOUNTANTS' REPORT ON POLAR TRADE AND SERVICES LIMITED

The following is the full text of a report on Polar Trade and Services Limited from Baker Tilly, the Reporting Accountants, to the Directors of the Company and Seymour Pierce Limited.

BAKER TILLY

2 Bloomsbury Street
London WC1B 3ST
www.bakertilly.co.uk

The Directors
Telit Communications Plc
110 Canon Street
London
EC4N 6AR

and

The Directors
Seymour Pierce Limited
Bucklersbury House
3 Queen Victoria Street
London
EC4N 8EL

30 March 2005

Dear Sirs

POLAR TRADE AND SERVICES LIMITED ("Polar Trade")

Introduction

We report in connection with the acquisition by Telit Communications Plc ("the Company") of the entire issued share capital of Polar Trade and Services Limited ("Polar Trade" which owns eighty percent of the issued share capital of Dai Telecom Limited, ("Dai Israel")) and twenty per cent of the issued share capital of Dai Israel and its wholly owned subsidiaries (together "the Group") and the proposed placing of ordinary shares of the Company ("the Placing") and admission of the ordinary share capital of the Company to trading on AIM. This report has been prepared for inclusion in the admission document dated 30 March 2005 ("the Admission Document").

Basis of preparation

The financial information set out below is based on the audited financial statements of Polar Trade for the three years ended 31 December 2004, after making such adjustments as we consider necessary. The accounts of Polar Trade for the three years ended 31 December 2004 were prepared and audited in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and Interpretation issued by the International Accounting Standards Board (together referred to as "International GAAP") by Brightman Almagor & Co. in Israel, (a member firm of Deloitte Touche Tohmatsu), who gave unqualified reports thereon. For the purposes of this report, Brightman Almagor & Co. are referred to as the "Auditor" hereinafter. No audited financial statements have been prepared for Polar Trade in respect of any subsequent period.

Financial statements in accordance with International GAAP have not previously been prepared for Polar Trade, as previously financial statements were prepared in accordance with Israeli GAAP for the two years ended 31 December 2003. The financial information set out below has been prepared in accordance with International GAAP specifically for inclusion in this report.

Responsibility

The financial statements on which the financial information within this report is based are the responsibility of the directors of Polar Trade who approved their issue. The Directors of the Company are responsible for the contents of the Admission Document dated 30 March 2005 in which this report is included.

It is our responsibility to compile the financial information set out below from Polar Trade's financial records and to make a report in accordance with the requirements of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously recorded by the Auditors who audited the financial statements underlying the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to Polar Trade's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial information set out below shows, for the purpose of the Admission Document, a true and fair view of the profits and losses and cash flow of Polar Trade for the three years ended 31 December 2004 and of the financial position of Polar Trade at the end of each of the periods.

INCOME STATEMENTS

		Year ended 31 December		
		2002	*2003*	*2004*
	Note	*€'000*	*€'000*	*€'000*
Revenue		132	88	20
Cost of sales		–	–	–
Gross profit		132	88	20
General and administrative expenses	3	(126)	(176)	(33)
Operating income/(loss) before financial expenses		6	(88)	(13)
Financial expenses, net	4	–	–	(23)
Operating income/(loss) after financial expenses		6	(88)	(36)
Other loss		–	(206)	(168)
Income/(loss) before income taxes		6	(294)	(204)
Income taxes	5	(2)	1	–
Net income/(loss) for the year		4	(293)	(204)

Revenues and operating incomes/(losses) all derive from continuing operations.

BALANCE SHEETS

	Note	2002 €'000	2003 €'000	2004 €'000
		As at 31 December		
Non-current assets				
Investment in subsidiary	6	–	–	3,600
Investment in associates	7	45	–	–
Property, plant and equipment		–	2	–
		45	2	3,600
Current assets				
Receivables and other current assets	8	47	48	57
Total current assets		47	48	57
Current liabilities				
Short term borrowings from banks and other lenders		1	4	1
Payables and other current liabilities	9	88	165	–
		89	169	1
Net current liabilities		(42)	(121)	56
Total assets less current liabilities		3	(119)	3,656
Long term liabilities				
Provision for investment loss	7	–	150	–
Long term loan from a parent company	12	–	–	4,121
Net assets/(liabilities)		3	(269)	(465)
Capital and reserves				
Share capital	10	–	–	–
Translation adjustments		(1)	20	28
Retained earnings/(losses)		4	(289)	(493)
Total equity		3	(269)	(465)

CASH FLOW STATEMENTS

	Year ended 31 December 2002 €'000	2003 €'000	2004 €'000
Cash flows from operating activities			
Net profit/(loss) before taxation	4	(293)	(204)
Adjustments for:			
Provision for investment loss	–	206	168
	4	(87)	(36)
(Increase)/decrease in trade and other receivables	(1)	(1)	(9)
Increase/(decrease) in trade and other payables	44	87	(35)
Cash (used by)/generated from operations	47	(1)	(80)
Net cash (used in)/generated by operating activities	47	(1)	(80)
Cash flows from investing activities			
Purchase of property, plant and equipment	–	(2)	–
Proceeds from disposal of property, plant and equipment	–	–	2
Investment in associate	(48)	–	(409)
Investment in subsidiary	–	–	(3,618)
Repayment of loan by subsidiary	1,183	–	–
Net cash (used in)/generated by investing activities	1,135	(2)	(4,025)
Cash flows from financing activities			
Repayment of loan from parent company	(1,183)	–	–
Loan from parent company	–	–	4,108
Short term borrowing from banks	1	3	(3)
Net cash (used in)/generated by financing activities	(1,182)	3	4,105
Effect of exchange rate changes and restatements on cash and cash equivalents	–	–	–
Net increase/(decrease) in cash and cash equivalents)	–	–	–
Cash and cash equivalents at the beginning of the year	–	–	–
Cash and cash equivalents at the end of the year	–	–	–

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital €'000	*Translation adjustment €'000*	*Retained earnings €'000*	*Total €'000*
Balance at 1 January 2002	–	–	–	–
Translation adjustments	–	(1)	–	(1)
Net income for the year	–	–	4	4
Balance at 1 January 2003	–	(1)	4	3
Translation adjustments	–	21	–	21
Net loss for the year	–	–	(293)	(293)
Balance at 1 January 2004	–	20	(289)	(269)
Translation adjustments	–	8	–	8
Net loss for the year	–	–	(204)	(204)
Balance at 31 December 2004	–	28	(493)	(465)

NOTES TO THE FINANCIAL INFORMATION

1. Group and principal activities

Polar Trade and Services Limited ("Polar Trade"), was incorporated in Israel and commenced operations in April 2000.

In July 2000, Polar Trade established a wholly owned subsidiary in Israel, Dai Telecom Limited ("Dai Israel"). Dai Israel is engaged in selling and marketing cellular phones, accessories and spare parts and providing warranty on this equipment.

2. Basis of presentation

The principal accounting policies adopted in the preparation of the financial information are set out below:

(a) Basis of accounting

The financial information has been prepared in accordance with International GAAP specifically for inclusion in this report.

The preparation of financial statements in conformity with International GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Polar Trade's accounting policies.

(b) Translation to the presentation currency

The financial information is presented in Euro, which differs from Polar Trade's functional currency, New Israeli Shekels ("NIS"). Management has considered what would be the most appropriate presentation currency for its financial information. As a result of this review, management has concluded that Polar Trade should adopt the Euro as its presentation currency.

For current year figures all assets and liabilities are translated at the closing rate existing at the balance sheet date. Income and expense items are translated at an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the balance sheet date.

For comparative figures all assets and liabilities are translated at the closing rate existing at the relevant balance sheet date. Income and expense items are translated at an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the previous balance sheet date.

All exchange differences resulting from the application of the translation methods described above are recognised directly in equity.

Actual exchange rates are detailed in paragraph (j) below.

(c) Consolidation

Under the terms determined in IAS27 (Revised) Polar Trade has chosen not to consolidate its subsidiaries.

(d) Opening balances

Polar Trade has applied the transitional provisions of IFRS 1. As permitted under IFRS 1 closing balances for fixed asset cost and depreciation as at 31 December 2001 recorded in the local statutory financial statements of Polar Trade have been taken as deemed opening depreciated historical cost figures as at 1 January 2002 for the purposes of the financial statements. Management believes that the use of figures based on local statutory accounting rules does not result in a significant deviation from the figures that would have been arrived at had figures been produced using depreciated historical cost and the provisions of IAS 29.

(e) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at cost.

(f) Impairment of investments in associates

Polar Trade examines at each balance-sheet date whether there is any indication of impairment in the value of its investments in associates. If the book value of an investment in an associate exceeds its recoverable value, Polar Trade recognises a loss from this impairment. A loss from impairment is first allocated to goodwill and then to the remaining investment account. A loss from impairment in value, other than goodwill, previously recognised, is eliminated only when a change occurs in the estimates used in determining the recoverable amount, from the date the last impairment loss was recognised, while examining the investment as a whole.

(g) Income Taxes

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Polar Trade 's liability for current tax is calculated using tax rates that have been enacted or substantively 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where Polar Trade 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 assets 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 realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other unrestricted short-term deposits with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

(i) Revenue recognition

Revenues from services are recognised as the services are provided.

(j) Foreign currency translation

Transactions in currencies other than Euro are recorded at the rates of exchange prevailing on the dates of the transactions or translated at the average exchange rates for the period. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

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. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the profit and loss account as foreign exchange translation gains less losses.

Translation to the Presentation Currency – (See (b) above).

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used are as follows:

	New Israeli Shekel exchange rate (€/New Israeli Shekel)	*Dollar exchange rate (€/$)*	*Israeli Consumer Price Index (in points) "In respect of"*
As at 31 December			
2004	5.8768	1.3642	100.6
2003	5.5331	1.2636	99.4
2002	4.9696	1.0491	101.31
	%	*%*	*%*
Rate of change for the year ended 31 December			
2004	6.21	7.96	1.2
2003	11.34	20.44	(1.88)
2002	27.22	18.56	6.50

3. General and Administrative Expenses

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Wages and fringe benefits	123	149	22
Others	3	27	11
	126	176	33

4. Financial expenses, net

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Financial costs:			
Interest to related parties, net	–	–	22
Other	–	–	1
	–	–	23

5. Income Taxes

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Current taxes	(2)	–	–
Prior years' taxes	–	1	–
	(2)	1	–

6. Subsidiaries

Details of Polar Trade's subsidiaries at 31 December 2004 are as follows:

Name of Company	*Direct or indirect holding*	*Place of incorporation and operation*	*Ownership interest*	*Principal activity*
Dai Telecom Ltd.	Direct	Israel	80%	Selling and marketing cellular phones, accessories and spare parts and rendering warranty on this equipment
Dai Telecom SpA	Indirect	Italy	80%	Development, manufacturing and selling data products and distributing cellular products
Dai Telecom Far East Pte. Ltd.	Indirect	Singapore	80%	Holding company
Blackbird Investments SA	Indirect	Luxembourg	80%	Non-trading

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Cost of shares	–	–	–
Investment on account of shares	–	–	3,600
	–	–	3,600

Dai Telecom Ltd.

On 30 December 2004 Polar Trade decided to convert a loan rendered to Dai Israel, in the amount of €3.6 million, to receipt on account of shares, which if turned into share capital Dai Israel would issue in respect thereof one share in consideration of par value.

Dai Telcom SpA

In December 2002, through its wholly owned Italian subsidiary, Dai Telecom SpA ("Dai Italy") and Dai Israel signed a five-year lease agreement according to which it would lease the business activity of an Italian company ("the Lessor") on the basis of a "lease of going concern" in consideration of fixed monthly payments not lower than €10,000 plus a given percentage of the profit defined in the agreement. The Lessor was engaged in the development, manufacturing and marketing of cellular phones under the "Telit" brand name. The leasing was carrying out under Italian law it includes assets and liabilities of the business activity, as outlined in the agreement.

Following a resolution of Dai Italy's board of directors to exercise an option to purchase the leased activity in Italy, on 21 June 2004, Dai Italy concluded the exercise of the option.

Dai Italy is currently engaged in the following two main activities:

- Data Product (DP) – Development manufacturing and sale of modules – cellular products for transmitting data designed for the (machine-to-machine) telecom market and services entailing the development and licensing of cellular technology to third parties based on the Company's technological property.
- Branded Enhanced Value Added Reseller (EVAR) – Distribution of cellular products manufactured in the Far East and adapting them to the Italian and European market.

Dai Telecom Far East Pte. Ltd.

On 29 August 2003 Dai Israel transferred its investment in Dai Italy to Dai Telecom Far East Pte. Ltd. ("Dai Singapore"), a company incorporated in the republic of Singapore, in exchange for 100% of the latter's issued share capital. The Singaporean company operates two branches in Switzerland, which were dormant during 2004.

Blackbird Investments S.A.

In May 2004, Dai Singapore acquired 100% of Blackbird Investments S.A ("Blackbird") issued shares, from a party indirectly related to a former investor in it, in consideration of an immaterial amount. Blackbird owns the rights to a liability of Dai Italy which in Dai Israel's consolidated balance sheet at 31 December 2003 amounted to €12 million. Subsequently, this liability, including interest payable, was entirely written off in Dai Israel's consolidated financial statements. Dai Singapore is taking steps to wind up Blackbird.

7. Investments in associates

(a) In May 2002 Polar Trade signed an investing agreement with Tophouse Marketing and Investing Ltd, ("Tophouse"). As a result of continuing losses and lack of cash flows Polar Trade provided a guarantee in favour of the bank as a security for Tophouse loans, in accordance with Polar Trade's share in the Tophouse share capital. This guarantee amounted to approximately New Israeli Shekels 1.5 million. In December 2004 Polar Trade sold its shares to the parent company at book value.

(b) In May 2004 Polar Trade signed an agreement for setting up a company, Mobile Security Ltd. ("Mobile"), to be engaged in the security of cellular phones. In exchange for a 25% share in Mobile's share capital Polar Trade provided it a loan of $300,000 that is convertible into shares, based on the terms of the agreement. In December 2004 Polar Trade sold its shares to the parent company at book value.

(c) In January 2004 Polar Trade signed an agreement with a third party according to which Polar Trade purchased 1.4% of the share capital of ISI international solutions Ltd. ("ISI"), in consideration for $200,000. In December 2004 Polar Trade sold its shares to the parent company at book value.

8. Receivables and other current assets

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Related parties	46	46	54
Others	1	2	3
	47	48	57

9. Payables and other current liabilities

	As at 31 December		
	2002	2003	2004
	€'000	€'000	€'000
Employees and related institutions	–	5	–
Accrued expenses	18	9	–
Government institutions	6	–	–
Advanced income	–	22	–
Related parties	64	129	–
	88	165	–

10. Share capital

(a) Data pertaining to number of shares:

	As at 31 December		
	2002	2003	2004
Ordinary shares of New Israeli Shekels 0.1 par value	1,000,000	1,000,000	1,000,000
Issued	1,136	1,136	1,136

(b) The ordinary shares confer voting rights and rights to receive profits as well as right to Polar Trade's assets upon liquidation.

(c) On 28 March 2002, 136 ordinary shares were issued at par value.

11. Financial Instruments

Fair value of financial instruments

The financial instruments held by Polar Trade are primarily comprised non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, trade accounts receivable and other receivables; non-derivative liabilities include bank loans, trade accounts payable, other payables and other current liabilities). Due to the nature of these financial instruments, there are no material differences between the fair value of the financial instruments and their carrying amount included in the financial information.

12. Related party transactions

For the purposes of the financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Balances with related parties			
Subsidiary – Dai Telecom Limited	46	46	54
Parent Company – Polar Investments Limited	64	129	4,121
Transactions with related parties			
Management fees from Dai Telecom Limited	132	88	20
General and administrative expenses	–	7	9
Financial expenses	5	–	22
Wages and related costs and other benefits			
Payments to Chief Executive Officer	123	119	14

13. Post Balance Sheet Events

By a Share Purchase Deed dated 24 March 2005 Polar Investments Ltd. transferred to the Company the entire issued share capital of Polar Trade and Services Ltd. (made up of 1,136 ordinary shares of NIS0.10 each) and 20% of the issued share capital of Dai Israel (250 ordinary shares of NIS0.10 each). The consideration for the transfer of these shares was the issue by the Company to Polar Investments Ltd. of 17,901,785 ordinary shares of 1 pence each in the capital of the Company. Under the terms of the Share Purchase Deed, the Company may not sell its shares in Polar Trade and Services Ltd or Dai Israel for a period of two years.

Under the terms of the Share Purchase Deed, on 24 March 2005 the Company allotted 3,883,925 Ordinary shares of 1p each to the following persons in consideration for their waiver of options held by them over shares in Dai Israel and Polar Trade and Services Ltd.

14. Consent

We consent to the inclusion of this report in the Admission Document dated 30 March 2005 and accept responsibility for this report for the purposes of paragraph 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

Baker Tilly
Chartered Accountants
Registered Auditor

PART C – ACCOUNTANTS' REPORT ON DAI TELECOM LIMITED

The following is the full text of a report on Dai Telecom Limited and its wholly owned subsidiaries from Baker Tilly, the Reporting Accountants, to the Directors of the Company and Seymour Pierce Limited.

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The Directors
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and

The Directors
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30 March 2005

Dear Sirs

DAI TELECOM LIMITED ("Dai Israel")

Introduction

We report in connection with the acquisition by Telit Communications Plc ("the Company") of the entire issued share capital of Polar Trade and Services Limited ("Polar Trade", which owns eighty per cent of the issued share capital of Dai Telecom Limited, ("Dai Israel")) and twenty per cent of the issued share capital of Dai Israel and its wholly owned subsidiaries (together "the Group") and the proposed placing of ordinary shares of the Company ("the Placing") and admission of the ordinary share capital of the Company to trading on AIM. This report has been prepared for inclusion in the admission document dated 30 March 2005 ("the Admission Document").

Basis of preparation

The financial information set out below is based on the audited consolidated financial statements of the Group for the three years ended 31 December 2004, after making such adjustments as we consider necessary. The consolidated accounts of the Group for the three years ended 31 December 2004 were prepared and audited in accordance with new International Financial Reporting Standards ("IFRS") including revised International Accounting Standards ("IAS") and Interpretation issued by the International Accounting Standards Board (together referred to as "International GAAP") by Brightman Almagor & Co. in Israel, (a member firm of Deloitte Touche Tohmatsu), who gave unqualified reports thereon. For the purposes of this report, Brightman Almagor & Co. are referred to as the "Auditor" hereinafter. No audited consolidated financial statements have been prepared for Dai Israel or its subsidiary undertakings in respect of any subsequent period.

Consolidated financial statements in accordance with International GAAP have not previously been prepared for the Group. Financial statements were prepared in accordance with accounting principles generally accepted in Israel ("Israeli GAAP") for the two years ended 31 December 2003, which did not require to be consolidated. The financial information set out below has been prepared in accordance with International GAAP specifically for inclusion in this report.

Responsibility

The consolidated financial statements on which the financial information within this report is based are the responsibility of the directors of Dai Israel who approved their issue. The Directors of the Company are responsible for the contents of the Admission Document dated 30 March 2005 in which this report is included.

It is our responsibility to compile the financial information set out below from the Group's financial records and to make a report in accordance with the requirements of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously recorded by the Auditors who audited the financial statements underlying the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial information set out below shows, for the purpose of the Admission Document, a true and fair view of the profits and losses and cash flow of the Group for the three years ended 31 December 2004 and of the financial position of the Group at the end of each of the periods.

CONSOLIDATED INCOME STATEMENTS

	Note	2002 €'000	2003 €'000	2004 €'000
		Year ended 31 December		
Revenue	3	24,194	24,828	75,343
Cost of sales	5	(19,035)	(20,304)	(63,174)
Gross profit		5,159	4,524	12,169
Research and development expenses	6	–	(4,882)	(4,201)
Selling and marketing expenses	7	(1,562)	(1,116)	(2,143)
General and administrative expenses	8	(2,937)	(9,283)	(7,589)
Operating income/(loss) before financial expenses		660	(10,757)	(1,764)
Financial expenses, net	9	(607)	(727)	(627)
Operating income/(loss) after financial expenses		53	(11,484)	(2,391)
Waiver of third party loan	10	–	–	12,090
Other income	10	2	581	3
Income/(loss) before income taxes		55	(10,903)	9,702
Income tax (expense)/benefit	11	(36)	3,466	(327)
Income/(loss) after income taxes		19	(7,437)	9,375
Share in results of associate		–	(128)	(153)
Net income/(loss) for the year from continuing operations		19	(7,565)	9,222
Profit/(loss) for the year from discontinuing operations	13	775	110	(596)
Net income/(loss) for the year		794	(7,455)	8,626
Basic earnings/(loss) per share (in Euro):	14			
From continuing operations		19	(6,052)	7,378
From continuing and discontinuing operations		794	(5,964)	6,901
Number of shares used in above computation		1,000	1,250	1,250
Diluted earnings/(loss) per share (in Euro):				
From continuing operations		19	(6,052)	7,121
From continuing and discontinuing operations		778	(5,964)	6,661
Number of shares used in above computation		1,020	1,250	1,295

Revenues and operating incomes/(losses) all derive from continuing operations.

CONSOLIDATED BALANCE SHEETS

	Note	2002 €'000	2003 €'000	2004 €'000
		As at 31 December		
Non-current assets				
Investment in associate	18	–	949	746
Deferred expenses		225	83	46
Property, plant and equipment	15	1,579	2,111	1,558
Intangible assets	16	–	203	86
Deferred tax asset	12	19	3,683	3,687
		1,823	7,029	6,123
Current assets				
Cash and cash equivalents		16,600	6,103	582
Trade accounts receivable	20	7,827	10,579	34,777
Receivables and other current assets	21	9,771	7,713	8,343
Inventories	19	4,086	4,386	6,093
		38,284	28,781	49,795
Current liabilities				
Short term borrowings from banks and other lenders	22	10,601	7,449	28,021
Trade accounts payable	23	1,341	11,090	6,297
Payables and other current liabilities	24	10,872	9,879	9,633
		22,814	28,418	43,951
Net current assets		15,470	363	5,844
Total assets less current liabilities		17,293	7,392	11,967
Non-current liabilities				
Loans from other lenders	25	9,062	6,591	–
Retirement benefit costs	31	1,908	1,558	1,591
Provisions and other long term liabilities	26	–	974	159
		10,970	9,123	1,750
Net assets/(liabilities)		6,323	(1,731)	10,217
Capital and reserves attributable to equity holders				
Share capital	27	–	–	–
Perpetual capital note		288	288	288
Translation adjustments, net		(66)	(665)	(943)
Receipt on account of shares		5,000	5,000	8,600
Retained earnings/(losses)		1,101	(6,354)	2,272
Total equity/(deficiency)		6,323	(1,731)	10,217

CONSOLIDATED CASH FLOW STATEMENTS

	Note	2002 €'000	2003 €'000	2004 €'000
		Year ended 31 December		
Cash flows from operating activities	30			
Net income/(loss) before taxation from continuing operations		55	(10,903)	9,702
Adjustments to reconcile net income/(loss) from continuing operations to net cash (used by)/generated by operating activities		(949)	8,945	(44,038)
Net income/(loss) from discontinuing operations		775	110	(596)
Income tax (expense)/benefit		(36)	3,466	(327)
Deferred taxes, net		(19)	(3,666)	(5)
Net cash used in operating activities		(174)	(2,048)	(35,264)
Cash flows from investing activities				
Purchase of property, plant and equipment		(278)	(1,234)	(298)
Acquisition of subsidiary net of cash acquired		9,869	–	–
Addition to intangible asset		–	(314)	(10)
Investment in associate		–	(927)	–
Designated deposit for investment in associate		–	(218)	–
Proceeds from sale of property, plant and equipment		16	21	215
Net cash (used in)/generated by investing activities		9,607	(2,672)	(93)
Cash flows from financing activities				
Short-term borrowing from banks and others		1,601	(5,268)	26,237
Parent company, net		(1,486)	–	–
Proceeds from issue of perpetual capital note		288	–	–
Receipt on account of shares/additional capital		5,000	–	3,600
Net cash (generated)/used in by financing activities		5,403	(5,268)	29,837
Effect of exchange rate differences		(480)	(509)	(1)
Net increase/(decrease) in cash and cash equivalents		14,356	(10,497)	(5,521)
Cash and cash equivalents at the beginning of the year		2,244	16,600	6,103
Cash and cash equivalents at the end of the year		16,600	6,103	582
Supplemental disclosure of cash flow information:				
Cash paid for interest		318	200	503
Cash paid for income taxes		208	222	609

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital €'000	*Receipts on account of shares €'000*	*Translation adjustment €'000*	*Perpetual capital note €'000*	*Retained earnings €'000*	*Total equity €'000*
Balance as at 1 January 2002	–	–	–	–	307	307
Issue of share capital and perpetual capital note and receipt on account of shares	–	5,000	–	10,000	–	15,000
Effect of leasing agreement	–	–	–	(9,712)	–	(9,712)
Translation adjustments	–	–	(66)	–	–	(66)
Net income for the year	–	–	–	–	794	794
Balance as at 1 January 2003	–	5,000	(66)	288	1,101	6,323
Translation adjustments	–	–	(599)	–	–	(599)
Net loss for the year	–	–	–	–	(7,455)	(7,455)
Balance as at 1 January 2004	–	5,000	(665)	288	(6,354)	(1,731)
Receipts on account of shares	–	3,600	–	–	–	3,600
Translation adjustments	–	–	(278)	–	–	(278)
Net income for the year	–	–	–	–	8,626	8,626
Balance as at 31 December 2004	–	8,600	(943)	288	2,272	10,217

NOTES TO THE FINANCIAL INFORMATION

1. Group and principal activities

Dai Israel was incorporated in Israel and commenced operations in July 2000. Dai Israel represents Pantech & Curitel Inc. (a communications equipment manufacturing company incorporated in Korea and listed on the Korean Stock Exchange) in the Israeli cellular market and is engaged in selling and marketing cellular phones, accessories and spare parts. Subsequent to 31 December 2004 Dai Israel is wholly owned by the Company, which owns eighty per cent of the issued share capital indirectly through its wholly owned subsidiary Polar Trade (a company incorporated in Israel) and twenty per cent directly.

Dai Israel also has operations based in Italy through its wholly owned subsidiary Dai Telecom SPA ("Dai Italy").

In December 2002 Dai Italy entered into an agreement to lease the business (including certain assets and liabilities) of a company incorporated in Italy ("the Lease of Going Concern"). In June 2004, following a resolution of Dai Israel's board of directors to exercise an option to purchase the leased activity, Dai Italy exercised the option (see also Note 17).

Dai Italy is currently engaged in the following two main activities:

(a) Data Products: The development, manufacture and sale of data product modules. The modules are cellular GSM/GPRS products for transmitting data designed for the machine-to-machine telecommunications market. Related activities include the development and licensing of cellular technology to third parties based on Dai Italy's technological property.

(b) Branded Enhanced Value Added Reseller ("BEVAR"): The distribution of third party cellular products and adapting them for sale to the European, Italian, Mexican and Israeli markets (including products of Far East manufacturers), and providing the aftermarket activities for all devices sold by it.

2. Basis of presentation

The principal accounting policies adopted in the preparation of the consolidated financial information are set out below:

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance International GAAP for the first time. Dai Israel elected to early adopt IFRS and IAS (that should be effective 1 January 2005). The consolidated financial statements of Dai Israel for the years ended 31 December 2002 and 31 December 2003 represent the conversion of Dai Israel's financial statements from Israeli GAAP to International GAAP. Therefore, the date of transition to International GAAP is 1 January 2002. The consolidated financial statements for the year ended 31 December 2004 have been prepared in accordance with International GAAP only.

The disclosures required by IFRS 1 concerning the transition from Israeli GAAP to International GAAP are explained further below (see paragraph d) Transition to International GAAP).

The operating companies making up the Group maintain their accounting records in accordance with Israeli (Dai Israeli) and Italian (Dai Italy) regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with International GAAP. The financial information has been prepared in accordance with International GAAP specifically for inclusion in this report. The financial information does not include the disclosures required by IFRS 1 concerning the transition from Israeli GAAP to International GAAP.

The preparation of financial statements in conformity with International GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(b) Translation to the presentation currency

The consolidated financial information is presented in Euro, which differs from Dai Israel's functional currency, the New Israeli Shekel ("NIS"). The functional currency of Dai Israel's material subsidiary, Dai Italy, is the Euro. Management has considered what would be the most appropriate presentation currency for its consolidated financial information. As a result of this review, management has concluded that the Group should adopt the Euro as the presentation currency.

For current year figures all assets and liabilities are translated at the closing rate existing at the balance sheet date. Income and expense items are translated at an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the balance sheet date.

For comparative figures all assets and liabilities are translated at the closing rate existing at the relevant balance sheet date. Income and expense items are translated at an average rate for the period. Equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the previous balance sheet date.

All exchange differences resulting from the application of the translation methods described above are recognised directly in equity.

Actual exchange rates applied in the translation are detailed in Note (w) below.

(c) Basis of consolidation

The consolidated financial information includes the results of Dai Israel and entities controlled by Dai Israel (its subsidiaries). Control is achieved where Dai Israel has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The Lease of Going Concern is accounted as an acquisition as the circumstances indicate that control over the Lease of Going Concern was achieved from its inception in December 2002.

On acquisition and when control is achieved, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition or at the date control is achieved. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All significant intra-group transactions and balances between the Group's companies are eliminated on consolidation.

(d) Transition to International GAAP

The consolidated financial statements of Dai Israel for the two years ended 31 December 2003 represent the conversion of Dai Israel's financial statements from Israeli GAAP to International GAAP. International GAAP differs in certain respects from Israeli GAAP, and the major differences are described below:

Presentation Currency

In accordance with the pronouncements of the Institute of Certified Public Accountants in Israel, Dai Israel has used NIS as the presentation currency in its financial statements and used the basis of historical cost, adjusted for changes in the general purchasing power of the NIS.

The consolidated financial statements are presented in Euros. The assets and liabilities of Dai Israel's operations were translated at the closing exchange rates prevailing as at the balance sheet date. Income and expenses and cash flow items were translated at the average exchange rates for the period. Exchange rate differences arising, if any, were recorded directly to the shareholders' equity as a separate component of shareholders' equity (translation adjustment).

Basis of consolidation

Under Israeli GAAP the financial statements of Dai Italy as well as the Lease of Going Concern were not consolidated at the date of inception of the lease (23 December 2002) since the circumstances indicated that control over the Lease of Going Concern was intended to be temporary until Dai Israel's assessment of the prospects for continued Italian operations changed. Therefore under Israeli GAAP, the financial statements of Dai Italy, including the assets and liabilities of the Lease of Going Concern, were first consolidated as at 31 December 2003.

The revised IAS 27 does not contain an exception from consolidation of an investment in a subsidiary with near-future realisation in mind and, therefore, under IAS 27 (revised), Dai Italy must be consolidated from the date of incorporation in June 2002. Therefore in accordance with International GAAP the financial statements of Dai Italy as well as the Lease of Going Concern have been accounted for as a business combination and consolidated from the date of incorporation.

The major differences set out above between Israeli GAAP and International GAAP make it impracticable to provide the disclosure required by IFRS 1. The disclosure required will not assist users in an understanding of the material adjustments to the balance sheets and income statements.

Therefore the following reconciliations are not provided:

The reconciliation of the profit or loss reported under Israeli GAAP for the latest period in Dai Israel's most recent annual financial statements to its profit or loss under International GAAP for the same period.

The reconciliation of the equity reported under Israeli GAAP to the equity under International GAAP as at the date of transition to International GAAP and as at Dai Israel's latest period end in its most recent annual financial statements prepared under Israeli GAAP.

(e) Opening balances

The Group has applied the transitional provisions of IFRS 1. As permitted under IFRS 1 closing balances for fixed asset cost and depreciation as at 31 December 2001 recorded in the local statutory financial statements of the companies that make up the Group have been taken as deemed opening depreciated historical cost figures as at 1 January 2002 for the purposes of these consolidated financial statements. Management believes that the use of figures based on local statutory accounting rules does not result in a significant deviation from the figures that would have been arrived at had figures been produced using depreciated historical cost and the provisions of IAS 29.

(f) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(g) Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is applied to all items of property, plant and equipment with the exception of land. Depreciation is charged so as to write off the cost over the estimated useful life of the asset using the straight-line method on the following bases:

Office furniture and equipment	6%-15%
Computers and software	33%
Vehicles	15%
Leasehold improvements	10%
Machines and equipment	10%-25%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in income.

(i) Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in profit or loss. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Internally generated intangible assets – Research and development costs

Cost of 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 is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development cost is recognised as an expense in the period in which it is incurred.

(j) Impairment of tangible and intangible assets excluding goodwill

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.

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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 recognised as an expense immediately.

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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(k) Impairment of investments in associates

The Group examines at each balance-sheet date whether there is any indication of impairment in the value of its investments in associates. If the book value of an investment in an associate exceeds its recoverable value, the Group recognises a loss from this impairment. A loss from impairment is first allocated to goodwill and then to the remaining investment account. A loss from impairment in value, other than goodwill, previously recognised, is eliminated only when a change occurs in the estimates used in determining the recoverable amount, from the date the last impairment loss was recognised, while examining the investment as a whole.

(l) Income taxes

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where 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 assets 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 realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other unrestricted short-term deposits with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

(n) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. 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.

(p) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

(q) Trade payables

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

(r) Provisions

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

Provisions for legal claims are recognised when: (a) the Group has a present legal or constructive obligation as a result of past events; (b) it is more likely than not that an outflow of resources will be required to settle the obligations; and the amount has been reliably estimated. Restructuring provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

(s) Retirement benefit costs

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur.

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

(t) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of Black & Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural consideration.

(u) Revenue and expense recognition

Revenues and expenses are recognised on an accruals basis.

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, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenues from services are recognised as the services are provided.

Advertising costs are recognised in the income statement in the period in which they are incurred.

(v) Leases

The Lease of Going Concern is accounted as an acquisition where the circumstances indicate that control over the going concern was achieved.

Other 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.

Rentals payable under operating leases are charged to statement of income on a straight-line basis over the term of the relevant lease.

(w) Foreign currency translation

Transactions in currencies other than the Euro are recorded at the rates of exchange prevailing on the dates of the transactions or translated at the average exchange rates for the period. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

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. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the profit and loss account as foreign exchange translation gains less losses.

Translation to the Presentation Currency – see (b) above.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used are as follows:

	New Israeli Shekel exchange rate (€/NIS)	*US Dollar exchange rate (€/$)*	*Israeli Consumer Price Index (in points)*
As at 31 December			
2004	5.8768	1.3642	100.6
2003	5.5331	1.2636	99.4
2002	4.9696	1.0491	101.31
	%	%	%
Rate of change for the year ended 31 December			
2004	6.21	7.96	1.2
2003	11.34	20.44	(1.88)
2002	27.22	18.56	6.5

(x) Financial instruments

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

The carrying amounts of the Group's financial assets and liabilities (comprising investments, bank and cash balances, trade and other debtors, trade and other creditors and short and long-term borrowings) approximate to their fair values at the date of the transaction. Where the fair value of a financial asset is materially below the carrying amount, the carrying amount is written down to fair value.

(y) Derivative financial instruments

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

In accordance with the transitional provisions specified in IFRS 1, the comparative information has not been restated to reflect the requirements of IAS 39 (revised) regarding embedded derivatives.

(z) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

(aa) Earnings per share

Basic and diluted earnings per share is computed on the basis of the weighted average of paid up capital shares during the year in accordance with IAS 33 (revised) – Earnings per share.

3. Revenue

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Revenue			
Sales of goods	24,036	47,006	72,223
Services	989	1,991	2,918
Others	204	3,508	202
Total sales	25,229	52,505	75,343
Revenues from discontinued operations	(1,035)	(27,677)	–
Total revenue	24,194	24,828	75,343

Dai Israel's sales include sales of €46 million (2003: €15.6 million, 2002: €18.4 million) to a major customer.

4. Segmental analysis

For management purposes, the Group is currently organised into two operating divisions, Data Products and Branded Enhanced Value Added Reseller ("BEVAR") (see Note 1). These divisions are the basis on which the Group reports its primary segment information. Segment information of these businesses is presented below:

Revenue by business segment

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
BEVAR			
External revenues	24,194	19,023	63,583
Inter-segment revenues	–	–	–
Total segment revenue	24,194	19,023	63,583
Data Products			
External revenues	–	5,805	11,559
Inter-segment revenues	–	–	–
Total segment revenue	–	5,805	11,559
Consolidated			
External revenues	24,194	24,828	75,142
Inter-segment revenues	–	–	–
Unallocated income	–	–	201
Total revenue	24,194	24,828	75,343

Operating income/(loss) before financial income/(expenses) by business segment

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
BEVAR	660	(3,545)	3,340
Data Products	–	(7,507)	(5,179)
Unallocated income	–	–	201
Eliminations	–	1,000	–
	660	(10,052)	(1,638)
Unallocated corporate expenses	–	(705)	(126)
Operating income/(loss) before financial income/(expenses)	660	(10,757)	(1,764)

Other information by business segment

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Segment assets			
BEVAR	22,892	11,907	33,658
Data Products	–	3,293	6,306
Total segmental assets	22,892	15,200	39,964
Investment in associate (equity method)	–	949	746
Unallocated corporate assets	17,215	19,661	15,208
Consolidated total assets	40,107	35,810	55,918
Segment liabilities			
BEVAR	1,957	2,748	4,527
Data Products	–	6,295	900
Total segmental liabilities	1,957	9,043	5,427
Unallocated corporate liabilities	31,827	28,498	40,274
Consolidated total liabilities	33,784	37,541	45,701

Other information by business segment

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Capital expenditure			
BEVAR	278	328	22
Data Products	–	–	–
Total segmental capital expenditure	278	328	22
Unallocated capital expenditure	1,172	1,254	292
Total capital expenditure	1,450	1,582	314
Depreciation			
BEVAR	72	119	101
Data Products	–	–	–
Total segmental depreciation	72	119	101
Unallocated depreciation	256	633	564
Total depreciation	328	752	665

Geographical segments

The Group's operations are located in Israel and Italy. The Group's BEVAR activity is located in Israel and Italy. The design, development, manufacturing and selling of Data Products is carried out in Italy. The following table provides an analysis of the Group's revenues by geographical market, irrespective of the origin of the goods or services:

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Revenue by geographical market			
Europe	–	6,592	20,485
Israel	23,923	15,556	50,521
Rest of the world	271	2,680	4,337
Total revenue	24,194	24,828	75,343

The following table provides an analysis of the Group's carrying amount of assets by geographical segment:

	As at 31 December		
	2002	2003	2004
	€'000	€'000	€'000
Assets by geographical market			
Europe	17,225	26,709	28,998
Israel	22,882	9,101	26,920
Total assets	40,107	35,810	55,918

5. Cost of sales

	Year ended 31 December		
	2002	2003	2004
	€'000	€'000	€'000
Purchasing, duty, transportation and storage	17,465	38,330	58,530
Technical consulting	2,994	1,854	5,050
Wages and fringe benefits	254	287	227
	20,713	40,471	63,807
(Increase)/decrease in inventory during the year	(1,504)	382	(37)
	19,209	40,853	63,770
Cost of goods from discontinued operations	(174)	(20,549)	(596)
Total cost of sales	19,035	20,304	63,174

Dai Israel's purchases and technical consulting are mainly from a major supplier.

6. Research and development expenses

	Year ended 31 December		
	2002	2003	2004
	€'000	€'000	€'000
Wages and fringe benefits	107	4,881	3,076
Depreciation	–	380	225
Consultancy	7	187	168
Rent and Travel	–	776	131
Maintenance	–	75	89
Utilities	–	80	–
Other	–	1,341	512
	114	7,720	4,201
Research and development expenses from discontinued operations	(114)	(2,838)	–
Total research and development expenditure	–	4,882	4,201

7. Sales and marketing expenses

	Year ended 31 December 2002 €'000	2003 €'000	2004 €'000
Wages and fringe benefits	238	1,576	830
Advertising	1,125	402	799
Marketing and Sales promotion	309	598	224
Foreign travel and others	53	740	290
	1,725	3,316	2,143
Sales and marketing expenses from discontinued operations	(163)	(2,200)	–
Total sales and marketing expenditure	1,562	1,116	2,143

8. General and administrative expenses

	Year ended 31 December 2002 €'000	2003 €'000	2004 €'000
Wages and fringe benefits	1,099	3,876	2,308
Consulting fees and business brokerage	569	2,468	3,000
Rental and maintenance	327	1,030	711
Depreciation	86	381	484
Travel	11	876	340
Professional fees	314	91	264
Vehicle expenses	140	128	94
Management fees to related parties	184	487	81
Doubtful debt	–	101	79
Foreign travel	165	45	77
Provisions for risks	–	700	–
Other	126	1,080	151
	3,021	11,263	7,589
General and administrative expenses from discontinued operations	(84)	(1,980)	–
Total general and administrative expenses	2,937	9,283	7,589

9. Finance income/(expenses)

	Year ended 31 December 2002 €'000	2003 €'000	2004 €'000
Investment income:			
Interest on bank deposits	3	155	–
	3	155	–
Finance costs:			
Exchange rate (losses)/gains	(222)	233	37
Interest expense on bank credit, net	(313)	(177)	(389)
Bank fees	(32)	(786)	(104)
Interest on customer and supplier credit, net	(26)	105	(193)
Interest to related parties, net	(13)	39	16
Erosion of monetary items and others	(4)	(296)	6
	(610)	(882)	(627)
Financial expenses, net	(607)	(727)	(627)

10. Other Income

	Year ended 31 December 2002 €'000	2003 €'000	2004 €'000
Profit on disposal of property, plant and equipment	2	2	3
Waiver of third party loan (see Note 25, Loan from other lenders)	–	–	12,090
Other	294	579	–
	296	581	12,093
Other income from discontinued activities	(294)	–	–
Total other income	2	581	12,093

11. Income tax (expense)/benefit

	Year ended 31 December 2002 €'000	2003 €'000	2004 €'000
Current tax expense	(80)	(194)	(269)
Deferred tax relating to the origination and reversal of temporary differences	20	3,666	5
Current tax from discontinued operations	19	–	–
Prior year tax	5	(6)	(63)
Income tax (expense)/benefit for the year	(36)	3,466	(327)

The income tax charges for the years can be reconciled to the income/(loss) in the income statement as follows. The rates of tax used represent the nominal rate of tax in Israel for the relevant years.

	Year ended 31 December 2002 €'000	2003 €'000	2004 €'000
Income/(loss) before income tax	55	(10,903)	9,702
Ordinary rates of income tax	36%	36%	35%
Tax computed by ordinary rates	(20)	3,925	(3,396)
Tax savings/(expense) due to:			
Tax effect of (expenses)/income that are not deductible in determining taxable profit	–	(533)	4,389
Decrease/(increase) in taxes resulting from different tax rate	–	46	(1)
Decrease/(increase) in losses for which deferred taxes were not provided	–	58	(1,270)
Prior years' income tax expenses	5	(7)	(62)
Other differences	(21)	(23)	13
Income tax (expense)/benefit	(36)	3,466	(327)

12. Deferred tax asset

The following is the major deferred tax asset recognised by the Group and movements thereon during the current and prior reporting period.

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Tax losses			
At 1 January	–	–	3,666
Credit to income statement	–	3,666	–
	–	3,666	3,666
Retirement benefit obligations			
At 1 January	–	1	3
Credit to income statement	1	2	1
	1	3	4
Vacation and other social benefits			
At 1 January	–	18	14
Credit/(charge) to income statement	19	(2)	4
	19	16	18
	20	3,685	3,688
Translation adjustments	(1)	(2)	(1)
Deferred tax asset	19	3,683	3,687

At the balance sheet date the Group has unused tax losses of €13.6 million (in Dai Italy) available for offset against future profits. The losses incurred in Italy to 31 December 2004 have no expiry date. A deferred tax asset has been recognised in respect of €11.1 million of such losses. No deferred tax has been recognised in respect of the remaining losses due to the unpredictability of future profit streams.

No liability had been recognised in respect of temporary differences associated with undistributed earnings because the Group is in a position to control the timing of the reversal of those temporary differences and it is probable that such differences will not reverse in the foreseeable future.

13. Discontinued operations

During the year ended 31 December 2003 the Group reorganised its activities. As a result the Group decided to discontinue the activities of developing, manufacturing and selling its own cellular handsets in Italy. This resulted in a significant decrease in the Group's number of employees. This decision is in line with the long term strategy of the Group to concentrate its activities in the BEVAR and Data Products divisions, and to discontinue any other activities. The results of the discontinued operations, which have been included in the consolidated income statement, as a separate component "profit/(loss) from discontinued operations" are as follows:

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Revenues	1,035	27,677	–
Cost of sales	(174)	(20,549)	(596)
Gross profit	861	7,128	(596)
Operating expenses	(361)	(7,018)	–
Other income	294	–	–
	794	110	(596)
Income taxes	(19)	–	–
Results from discontinued operations	775	110	(596)

14. Earnings/(loss) per share

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Earnings from continuing and discontinuing operations:			
Earnings for the purposes of basic earnings per share being net profit/(loss) attributable to equity holders of the parent	794	(7,455)	8,626
Effect of dilutive potential ordinary shares	–	–	–
Earning for the purposes of dilutive earnings per share	794	(7,455)	8,626
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,000	1,250	1,250
Effect of dilutive potential ordinary shares – share options	20	–	45
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	1,020	1,250	1,295
Earnings from continuing operations:			
Net profit/(loss) attributable to equity holders of the parent	794	(7,455)	8,626
Adjustments to exclude (profit)/loss from discontinued operations	(775)	(110)	596
Earnings from continuing operations for the purposes of basic earnings per share excluding (profit)/loss from discontinued operations	19	(7,565)	9,222
Effect of dilutive potential ordinary shares – share options	–	–	–
Earning from continuing operations for the purposes of dilutive earnings per share excluding profit/(loss) from discontinued operations	19	(7,565)	9,222

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinuing operations.

15. Property, plant and equipment

	Plant and Machinery €'000	Computers €'000	Office Equipment €'000	Vehicles €'000	Leasehold Improvements €'000	Total €'000
Cost						
Opening Balance as at 1 January 2002	–	43	20	227	9	299
Exchange rate differences on translation to the presentation currency	–	(9)	(4)	(48)	(2)	(63)
Additions during the year	–	94	39	114	31	278
Acquisitions of subsidiaries	1,172	–	–	–	–	1,172
Disposals	–	–	–	(16)	–	(16)
As at 31 December 2002	1,172	128	55	277	38	1,670
Exchange rate differences on translation to the presentation currency	–	(13)	(5)	(27)	(4)	(49)
Additions during the year	4	830	175	57	168	1,234
Disposals	–	–	–	(26)	(5)	(31)
As at 31 December 2003	1,176	945	225	281	197	2,824
Exchange rate differences on translation to the presentation currency	–	(8)	(8)	(16)	(12)	(44)
Additions during the year	–	83	214	–	1	298
Disposals	–	(291)	(23)	(21)	–	(335)
As at 31 December 2004	1,176	729	408	244	186	2,743
Accumulated Depreciation:						
Opening balance as at 1 January 2002	–	8	–	12	–	20
Exchange rate differences on translation to the presentation currency	–	(2)	–	(3)	–	(5)
Additions during the year	6	30	4	36	2	78
Disposals	–	–	–	(2)	–	(2)
As at 31 December 2002	6	36	4	43	2	91
Exchange rate differences on translation to the presentation currency	–	(3)	–	(4)	–	(7)
Additions during the year	259	294	15	42	31	641
Disposals	–	–	–	(11)	(1)	(12)
As at 31 December 2003	265	327	19	70	32	713
Exchange rate differences on translation to the presentation currency	–	(4)	(1)	(4)	(2)	(11)
Additions during the year	259	205	47	38	15	564
Disposals	–	(73)	(1)	(7)	–	(81)
As at 31 December 2004	524	455	64	97	45	1,185
Net book value as at 31 December 2004	652	274	344	147	141	1,558
Net book value as at 31 December 2003	911	618	206	211	165	2,111
Net book value as at 31 December 2002	1,166	92	51	234	36	1,579

16. Intangible assets

	As at 31 December 2002 €'000	2003 €'000	2004 €'000
As at 1 January	–	–	203
Acquisition of subsidiary	250	–	–
Addition during the year	–	314	10
Write-off	–	–	(26)
Amortisation	(250)	(111)	(101)
Intangible assets	–	203	86

Intangible assets include capitalised software expenses, which are amortised over 3 years.

17. Subsidiaries

Details of Dai Israel's subsidiaries as at 31 December 2004 are as follows:

Name of Company	*Place of incorporation and operation*	*Ownership interest*	*Principal activity*
Dai Telecom Far East Pte Ltd	Singapore	100%	Holding company
Dai Telecom SPA	Italy	100%	Development, manufacturing and selling data products and distributing cellular products
Blackbird Investments SA	Luxemburg	100%	Non-trading

Dai Telecom Far East Pte. Ltd

On 29 August 2003 Dai Israel transferred its investment in Dai Italy to Dai Telecom Far East Pte. Ltd ("Dai Singapore"), a company incorporated in the republic of Singapore, in exchange for 100% of the latter's issued share capital. Dai Singapore operates two branches in Switzerland, which were dormant during 2004.

Dai Telecom SPA

In December 2002, through its wholly owned Italian subsidiary, Dai Italy, Dai Israel signed a five-year lease agreement according to which it would lease the business activity of an Italian company ("the Lessor") on the basis of a "Lease Of Going Concern" in consideration of fixed monthly payments not lower than €10,000 plus a given percentage of the profit as defined in the agreement. The Lessor was engaged in the development, manufacturing and marketing of cellular phones under the "Telit" brand name. The leasing was carrying out under Italian law and it includes assets and liabilities of the business activity, as outlined in the agreement.

Dai Israel received €15 million from a third party investor of which €5 million was in exchange for the issue of twenty per cent of the shares of Dai Israel and €10 million was to be used to fund the operation of Dai Italy. Therefore, instead of recognising €10 million as an increase in shareholders' equity in Dai Israel, Dai Israel recorded a liability to invest in Dai Italy of €9.7 million (an amount equal to the fair value of the net liabilities acquired under the lease of going concern). The excess of the €10 million over the liability to invest (€9.7 million) of €0.3 million has been recorded as an increase in shareholders' funds in Dai Israel (see Note 27, Share capital).

Dai Israel undertook to provide Dai Italy a shareholder loan of €10 million, which was converted into equity by Dai Italy during 2003.

Dai Italy had an option to acquire the business activity in exchange for €1,000 at any time during the term of the lease or its expiration, in which case the Lessor would have the right to purchase for €1,000 a total of 20% or 35% of the Dai Italy shares.

Should the Lessor exercise the right to purchase these Dai Italy shares, Dai Israel would then retain a Call option to repurchase Dai Italy's shares in consideration of €150,000 for each acquired 1%. The duration of this Call option was 24 months following the date on which the Lessor acquired Dai Italy's shares. The Lessor had a Put option to sell Dai Italy's shares over a 12-month period following the 24 months Call option period, in exchange for the following:

- 17.5% of Dai Italy's issued shares (being 50% of the issued share capital held by the Lessor) for €1.5 million.
- The remaining 17.5% of Dai Italy's issued shares (being 50% of the issued share capital held by the Lessor) – a proportionate share of Dai Italy share capital, computed at seven times the earnings before interest, taxation, depreciation and amortisation ("EBITDA") of Dai Italy from the last calendar year prior to the exercise of the Put option less the liabilities.

On 3 December 2003, Dai Italy's board resolved in principle to exercise the option for acquiring the Lease Of Going Concern and on 28 December 2003 Dai Israel's board of directors decided to exercise the option in principle, subject to additional investigations aimed at ensuring the lack of any potential exposures.

On 21 June 2004 Dai Italy concluded the exercise of the option, following which it was notified by the Lessor of their intention to exercise the option for purchasing 35% of Dai Italy's shares (see above). This option was exercised on 22 October 2004.

On 3 November 2004, at a special meeting of Dai Italy's shareholders it was resolved that the shareholders of Dai Italy would replenish the shareholder deficit, as is required by Italian law. As a result, the management of Dai Singapore decided to convert a loan provided to Dai Italy into equity (for €3.6 million).

The Lessor did not participate in the deficit replenishment. As a result and in accordance with Italian law, the shares held by the Lessor were transferred to Dai Singapore, who became the sole shareholder of Dai Italy.

The following agreements were also signed:

- A lease agreement pertaining to the area used by the entire activity and a lease for the building previously used for the activity in exchange for an annual amount of €360,000. Should the building be acquired by a party related to the investor in the Company, the rental fees would be raised to €500,000 per annum.
- A manufacturing agreement, within the framework of which Dai Italy agreed to purchase from the Lessor production services for cellular phones developed and marketed by it.

The lease of going concern has been accounted for as an acquisition since the circumstances indicated that control over the going concern was achieved.

The amounts recognised at the acquisition date for each of the leased assets and liabilities at the date of acquisition are as follows:

	€'000
Assets	
Current assets	
Cash and cash equivalents	157
Trade accounts receivables	1,592
Receivables and other current assets	8,490
Inventory	3,022
	13,261
Non-current assets	
Property, plant and equipment	1,172
Intangible assets	250
	1,422
Total assets	14,683
Liabilities	
Short-term borrowings from banks and other lenders	–
Trade accounts payable	7,326
Payables and current liabilities	3,035
	10,361
Long-term liabilities	
Loan from other lenders	11,824
Retirement benefit costs	2,210
	14,034
Total liabilities	24,395

The results of the Lease of Going Concern recognised in the income statement (classified as profit for the year from discontinued operations) as from the acquisition date up to 31 December 2002 are as follows:

	€'000
Revenues	1,035
Cost of sales	(174)
Gross profit	861
Operating expenses	(361)
Other income	294
	794
Income taxes	(19)
Net income for the period	775

Since the information about the revenue and the profit or loss of the Lease of Going Concern for the period before the acquisition is not available, it is impracticable to disclose the combined information as though the acquisition date had been the beginning of that period.

The possibility for Dai Italy to continue as a stand-alone business depends on the success of its Business Plan and, on the financial support granted by the Group. Since inception of Dai Italy the Group has injected capital funds and provided finance to cover losses incurred in the start up period. Dai Italy's management, based on a business plan, foresees a significant expansion of the business in the next few years and the achievement of break even results in the medium term.

The business Plan is based, among others, on the assumption that the Group will successfully complete an IPO and will consequently raise substantial financial resources which will be used mainly to fund Dai Italy's expansion plan.

Blackbird Investment S.A.

In May 2004, Dai Israel acquired (for an immaterial amount) 100% of the issued share capital of Blackbird Investment S.A. ("Blackbird"), from a party indirectly related to a former investor in Dai Israel. Blackbird owns the right to a loan recorded as a liability by Dai Italy. The principal loan amount recorded by Blackbird was €30,000, however the loan amount recorded in the consolidated balance sheet of Dai Israel at 31 December 2003 was €12.1 million (including accrued interest). Consequently, this liability, including interest payable, was entirely written off in Dai Israel's consolidated financial statements (see Note 25, Loan from other lenders). Blackbird does not carry out any other activities. Dai Singapore is taking steps to wind up Blackbird.

18. Investments in associates

		As at 31 December	
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Cost of shares (including goodwill, see below)	–	927	927
Losses accumulated since acquisition	–	(128)	(281)
Adjustments on translation of financial statements	–	(48)	(83)
	–	751	563
Deposit in trust for an associate	–	198	183
Investment in associate	–	949	746
Goodwill included in the cost of shares			
Cost	–	666	666
Amortisation	–	(50)	(117)
Adjustments on translation of financial statements	–	(37)	(64)
Goodwill on investment in associate	–	579	485

Cell-Time Ltd.

On 18 March 2003 Dai Israel entered into agreement with others in equal shares to set up Cell-Time Ltd. ("Cell-Time"), a company incorporated in Israel and engaged in the development, marketing and operation of a pre-call billing system for cellular phones as well as international calls.

In exchange for its 33% share in Cell-Time, Dai Israel undertook to invest a total of $1.25 million, of which $1 million has already been paid. The remaining balance, which has been deposited in an escrow account, will be released to Cell-Time upon the fulfilment of the conditions stipulated in the agreement.

In January 2004, Dai Israel signed an agreement according to which it transferred to a third party (on the basis of a previous undertaking) approximately 12% of its holding, constituting 4% of Cell-Time's issued share capital for no consideration. According to the agreement, should Cell-Time distribute earnings, Dai Israel will be entitled to receive a share in proportion to its original 33% holding, until such time as it has recouped its original cost of investment.

The summarised financial information of Cell-Time Limited is as follows:

Balance sheet

	As at 31 December	
	2003	*2004*
	€'000	*€'000*
Assets		
Current assets	114	378
Property, plant and equipment	67	48
Total assets	181	426
Liabilities		
Current liabilities	57	163
Long term liabilities	–	2
Total liabilities	57	165

Income statement

	**Period ended 31 December 2003*	*Year ended 31 December 2004*
	€'000	*€'000*
Revenues	45	892
Cost of sales	(42)	(840)
Gross profit	3	52
Operating expenses	(213)	(390)
Financial income/(expenses), net	(30)	7
	(240)	(331)
Income taxes	–	–
Loss for the period	(240)	(331)

* Period beginning 18 March 2003.

19. Inventories

		As at 31 December	
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Finished goods	3,696	2,778	3,891
Spare parts	390	1,608	2,202
Inventories	4,086	4,386	6,093

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to €58.5 million (2003: €38.7 million, 2002: €15.9 million).

20. Trade accounts receivable

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Israel[1]	4,239	5,077	23,059
Italy[2]	2,114	2,987	8,095
Other	1,474	2,515	3,623
Trade accounts receivable	7,827	10,579	34,777

(1) Includes a balance of approximately €23 million due from one major customer (2003: approximately €5 million, 2002: approximately €3.2 million). The balance is denominated in NIS and bears no interest. The average credit period taken on sales is 75 days.

(2) The balance is denominated in Euro and bears no interest.

Management considers that the carrying amount of the trade account receivables approximates fair value.

Liens – see Note 33 (Commitments and contingent liabilities)

21. Receivables and other current assets

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Composition:			
Receivables – Finmek Group[1]	–	3,078	3,710
Receivables – Telit mobile Terminals	–	800	1,025
Advances to suppliers	775	974	1,420
Other taxes and social security[2]	161	177	509
Prepaid expenses	202	272	410
Income receivable	153	629	685
Factored receivables	8,480	1,643	97
Related parties	–	–	34
Employees	–	140	–
Others	–	–	453
Receivables and other current assets	9,771	7,713	8,343

(1) Subsequent to the balance sheet date the Group reached a settlement with Finmek Group, according to which the balances will be off-set with the credit balance (see Note 24, Payables and other current liabilities) with no cash transaction and no cost.

See also Note 33, Commitments and contingent liabilities 'Litigation', B and E.

(2) Other taxes and social security includes:

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Income tax	161	137	384
VAT and custom	–	40	125
	161	177	509

22. Short term borrowings from banks and other lenders

	Average Interest Rate %	As at 31 December 2002 €'000	2003 €'000	2004 €'000
Bank Overdrafts:				
In NIS		16	–	–
		16	–	–
Short-term bank loans:				
In NIS	5	4,517	904	17,162
In Euros(*)	Euro Libor+2	–	–	6,796
In US Dollars	US Libor+1.8	1,866	1,015	273
		6,383	1,919	24,231
Others:				
In Euro(**)		1,440	–	3,790
Current maturities – in Euro		2,762	5,530	–
		4,202	5,530	3,790
Short term borrowings from banks and other lenders		10,601	7,449	28,021

Bank overdrafts are repayable on demand.

Short-term bank loans are secured by liens registered on all the funds due to Dai Israel from its major customer in connection with specific orders received from the latter.

* A line of credit in Euro Libor + 2%

** The balance represents amounts from factoring agreements in place and include average commissions of about 1.1% and variable interest rate based on Euro Libor +1.8%

23. Trade accounts payable

	As at 31 December 2002 €'000	2003 €'000	2004 €'000
Israel	305	87	358
Italy	678	4,258	4,061
Other	228	6,455	1,708
Notes payable	130	290	170
	1,341	11,090	6,297

The balance principally comprises amounts outstanding for trade purchases and ongoing costs. The average credit period taken for purchases by Dai Italy is 30 days. No credit period is taken for purchases by Dai Israel.

Management considers that the carrying amount of the trade payables approximates their fair value.

24. Payables and other current liabilities

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Finmek Group Companies[(1)]	6,975	5,027	5,029
Telit Mobile Terminals	–	1,085	1,305
Employees and related institutions	2,495	1,635	1,364
Accrued expenses	834	1,312	925
Other taxes and social security	349	62	556
Warranty provision[(2)]	153	133	401
Related parties	63	59	–
Others	3	566	53
	10,872	9,879	9,633

(1) See also Note 21, Receivables and other current assets and Note 33, Commitments and contingent liabilities 'Legal proceedings', B and E.

(2) The warranty provision represents management's best estimate of the Group liability under the 15 months' warranty period granted on cellular phones and is based on past experience.

25. Loan from other lenders

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Loan from other lenders	11,824	12,121	–
Less – current maturities	(2,762)	(5,530)	–
	9,062	6,591	–

Dai Italy entered into an agreement with a company (a related party of the former investor in Dai Israel – see Note 33, Commitments and contingency liabilities) in connection with a loan provided by the latter to an Italian company with which Dai Italy had signed a lease agreement for the Lease of Going Concern (see Note 17 Subsidiaries). It was agreed that the loan's face value (€25 million) would bear variable interest (Eurolibor plus 0.75%), with the principal to be repaid as follows:

(a) A total of €2 million at the end of each one of the first four years following the signing of the agreement, irrespective of the profitability of the Lease Of Going Concern.

(b) 10% of the Lease of Going Concern's annual income (as defined in the agreement) will be paid at the end of each of the following six years. Should this portion of the income in any given year rise above €2.8 million, then the excess would be deemed as an additional principal repayment hence reducing the repayment amounts in the consecutive years. However, if this amount falls below €2.8 million, the loan principal would nevertheless be reduced by €2.8 million.

The interest on the outstanding loan principal would be paid at the end of each year during the 10 years following the signing date of the agreement.

The fair value (being the net present value of the loan repayments plus any accrued interest) was €12.1 million as at 31 December 2003.

In May 2004, Dai Israel acquired Blackbird, which owns the rights to the loan referred to above. As a result the loan has become an inter-company loan and has been entirely written off in Dai Israel's consolidated financial information (see Note 17, Subsidiaries). Consequently, this liability and the related interest payable in a total amount of €12.1 million were entirely written off in Dai Israel's consolidated income statement for the year ended 31 December 2004, as other income.

26. Provisions and other long term liabilities

	As at 31 December 2002 €'000	2003 €'000	2004 €'000
Composition:			
Intellectual property claims	–	274	–
Contractual obligations	–	250	–
Accrued expenses	–	180	37
Warranty provision	–	270	122
	–	974	159

The provisions as at 31 December 2003 for claims for intellectual property rights (essential patents) and for contractual obligations were partially used in 2004 as a consequence of settlement agreements and were partially reduced with a positive impact on the income statement as a result of the claim being abandoned by the counterparty.

27. Share capital

(a) Authorised and issued share capital

	As at 31 December 2002	2003	2004
Authorised ordinary shares of NIS 0.1 par value	1,000,000	1,000,000	1,000,000
Issued	1,250	1,250	1,250

(b) The ordinary shares confer voting rights and rights to receive distribution of the share premium, profits as well as the rights to Dai Israel's assets upon liquidation.

(c) On 30 December 2004 Polar Trade decided to convert an outstanding loan of €3.6 million to Dai Israel to receipt on account of shares, which if turned into share capital Dai Israel would issue in respect thereof one share in consideration of par value.

(d) On 31 December 2002 Dai Israel signed an agreement with an investor, according to which:

(i) Dai Israel allotted the investor 250 shares (20% of the issued share capital) of NIS 0.1 par value for total consideration of €5 million.

(ii) Dai Israel issued the investor a perpetual capital note convertible, at any time at Dai Israel's discretion, into Dai Israel's share premium, in consideration of €10 million. The capital note is unlinked, is non-interest bearing, and may be redeemed only upon liquidation.

Of this amount, a total of €10 million was transferred to Dai Italy for financing its Lease Of Going Concern activity (also see Note 17, Subsidiaries). On 14 February 2005, Dai Israel converted the perpetual capital note to share premium.

28. Share based payments

Dai Israel has authorised an equity-settled share option plan effective 30 November 2004. According to the plan the company may issue up to 212 options exercisable into 212 ordinary shares. The options expire within 5 years from the date of grant. 134 options granted are vested at the date of grant and 78 options were equally granted throughout 2 vesting periods over 4 consecutive years with the first vesting period scheduled 24 months after the date of grant. The exercise price of the options granted under the plan is zero.

The incremental fair value of the 78 options to be expensed over the period of vesting is €3,362,000.

The weighted average share price is €48 and based on best estimate of management.

In June 2000, Dai Israel signed an agreement with an executive, undertaking to issue to him options exercisable into 50 ordinary shares of Dai Israel, NIS 0.1 par value each, constituting 4% of its (fully diluted) paid share capital, free of an exercise price. These options vest to the executive in four equal instalments, starting 9 June 2001, through 9 June 2005. On 30 December 2004 the options were included under the share option plan described above.

29. Financial instruments and financial risk management

Financial risk management is an integral part of the way the Group is managed. The Board establishes the Group's financial policies and the Chief Executive Officer establishes objectives in line with these policies.

In the course of its business the Group is exposed mainly to financial market risks and credit risks. Financial market risks are essentially caused by exposure to foreign currencies and interest rates.

Interest rate risk

Interest rate risk comprises the interest cash flow risk resulting from short-term borrowings at variable rates. The Group's working capital is funded through short-term borrowings at variable interest rate. As a result, material fluctuations in the market interest rate can have an impact on the Group's financial results.

Concentration of credit risk

Financial instruments that potentially subject the company and his subsidiaries to concentration of credit risk consist principally of trade receivables. The Group's trade receivables are mainly derived from sales to a major customer in Israel and other customers in Italy. The Group performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for bad debts is determined with respect to those amounts that the Group has determined to be doubtful from collection.

Foreign currency risk

Foreign currency risk arises because Dai Israel undertakes transactions in foreign currency such as the import of cellular handsets and selling those cellular handsets. Dai Israel uses short-term borrowings from banks in the same foreign currency as the purchase of the cellular handsets until the sale of them, to reduce Dai Israel's exposure to foreign currency risk.

Translation exposure arises because the Group's financial information is presented in Euro while some of the Group's transactions are denominated in other currencies. As a result, material fluctuations in the exchange rate between the Euro and other currencies (mainly USD and NIS) can have an impact on the Group's financial results.

Fair value of financial instruments

The financial instruments held by the Group are primarily comprised of non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, trade accounts receivable and other receivables, non-derivative liabilities include bank loans, trade accounts payable, other payables and other current liabilities). Due to the nature of these financial instruments, there are no material differences between the fair value of the financial instruments and their carrying amount included in the financial statements.

30. Consolidated cash flow note (adjustments to reconcile net income/(loss) to net cash used in operating activities)

	Year ended 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Income and expenses not involving cash flows:			
Depreciation and amortisation	328	752	665
Other (income)/loss	(2)	(2)	65
Write-off of long term loan from other lender	–	–	(12,090)
(Decrease)/increase in liability for retirement benefit costs	(302)	(350)	33
Interest on long term loan from other lender	–	297	(31)
Erosion of deposit designated for investment in associate	–	20	3
Changes in assets and liabilities:			
(Increase)/decrease in deferred expenses	(225)	119	34
Increase/(decrease) in other long-term liabilities	–	974	(815)
Decrease/(increase) in trade receivables	2,952	(3,207)	(24,498)
(Increase)/decrease in receivables and other current assets	(1,245)	1,869	(710)
(Increase) in inventory	(775)	(467)	(1,769)
(Decrease)/increase in trade payables	(8,562)	9,815	(4,761)
Increase/(decrease) in payables and other current liabilities	6,882	(875)	(164)
	(949)	8,945	(44,038)

Companies consolidated for the first time

	Year ended 31 December 2002 €'000
Working capital (other than cash and cash equivalents)	(13,104)
Fixed assets	(1,172)
Other assets	(250)
Current liabilities	10,361
Long-term liabilities	14,034
	9,869

31. Retirement benefit cost

A. The Group operates a defined benefit scheme for qualifying employees of Dai Italy. Under the scheme, the employees are entitled to retirement benefit based on the accumulated contributions upon attainment of the retirement age or when leaving the company. No other post retirement benefit is provided. The schemes are funded schemes. The most recent independent actuarial valuation of plan assets and the present value of the defined obligation was carried out at 31 December 2004. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the Projected Unit Credit method.

B. Dai Israel's liability for severance pay for Israeli resident employees is calculated pursuant to the Israeli Severance Pay Law, based on the most recent salaries and length of employment, and is covered by payments to insurance companies and pension funds. Amounts accumulated in the insurance companies and pension funds are not included in the financial statements since they are not under the control and management of Dai Israel.

The accrued severance pay included in the balance sheet in respect of the Israeli resident employees represents the balance of the liability not covered by the above-mentioned deposits and/or insurance policies for which a fund is maintained (in Dai Israel's name) at a recognised pension fund.

C. The amount included in the balance sheet arising from the obligations in respect of the defined retirement benefit scheme is as follows:

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Net liability as at 1 January	–	1,908	1,558
Liability acquired on a business combination	2,210	–	–
Expenses recognised in the income statement	(235)	541	629
Contributions	(67)	(891)	(467)
Unrecognised actuarial loss	–	–	(129)
	1,908	1,558	1,591

D. Amounts recognised in the income statement in respect of the defined benefit scheme are as follows:

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Current service cost	–	422	284
Interest cost	–	119	81
Experience adjustments	(235)	–	264
Unrecognised actuarial loss	–	–	(129)
Total expense included in income statement	(235)	541	500

E. The actuarial assumptions used are as follows:

	As at 31 December		
	2002	*2003*	*2004*
Discount rate	6.0%	5.4%	4.7%
Salary increase	3.5%	3.5%	3.5%
Inflation	2.0%	2.0%	2.0%

32. Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. At 31 December 2004 related parties of the Group included the following:

Nature of relationship

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below:

A. Dai Israel is a subsidiary of Polar Trade and Services Ltd, a company incorporated in Israel which holds 80% of Dai Israel's issued shares. Polar Investments Ltd., a company incorporated in Israel and listed in the stock exchange in Tel-Aviv holds 20% of Dai Israel's issued shares and 100% of the issued shares of Polar Trade and Services Ltd.

B. Dai Israel is engaged in a management agreement with its ultimate shareholder according to which the ultimate shareholder will provide management services in consideration for a yearly payment in the amount of $100,000.

C. For details of a property lease agreement with Polar Investments Ltd – see Note 33, Commitments and contingent liabilities.

D. Dai Israel and Dai Italy reached an arrangement in 2004 whereby Dai Israel will pay royalties for the use of the brand name "Telit". Royalties are calculated as a percentage of sales of cellular handsets. The royalties in 2004 amounted to €2.17 million.

E. Dai Israel provided to the chairman of the Board of Directors, two loans in the amount of NIS 500,000 (approximately €90,000) and NIS 300,000 (approximately €55,000) in 2003. The loan of NIS 500,000 was repaid in January 2004. The second loan had an amount outstanding of NIS 300,000 as at 31 December 2004 and was fully repaid by 24 February 2005.

F. On 30 December 2004 the company granted the following key personnel options exercisable into ordinary shares with no exercise price. See Note 28.

	Number of options granted	*Vested at date of grant*	*Unvested at date of grant*
Chairmen of the board of directors	117	88	29
Director	22	22	–
Chief Executive Officer	16	5	11

The compensation attributable to key personnel is calculated, as the incremental fair value of the 30 options to be expensed over the period of vesting and is €1,723,000.

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Balances with related parties			
Receivables and other current assets	–	–	36
Chairman of parent company	–	176	55
Payables and other current liabilities	45	46	–
Trade accounts payable	9	–	34

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Transactions with related parties			
General and administrative expenses			
Management fees to Polar Investments Limited	132	88	80
Lease payments to Polar Investments Limited	57	95	51
	189	183	131
Remuneration of key personnel:			
Consulting fees – Chairmen of the board of Directors	294	556	404
Wages, salaries and social security contributions (*)	–	80	339
	294	636	743
	483	819	874
Financial expenses/(income)	13	39	(29)
Purchase of fixed assets	25	–	–
(*) Number of persons to whom benefit applies	–	1	2

Transactions between Dai Israel and its subsidiaries, which are related parties have been eliminated on consolidation and are not disclosed in the above table.

33. Commitments and contingent liabilities

Commitments

On 1 October 2003 Dai Israel entered into a new lease agreement with Polar Investments Limited, for a three-year period, of approximately 1,000 square meters of facilities located in Tel Aviv, for a monthly rental payment of approximately €4,500. Each party to the agreement has an option to lengthen the lease period for an additional two periods of 3 and 4 years upon 2 months' advance notice.

On 19 May 2004 Dai Italy entered into a new lease agreement with its premises lessor, for facilities located in Trieste, Italy, for a yearly rental payment of €65,000 for 2003 and €300,000 for each of 2004 and 2005 and €500,000 for each of 2007 and 2008. According to IAS 17, Dai Italy will record in its books an expense of €288,000 each year. Each party to the agreement has an option to cease the lease period by 6 months advance notice starting from 1 June 2006.

The minimum rental payments under non-cancellable operating leases are as follows:

	€'000
Within one year	352
Within two to five years	1,546
Total	1,898

The Group's rent expenses for the years ended 31 December 2004, 2003 and 2002 were approximately €117,000, €160,000 and €125,000 respectively.

Litigation

A. The Israeli Customs and VAT Division has made certain enquiries of Dai Israel relating to the price paid by Dai Israel for cellular phones imported from Korea used for the purpose of calculating custom payments due on such imports. Dai Israel deposited NIS 4,500,000 (approximately €765,000) with the Customs and VAT Division in order to continue importing these goods. Based on the opinion of its legal counsel Dai Israel's management recorded a provision of NIS 2,000,000 (approximately €349,000) in its accounts in respect of these enquiries. Dai Israel is currently negotiating with the Customs and VAT Division in order to resolve this issue.

B. Dai Italy has recently reached a settlement agreement in respect of a claim brought against it for approximately €7 million. Dai Italy counter-claimed for damages in the sum of approximately €6.2 million. The settlement agreement is tied to performance of a commercial agreement between Dai Italy and a company in the claimant's group of companies relating to a joint venture between the parties. Dai Italy and the claimant entered into a waiver under which the claimant waived its claim and Dai Italy waived its counter claim. This waiver is awaiting Italian Ministry approval which is expected to be received shortly.

C. Dai Italy paid €465,280 to an Italian company pursuant to a contractual obligation. Subsequently a subsidiary of that company claimed this sum from Dai Italy by way of a court order. Dai Italy disputes this sum is due as it has already been paid to the claimant's parent company. Dai Italy has submitted documentation to the claimant company to demonstrate this.

D. A claim has been filed against Dai Italy by a company in San Paolo in respect of approximately US$3,846,608. Subject to further information and enquiries, the Directors believe, on the evidence and advice received so far, this claim is groundless.

Claim brought by Dai Italy

E. Dai Italy is considering taking joint legal action to recover sums due and owing to it. In December 2002 Dai Italy leased and later purchased a lease of a going concern from a company incorporated in Italy. Part of the receivables of the going concern was the sum of US$1,572,000 from a company incorporated in the US. The US company has refused to pay this sum in full. Dai Italy has received a preliminary opinion under the law of Virginia which supports Dai Italy's claim. If a claim were made any recovery would be divided between the company and its potential co-claimant.

F. Other than as set out above, no member of the Group is or has been involved in any legal or arbitration proceedings which may have, or has had during the twelve months prior to the date of this document, a significant effect on the Group's financial position nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of the Group.

Contingent liability

The Israeli Tax Authorities have commenced audit procedures related to some stamping of commercial documents in accordance with the Stamp Duty Law. According to this law commercial documents specified in the law should be stamped and taxed in the amount of 0.4% of the amount set in the documents.

Management estimates that Dai Israel's exposure, if any, in connection with the law requirements is not expected to have a material effect on the Group's financial position and results of operations.

Guarantees and liens

A. As security for loans and guarantees provided to it, the Group registered a floating lien on all of its assets, including rights and insurance proceeds, in favour of a bank. Moreover, liens were registered on all the funds due to Dai Israel from its major customer in connection with specific orders received from the latter.

B. The following table outlines the composition of the secured liabilities:

	As at 31 December		
	2002	*2003*	*2004*
	€'000	*€'000*	*€'000*
Short-term credit	7,839	1,919	27,139
Trade accounts payable	25	–	82
	7,864	1,919	27,221

34. Post balance sheet events

On 14 February 2005, Dai Israel converted a capital note of €10 million into share premium (see Note 27).

On 17 March 2005, Dai Israel filed a claim for NIS 9,000,000 (€1,558,226) against Sony Ericsson Mobile Communications International A.B. and against LM Ericsson Israel Ltd. in the Tel Aviv District Court, claiming that the Defendants had unilaterally and arbitrarily terminated an engagement between the parties according to which Dai Israel would be appointed as the exclusive distributor (and responsible for after sale support) in Israel of Sony Ericsson's cellular telephones and accessories.

By a Share Purchase Deed dated 24 March 2005 Polar Investments Ltd. transferred to the Company the entire issued share capital of Polar Trade and Services Ltd. (made up of 1,136 ordinary shares of NIS0.10 each) and 20% of the issued share capital of Dai Israel (250 ordinary shares of NIS0.10 each). The consideration for the transfer of these shares was the issue by the Company to Polar Investments Ltd. of 17,901,785 ordinary shares of 1 pence each in the capital of the Company. Under the terms of the Share Purchase Deed, the Company may not sell its shares in Polar Trade and Services Ltd or Dai Israel for a period of two years.

Under the terms of the Share Purchase Deed, on 24 March 2005 the Company allotted 3,883,925 Ordinary shares of 1p each to the following persons in consideration for their waiver of options held by them over shares in Dai Israel and Polar Trade and Services Ltd.

35. Consent

We consent to the inclusion of this report in the Admission Document dated 30 March 2005 and accept responsibility for this report for the purposes of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

Baker Tilly
Chartered Accountants
Registered Auditor

PART IV

PRO FORMA FINANCIAL INFORMATION ON THE GROUP

The following pro forma statement of net assets of the Company, Polar Trade and the Group have been produced to illustrate the impact of the Placing, which will have occurred since 31 December 2004 as if it had occurred on 31 December 2004. The pro forma financial information is based on:

(i) the financial information relating to Polar Trade as at 31 December 2004 extracted from the Accountants' Report in Part III part B of this document;

(ii) the financial information relating to the Group as at 31 December 2004 extracted from the Accountants' Report in Part III part C of this document; and

(iii) the estimated net proceeds of the share Placing and adjusted for consolidation as set out below.

The pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Enlarged Group.

	Net assets of Polar Trade as at 31 December 2004 €'000	*Net assets of the Group as at 31 December 2004 €'000*	*Consolidation adjustments €'000*	*The Placing €'000*	*Pro forma net assets of the Enlarged Group following the Placing €'000*
Non-current assets					
Investment in subsidiary	3,600	–	(3,600)	–	–
Investment in associate	–	746	–	–	746
Deferred expenses	–	46	–	–	46
Property, plant and equipment	–	1,558	–	–	1,558
Intangible assets	–	86	–	–	86
Deferred income tax asset	–	3,687	–	–	3,687
	3,600	6,123	(3,600)	–	6,123
Current assets					
Cash and cash equivalents	–	582	–	30,000	30,582
Trade accounts receivable	–	34,777	–	–	34,777
Receivables and other current assets	57	8,343	–	–	8,400
Inventories	–	6,093	–	–	6,093
	57	49,795	–	30,000	79,852
Current liabilities					
Short term borrowings from banks and other lenders	1	28,021	–	–	28,022
Trade accounts payable	–	6,297	–	–	6,297
Payables and other current liabilities	–	9,633	–	–	9,633
	1	43,951	–	–	43,952
Net current assets	56	5,844	–	30,000	35,900
Total assets less current liabilities	3,656	11,967	(3,600)	30,000	42,023
Non-current liabilities					
Loans from a parent company	4,121	–	–	–	4,121
Accrued severance pay, net	–	1,591	–	–	1,591
Other long term liabilities	–	159	–	–	159
Net assets/(liabilities)	(465)	10,217	(3,600)	30,000	36,152

Notes to the pro-forma financial information

1. The pro-forma statement of net assets of the Enlarged Group is shown as if the Company had acquired the entire issued share capital of Polar Trade and 20% of the issued share capital of Dai Israel as at 31 December 2004. As disclosed in the Accountant's Report on the Company in Part III part A of this document, the net assets of the Company were £2 as at 31 December 2004. As a result the net assets of the Company are not shown in the above table.

2. The pro-forma statement of net assets of the Enlarged Group is shown as if the Placing had taken place on 31 December 2004. The pro-forma assumes that the net proceeds of the Placing, receivable by the Company, will amount to £20.71m (€30.0m) net of costs amounting to €3.40m (£2.32m) inclusive of applicable VAT.

3. No adjustment has been made for any movement in net assets of the Company, Polar Trade and the Group since 31 December 2004.

The following is the full text of a report on the Company from Baker Tilly, the Reporting Accountants, to the Directors of the Company and Seymour Pierce Limited.

BAKER TILLY

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The Directors
Telit Communications Plc
110 Canon Street
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EC4N 6AR

and

The Directors
Seymour Pierce Limited
Bucklersbury House
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London
EC4N 8EL

30 March 2005

Dear Sirs

TELIT COMMUNICATIONS PLC ("the Company")

Introduction

We report on the pro forma statement of net assets of Telit Communications Plc ("the Company") and its wholly owned subsidiaries Polar Trade Limited ("Polar Trade") and Dai Telecom Limited and subsidiary undertakings ("the Group") as at 31 December 2004 (the "Pro Forma Financial Information"), which has been prepared for illustrative purposes only, to provide information about how the placing of new ordinary shares in the Company might have affected the financial information presented.

Responsibility

It is the responsibility of the directors of the Company ("Directors") to prepare the Pro Forma Financial Information.

It is our responsibility to form an opinion on the Pro Forma Financial Information and to report our opinion to you. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed. We do not accept responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Statement of Net Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

Opinion

In our opinion:

(i) the Pro Forma Financial Information has been properly compiled on the basis stated;

(ii) such basis is consistent with the accounting policies of the Company; and

(iii) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed.

Yours faithfully

Baker Tilly
Chartered Accountants
Registered Auditor

PART V

ADDITIONAL INFORMATION

1. Responsibility

The Directors accept responsibility for the information contained in this document. To the best of the knowledge of the Directors the information contained in this document is in accordance with the facts, and this document makes no omission likely to affect the import of such information.

2. Incorporation and Registration

2.1 The Company was incorporated and registered in England and Wales as a public limited company on 30 November 2004 under the Companies Act 1985 with registered number 5300693 under the name Telit Communications plc.

2.2 The liability of the members of the Company is limited.

2.3 The registered office of the Company is 110 Cannon Street, London EC4N 6AR.

3. Share Capital

3.1 The table below sets out the authorised and issued ordinary share capital of the Company as at the date of this document:

Authorised		*Issued*	
£	*No.*	£	*No.*
800,000	80,000,000	267,857.10	26,785,710

3.2 The Company was incorporated with a share capital of £50,000 divided into 50,000 Ordinary Shares of £1 each of which two shares were in issue.

3.3 On 22 December 2004 the subscriber shares were transferred to Polar Investments Ltd and to Polar Industries Ltd in consideration of their undertakings to pay up such shares in full.

3.4 On 17 February 2005 the Company allotted 49,499 Ordinary Shares of £1 each to Polar Investments Ltd and 499 Ordinary Shares of £1 each to Polar Industries Ltd. On 24 March 2005, 499 Ordinary Shares of £1 each were transferred from Polar Industries Ltd to Polar investments Limited.

3.5 On 24 March 2005 the Company passed an Ordinary Resolution to sub-divide the issued and authorised ordinary shares of £1 each in the capital of the Company into 100 shares of 1 pence each and on 24 March 2005 the Company passed an ordinary resolution to increase the authorised share capital of the Company to £800,000 divided into 80,000,000 shares of 1p each.

3.6 The Directors are authorised, pursuant to section 80 of the Act, to allot ordinary shares pursuant to the Placing and otherwise up to an aggregate nominal amount of £142,500 (being approximately 33% of the enlarged issued share capital of the Company) until the annual general meeting of the Company (or if earlier, 1 May 2006). The Directors are also empowered, pursuant to section 95 of the Act, to allot Ordinary Shares pursuant to such authority as if section 89(1) of the Act did not apply (i) in connection with the Share Purchase Deed; or (ii) pursuant to the Placing; or (iii) in connection with warrants to be granted to Seymour Pierce and SD Partners; or (iv) in connection with the exercise of options under the option scheme to be adopted; or (v) in connection with a rights issue and otherwise up to an aggregate nominal amount of £43,200 until the annual general meeting of the Company (or if earlier, 1 May 2006).

3.7 By a Share Purchase Deed dated 24 March 2005 Polar Investments Ltd. transferred to the Company the entire issued share capital of Polar Trade and Services Ltd. (made up of 1,136 ordinary shares of NIS0.10 each) and 20% of the issued share capital of Dai Israel (250 ordinary shares of NIS0.10 each). The consideration for the transfer of these shares was the issue by the Company to Polar Investments Ltd. of 17,901,785 ordinary shares of 1 pence each in the capital of the Company. Under the terms of the Share Purchase Deed, the Company may not sell its shares in Polar Trade and Services Ltd or Dai Israel for a period of two years.

3.8 Under the terms of the Share Purchase Deed, on 24 March 2005 the Company allotted 3,883,925 Ordinary shares of 1p each to the following persons in consideration for their waiver of options held by them over shares in Dai Israel and Polar Trade and Services Ltd:

Shareholder	*No of shares*	*% of enlarged issued share capital*
Oozi Cats**	2,142,857	4.96%
Yitzhak Apeloig	401,785	0.93%
Davidi Piamenta*	294,642	0.68%
Moti Elmaliach*	294,642	0.68%
Inbal Barak-Etzion*	267,857	0.62%
Merav Zimmerman*	267,857	0.62%
Yossi Moscovitz*	160,714	0.37%
Guy Boazi*	53,571	0.12%

* Polar Investments Ltd has a call option to purchase for no consideration in respect of two thirds of the shares held by the shareholders indicated above, if such shareholder ceases to hold office within the Group before 30 December 2006 and in respect of one third of the shares held by these shareholders if such shareholders cease to hold office within the Group before 30 December 2008 but after 30 December 2006.

**Polar Investments Ltd has a call option exercisable for no consideration in respect of two eighths of the Ordinary Shares held by this shareholder if such shareholder ceases to hold office within the Group before 30 December 2006 and in respect of one eighth of the Ordinary Shares held by this shareholder if such shareholder ceases to hold office within the Group before 30 December 2008 but after 30 December 2006.

3.9 Assuming the Placing is fully subscribed, following the Placing the authorised and issued Ordinary Share capital of the Company will be as set out below:

Authorised		*Issued*	
£	*No.*	£	*No.*
800,000	80,000,000	432,142.81	43,214,281

3.10 All of the issued Ordinary Shares of the Company are and, immediately following completion of the Placing will be fully paid.

3.11 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

4. Memorandum and Articles

The Memorandum of Association of the Company provides that the Company's principal object is that of a general commercial company. The objects of the Company are set out fully in clause 4 of the Memorandum.

The Company's Articles of Association (the "**Articles**"), which were adopted by Special Resolution on 24 March 2005 contain, *inter alia*, provisions to the following effect:

Share Capital

The authorised share capital of the Company at the date of the adoption of the Articles was £50,000 divided into 50,000 ordinary shares of £1 each, ranking equally as to voting, dividends, return or capital on winding up of the Company, and redemption. Any share in the company may be issued with such preferred, deferred or other special rights or restrictions as the Company may by ordinary resolution determine, including shares which are to be redeemed or are liable to be redeemed at the option of the Company or the shareholder.

Voting Rights and General Meetings

Subject to any special rights or restrictions as to voting attached by or by virtue of the Articles to any shares or any class or shares, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under section 375 of the Act shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall, unless the Directors otherwise determine, be entitled to be present or to vote at any general meeting either in person or by proxy or upon any poll or to exercise any other right conferred by membership in relation to meetings of the Company in respect of any shares held by him if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid.

If any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under section 212 of the Act and is in default for a period of 14 days in supplying to the Company the information thereby required, then (unless the Directors otherwise determine) in respect of:

(a) the shares comprising the shareholding account in the register which comprises or includes the shares in relation to which the default occurred (all or the relevant number as appropriate of such shares being the "default shares", which expression shall include any further shares which are issued after the date of service of the notice under section 212 of the Act in respect of such shares); and

(b) any other shares held by the member,

the member shall not (for so long as the default continues) nor shall any transferee to whom any of such shares are transferred be entitled to attend or vote either personally or by proxy at a shareholders' meeting.

Capital

If the Company shall be wound up the liquidator may, with the authority of an extraordinary resolution, divide amongst the members in specie the whole or any part of the assets of the Company. The liquidator may with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator shall think fit.

Dividends and Other Distributions

The Company may by ordinary resolution declare dividends and fix the time for payment thereof, but no dividend shall be payable except out of profits for the Company available for distribution in accordance with statute or in excess of the amount, or at any earlier date than, recommended by the Directors.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No dividend or other monies payable on or in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share. All unclaimed dividends or other monies payable on or in respect of a share may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend or the date on which such dividend became due for payment shall be forfeited and shall revert to the Company.

Variation of Rights

Whenever the share capital of the Company is divided into different classes of shares, the rights attached to any class may, subject to the provisions of statutes, be varied or abrogated either with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders.

The necessary quorum of such meetings is two persons holding or representing by proxy at least one third in nominal amount of the issued shares of that class, and at an adjourned meeting shall be one person holding shares of the class in question or his proxy. Any holder of shares of the class present in person or by proxy may demand a poll. Any holder of shares of the class shall, on a poll, have one vote in respect of every share of the class held by him. The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them, but in no respect in priority thereto, or by any reduction of the capital paid up thereon or by any purchase by the Company of its own shares.

Transfer of Shares

Subject to the provision of statutes and the Crest Regulations, the Directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of a "relevant system" or that shares of any class should cease to be held and transferred in the manner set out in the Articles.

All transfer of shares which are in uncertificated form may be effected by means of a relevant system. Transfer of shares in certificated form may be effected by transfers in writing in any usual or common form or in any form acceptable to the directors and may be under hand only. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register in respect thereof.

The registration of transfers may be suspended at such times and for such periods as the directors may from time to time determine either generally or in respect of any class of shares, save that in respect of any shares which are participating securities, the register shall not be closed without the consent of the operator of the relevant system. The register shall not be closed and registration suspended for more than 30 days in any year.

The directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason therefor decline to register any transfer of shares which are not fully paid provided that where any such shares are admitted to the Official List, or permitted to be traded on AIM, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may in their absolute discretion and without assigning any reason therefor decline to register any transfer of shares in favour of more than 4 persons jointly.

The directors may decline to recognise any instrument of transfer relating to shares in certificated form unless the instrument of transfer is deposited at the office where the register of members is situate for the time being, it is in respect of one class of shares, duly stamped, accompanied by the relevant share certificate(s) (except where no certificate shall have been issued therefor) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do.

If the directors refuse to register a transfer they shall within 2 months after the date on which the transfer was lodged with the Company (in the case of shares held in certificated form), or the operator – instruction was received by the Company (in the case of shares held in uncertificated form), send to the transferee notice of the refusal together with (in the case of shares held in certificated form) the instrument of transfer.

Alteration of Share Capital

The Company may by ordinary resolution increase its share capital by such sum divided into shares of such amounts as the resolution shall prescribe, consolidate and divide up share capital into shares of larger amounts or sub-divide its shares into shares of smaller amounts or cancel any shares not taken or agreed to be taken.

The Company may by special resolution reduce its share capital or any capital redemption reserve fund or share premium account in any manner and subject to any incident authorised and consent required by law.

Purchase of Own Shares

Subject to the provisions of statute, the Company may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class (including any redeemable shares) but so that if there shall be in issue any shares which are admitted to the Official List or permitted to be traded on AIM and which are convertible into equity share capital of the Company of the class proposed to be purchased then the Company shall not purchase or enter into a contract which it will or may purchase, such equity shares unless either:

(a) the terms of issue of such convertible shares include provisions permitting the Company to purchase its own equity shares or providing for adjustment to the conversion terms upon such a purchase; or

(b) the purchase, or the contract, has first been approved by an extraordinary resolution passed at a separate meeting of the holders of such convertible shares.

Borrowing Powers

The directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and, subject to the provision of section 80 of the Act, to issue debentures and other securities whether outright or as collateral for any debt, liability or obligation of the Company or any third party. The directors shall restrict the borrowings of the company and exercise all voting and other rights or powers of control exercisable by the Company at general meetings of its subsidiary undertakings (if any) so as to secure that the aggregate amount for the time being remaining undischarged of all monies borrowed by the Group at any time without the previous sanction of an ordinary resolution of the Company shall not (excluding intra-group borrowings) exceed a sum equal to five times the adjusted total of capital and reserves.

Directors

The number of directors shall not be less than 2 nor more than 12. The Company may by ordinary resolution from time to time vary the minimum or maximum number of directors.

No persons other than a director retiring at a general meeting shall, unless recommended by the directors for election, be eligible for appointment as a director at any general meeting unless not less than 7 nor more than 42 clear days before the day appointed for the meeting there shall have been left at the registered office of the Company notice in writing signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election, together with notice signed by that person of his willingness to be appointed.

The quorum necessary for the transaction of the business of the directors may be fixed by the directors and unless so fixed at any other number shall be 2.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract or any other arrangement or proposed arrangement with the Company shall declare the nature and extent of his interests.

5. Directors' and other interests

5.1 The interests (all of which are beneficial) of the Directors and persons connected with them (within the meaning of section 346 of the Act) in the issued share capital of the Company which; (i) have been notified by each Director to the Company pursuant to section 324 or section 328 of the Act; or (ii) which are required pursuant to section 325 of the Act to be entered in the register referred to in that section; or (iii) are interests of a connected person of a Director which would, if the connected person were a director of the Company, be required to be disclosed under paragraphs (i) or (ii) above and the existence of which is known to or could, with reasonable diligence, be ascertained by that Director, as at the date of this document and as they will be immediately following Admission, are as follows:

	As at the date of this document		*Following Admission*	
Director	*Number of Ordinary Shares*	*Percentage of issued share capital*	*Number of Ordinary Shares*	*Percentage of Enlarged Share Capital*
Yitzhak Apeloig	401,785	1.5%	401,785	0.93
Oozi Cats**	2,142,857	8.0%	2,142,857	4.96
Inbal Barak-Etzion*	267,857	1.0%	267,857	0.62
David Hobley	nil	–	nil	–
Andrea Mandel Mantello	nil	–	nil	–

*of these shares held by Ms Barak-Etzion, two thirds are subject to a call option by Polar Investments Ltd should the individual leaves the Group before 30 December 2006 and one third are subject to the call option should the individual leave the Group after 30 December 2006 but before 30 December 2008.

**of the Ordinary Shares held by Mr Cats, two eighths are subject to a call option by Polar Investments Ltd if Mr Cats ceases to be employed by the Group prior to 30 December 2006 and one eighth are subject to the call option if Mr Cats ceases to be employed by the Group after 30 December 2006 but before 30 December 2008.

5.2 Save as disclosed in paragraph 5.1 above, none of the Directors nor any member of their respective immediate families nor any person connected with the Directors within the meaning of Section 346 of the Act has any interest, whether beneficial or non-beneficial, in any share capital of the Company and no Director will acquire Ordinary Shares in the Company pursuant to the Placing.

5.3 As at 29 March 2005 (being the latest practicable date prior to the publication of this document), the Company and the Directors are aware that the following person (other than any Director) are interested in 3 per cent. or more of the issued Ordinary Share capital of the Company:

	As at the date of this document		*Following Admission*	
Shareholder	*Number of Ordinary Shares*	*Percentage of issued share capital*	*Number of Ordinary Shares*	*Percentage of Enlarged Share Capital*
Polar Investments Ltd	22,901,785	85.5	22,901,785	53.0

5.4 Ultimate Control of Substantial Shareholdings:

5.5 Save as disclosed in paragraphs 5.1 and 5.2 and 5.4 above, the Company and the Directors are not aware of any persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company or who, immediately following Admission, will directly or indirectly be interested in 3 per cent. or more of the capital of the Company.

5.6 Save as otherwise disclosed in this document, no Director has or has had any interests in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by the Group in the current or immediately preceding financial year of the Group or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

5.7 Save as set out above, there are no outstanding loans granted by any member of the Group to any Director or granted by any Director to any member of the Group nor are there any guarantees provided by any member of the Group for the benefit of any Director or provided by any Director for the benefit of any member of the Group.

5.8 Save as otherwise disclosed in this document, no Director has or has had any interest, whether direct or indirect, in any assets which have been acquired by, disposed of by or leased to any member of the Group or which are proposed to be acquired by or disposed of by or leased to, any member of the Group.

6. Directors' service agreements, letters of appointment and related details

6.1 The services of the Directors are provided to the Group under the following agreements:

6.1.1 Yitzhak Apeloig is engaged pursuant to a letter of appointment with the Company dated 29 March 2005. His employment contract with Dai Israel is for a fixed period until 31 December 2005 and thereafter is terminable by either party on 6 months' notice except in certain specific circumstances where short notice can be given by Dai Israel and provides for a compensation package of €144,000 per annum paid under a consultancy agreement between Dai Israel and Yitzhak Apeloig Management and Investments Limited under which he provides consultancy services to the Group.

6.1.2 Oozi Cats is engaged pursuant to a letter of appointment with the Company dated 29 March 2005. This contract is for a fixed period until 31 December 2005 and thereafter is terminable by either party on 6 months' notice except in certain specific circumstances where short notice can be given by the Company and provides for a compensation package of €72,000 per annum, plus an annual performance linked bonus to be determined by the remuneration committee. In addition, Mr Cats provides consultancy services to Dai Italy pursuant to the terms of a consultancy agreement between Dai Italy and Excalibur Consulting LLC dated 5 January 2004 pursuant to which €300,000 per annum is paid to Excalibur Consulting LLC.

6.1.3 Inbal Barak-Etzion is engaged pursuant to a letter of appointment with the Company dated 29 March 2005. Ms Barak-Etzion's contract with Dai Israel is for a fixed period until 31 December 2005 and thereafter is terminable by either party on 6 months' notice except in certain specific circumstances where short notice can be given by the Company, and provides for a salary of NIS 580,000 (approximately €104,000) per annum together with any bonus and other benefits as the Board may in its discretion decide.

6.1.4 David Hobley was appointed pursuant to a letter of appointment with the Company dated 29 March 2005 for an initial term of 1 year, thereafter terminable on 6 months' rolling notice and fees currently payable are £32,000 per annum.

6.1.5 Andrea Mandel Mantello was appointed pursuant to a letter of appointment with the Company dated 29 March 2005 for an initial fixed term of 1 year, thereafter terminable on 6 months rolling notice and fees currently payable are £32,000 per annum.

6.2 Save as disclosed in paragraph 6.1 of this Part V there are no existing or proposed service agreements or consultancy agreements between any of the Directors and the Company.

6.3 The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group in respect of the year ended 31 December 2004 was approximately £465,000.

6.4 It is estimated that under arrangements in force as at the date of this document, the aggregate remuneration to be paid and benefits in kind to be granted to the Directors by any member of the Group for the year ending 31 December 2005 will be approximately £690,000.

6.5 There are no arrangements under which any Director has waived or agreed to waive future emoluments nor have there been any such waivers of emoluments during the financial year ended 31 December 2004.

6.6 The details of those companies and partnerships other than the Company and any of its subsidiaries of which the Directors have been directors or partners at any time during the five years prior to the date of this document are as follows:

Director	*Current Directorships and Partnerships*	*Past Directorships and Partnerships*
Yitzhak Apeloig	Yitzhak Apeloig Management and Investments Ltd (Israel) Dai Telecom Ltd (Israel) Dai Telecom S.p.A. (Italy) Polar Trade and Services Ltd (Israel) Polar Infrastructure Ltd (Israel) Citypass Ltd (Israel) Celltime Ltd (Israel) M.G.A.R. Computerized Collection Center Ltd (Israel)	Polar Communications Ltd (Israel) Koonras Technologies Ltd (Israel) RCI Israel (1999) Ltd Dashkad Ltd Yazil Two Thousand (1998) Ltd Yazil 2001 (1998) Ltd Yazil Investment Company Ltd Yazil Poalim Investments and Finance Ltd Univerkol Hilel Hofman & Sons Ltd Orbi Ltd

Director	*Current Directorships and Partnerships*	*Past Directorships and Partnerships*
Yitzhak Apeloig *(continued)*	Aqwise – Wise Water Technologies Ltd (Israel) Elite Sports Center Ltd (Israel) Tel Aviv University Sports Club (Israel) The Fund in Memory of Tomer Ron (Israel) D.S. Institutional Investments Ltd (Israel).	Orlite Industries (1959) Ltd Eagle Foreign Trade (International) Ltd Youth Encyclopedia Ltd Biohitech (Israel) Ltd Binynei Zibur Ltd D.R.N. Holdings Ltd Dashkad International Real Estate Consultants Ltd Hazera (1939) Ltd Hapoalim Technologies Ltd Hapoalim Leasing Ltd Hapoalim Leasing For Industry (81) Ltd Hapoalim Leasing Services and Private Vehicles Ltd Hapoalim Electronic Communications Ltd Hushan Mishpat Investment Company Ltd Taldor Computer Systems (1986) Ltd Trinet Investment in Hitech Ltd Trinet Venture Capital Ltd Cabel Net North (1989) Ltd Medeterenean Towers Nordia Ltd Mizpe Kineret Hotel Ltd Nikom Computers Ltd Sinfo HiFi Systems Ltd Ogen Yom Holdings Ltd P.H. Holdings Engineering Ltd Plei Moran Holding Ltd Kaldash Holding Ltd Kaldash Construction Ltd Kaldash Real Estate Ltd Kaldash Industries Ltd Sefa Yarak Ltd Ophir Holdings Ltd Ophirtech Ltd Ophir Finance Ltd Center Investments Ltd Investment Company of Bank Yefet Ltd Hatzrot Hadar Ltd
Oozi Cats	Narkisim Entrepreneurship Ltd Dai Telecom S.p.A. (Italy) Dai Israel (Israel) Dai Telecom Far East Pte Ltd (Singapore) Celltime Ltd (Israel)	Hamashbir Mahsanei Ofna Ltd (Israel)
Inbal Barak-Etzion	Dai Telecom S.p.A. (Italy)	None
David Hobley	Orange Global Ltd Orange Brand Services Ltd Nectar Capital LLP UK DH Financial Advisory Ltd The Egyptian Company for Mobile Services Mobinil Telecommunications SAE Orange SA Orange Romania SA	Westgate Hall Plc
Andrea Mandel Mantello	AdviCorp Plc Moto S.p.A. B.O.S. Better Online Solutions Ltd Coraline S.p.A. St George's School S.r.l.	SBC Warburg Italia SIM S.p.A. Rotella & Partners S.p.A.

6.7 At the date of this document, no Director:

6.7.1 has any unspent convictions in relation to any indictable offences; or

6.7.2 has been bankrupt or entered into an individual voluntary arrangement; or

6.7.3 was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or

6.7.4 has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or

6.7.5 has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding a receivership of any assets of such partnership; or

6.7.6 has been subject to any public criticism by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

7. Share Option Scheme

The Company has introduced a discretionary Share Option Scheme (the "Plan") in order to allow selected employees to share in the success of the Group and to incentivise and retain key staff members. The main terms of the Plan are summarised below.

Grants of options

Options may be granted to eligible employees at the discretion of the Board. Options may only be granted during the period of 42 days following any of the following:

- the date of adoption of the Plan by the Company;
- the day following the announcement of yearly, half yearly or other period financial results of the Company;
- any other date when the Remuneration Committee resolve that exceptional circumstances justify the grant of options.

Eligibility

All employees and executive Directors of any member of the Group will be eligible to participate in the Plan.

Performance Criteria

The Board may impose performance conditions that will have to be satisfied before options may be exercised. The Board do not currently propose to impose any such performance criteria.

Exercise Price

Options must have an exercise price no lower than the nominal value of an Ordinary Share. Save for the initial grant of options following adoption of the Plan (which will be granted at the Issue Price), the Directors have indicated that they intend that options granted under the Plan will have an exercise price at least equal to the market value of the shares at the date of grant of the option.

Limit of participation

There is no limit on the value of Ordinary Shares under option which may be held by any one individual under the Plan.

Total number of shares available

The number of Ordinary Shares in respect of which subscription options may be granted under the Plan, or under any other employee share incentive plan, in any ten year period will be no more than 10% of the issued ordinary share capital of the company on a fully diluted basis.

Exercise of options

Options may be exercisable at any time up to ten years from the date of grant but the Directors have indicated that they intend that options granted under the Plan will generally be exercisable only during the period between the first and fifth anniversaries of the date of grant, and if not exercised by the fifth anniversary they will lapse. In the case of a takeover before the fifth anniversary the option holder will be able to exercise options within a period of forty days of the date when the takeover or reconstruction is completed.

Employees leaving the company

If an option holder ceases to hold office or employment with any company in the Group for whatever reason prior to the date of exercise all options will normally lapse save that the Directors shall have the discretion to permit individuals to retain their options on leaving. The Board has indicated that this discretion would only be exercised where an employee was a "good leaver", eg in the event of retirement.

Variation of share capital

In the event of a variation of share capital the directors of the Company may adjust the number of shares under option and the exercise price to reflect such variation. This adjustment shall be subject to confirmation by the auditors that such adjustment is fair and reasonable. Such adjustment may need to be agreed in advance by the Inland Revenue.

Alteration of the Plan

The Directors may at any time alter or amend the provisions of the Plan but, in general, no alteration shall be made without the prior approval by ordinary resolution of the members of the Company in general meeting.

Any such alteration will not need to be so approved where the amendments are minor, to benefit the administration of the Plan, to take account of a charge in legislation or to obtain or maintain favourable tax treatment.

Grantor of options

The directors of the Company may decide to operate the Plan by way of subscription options. As an alternative an employee benefit trust may be formed and the trustees requested to grant options over Ordinary Shares held or to be purchased by the trustees.

8. Taxation

The following statements are intended only as a general guide to the current tax position under UK taxation law and practice. **An investor who is in any doubt as to his or her tax position or is subject to tax in any jurisdiction other than the UK should consult his or her professional adviser without delay.**

8.1 **Dividends**

Individual shareholders whose income is within the lower or basic rate bands are liable to tax at 10 per cent. on their gross dividend income. Individual shareholders resident for tax purposes in the UK are entitled to a tax credit of an amount equal to 10 per cent. of the aggregate of the dividend and the tax credit. The effect of this is that the tax credit attaching to the dividend will satisfy the income tax liability on UK dividends of an individual shareholder whose income is within the lower or basic rate bands. Shareholders liable to higher rate tax (currently at a rate of 40 per cent.) have a liability to income tax of 32.5 per cent. of the aggregate of the dividend and the 10 per cent. tax credit received, of which 10 per cent. will have been satisfied by the tax credit.

Since 2 July 1997, pension providers and most UK corporate shareholders (including authorised unit trusts and open-ended investment companies) have not been entitled to repayment of the tax credits attaching to dividends from UK companies.

Subject to certain exceptions a shareholder who is not resident for tax purposes in the UK is not generally entitled to the benefit of a tax credit in respect of any dividend received from the Company. Such a shareholder may be entitled to claim a payment of a proportion of such tax credit from the Inland Revenue but this will depend in general on the terms of any applicable double taxation convention or agreement between the UK and his country of residence for tax purposes. Any such shareholder should consult his tax adviser as to whether or not he is entitled to reclaim any part of the tax credit, the procedure for claiming payment and what relief or credit may be available in the jurisdiction in which they are resident for tax purposes.

8.2 **Taxation of Capital Gains**

A subsequent disposal of Ordinary Shares by persons resident or ordinarily resident in the United Kingdom which gives rise to gains may be liable to capital gains tax (individuals and trustees) or corporation tax (companies). Liability to tax and the rate of tax will depend on the shareholder's circumstances and the availability of exemptions or allowable losses. Trustees may be subject to tax at a different rate from that applicable to individuals.

Indexation allowance, which increases the acquisition cost of an asset in line with the rise in the retail price index, is available for corporate shareholders during the period of ownership.

For individuals and trustees, taper relief may be available to reduce the amount of a chargeable gain according to how long the asset has been held.

Different tax treatment applies to persons who trade in securities.

Persons who are neither resident nor ordinarily resident in the United Kingdom will not normally be liable to tax in the United Kingdom in respect of any gain accruing to them on a disposal of Ordinary Shares. The terms of a relevant double taxation treaty may apply to persons with dual residence.

8.3 **Stamp Duty and Stamp Duty Reserve Tax**

Under current UK legislation relating to stamp duty and stamp duty reserve tax:

- no liability to stamp duty or stamp duty reserve tax will arise on the allotment or issue of ordinary shares by the Company under the Placing;
- a transfer or sale of ordinary shares otherwise than pursuant to the Placing will generally be subject to stamp duty on the instrument of transfer, normally at the rate of 50p per £100 (or part thereof) of the amount or value of the consideration. Where an agreement to transfer such shares is not completed by a duly stamped instrument of transfer, a charge of stamp duty reserve tax (generally at the same rate) may arise;
- special rules apply to market-makers, broker-dealers and certain other persons; and
- transfers on sale and agreements to transfer shares to charities will not give rise to stamp duty reserve tax or stamp duty.

9. The Company and its subsidiaries

The Company, which is the parent company of the Group, has the following subsidiaries and associated undertakings:

Name of Company	*Country of registration or incorporation*	*Type of shares held*	*Proportion of voting rights and shares held*	*Nature of business*
Polar Trade and Services Ltd	Israel	Ordinary Shares	100%	Holding company
Dai Israel	Israel	Ordinary Shares	100% (20% directly and 80% through Polar Trade and Services Ltd)	Selling and marketing communication equipment and cellular phones and warranting them.
Dai Telecom Far East Pte. Ltd. Dai Telecom Far East Pte. Ltd. has two branches in Switzerland	Singapore	Ordinary Shares	100% (through Dai Israel.)	Holding company
Cell-Time Ltd.	Israel	Ordinary Shares	29.33% (through Dai Israel.)	Development, marketing and operation of pre-call billing systems for cellular phones as well as international calls
Dai Telecom S.p.A.	Italy	Ordinary Shares	100% (through Dai Telecom Far East Pte. Ltd.)	Research and development, selling and marketing, of m2m modules and distribution of cellular handsets and accessories
Blackbird Investments* S.A.	Luxembourg	Ordinary Shares	100% (through Dai Telecom Far East Pte. Ltd.)	Commercial, industrial, financial or personal transactions

* On 25 February 2005 Blackbird Investment S.A. was dissolved.

10. Working capital

The Directors are of the opinion that, having made due and careful enquiry and taking into account available bank and other facilities and the net proceeds of the Placing receivable by the Company, the working capital available to the Group is sufficient for its present requirements, that is, for at least the next twelve months from the date of Admission.

11. Litigation

11.1 The Israeli Customs & VAT Division has made certain enquiries of Dai Israel relating to the price paid by Dai Israel for cellular phones imported from Korea used for the purpose of calculating custom payments due on such imports. The Customs and VAT division have made a claim which, after allowing for VAT deductions, amounts to approximately NIS6.7 million. Based on the opinion of its legal counsel Dai Israel's management believes its maximum exposure is NIS2,000,000 and has therefore recorded a provision of NIS2,000,000 (€340,000 approximately) in its accounts in respect of these enquiries. Dai Israel is currently negotiating with the Customs and VAT Division in order to resolve this issue.

11.2 Dai Italy has recently reached a settlement agreement in respect of a claim brought against it for approximately €7 million. Dai counter-claimed for damages in the sum of approximately €6.2 million. The settlement agreement is tied to performance of a commercial agreement between Dai Italy and a company in the claimant's group of companies relating to a joint venture between the parties. Dai Italy and the claimant entered into a waiver under which the claimant waived its claim and Dai Italy waived its counter-claim. This waiver and commercial agreement is awaiting Italian Ministry approval which the Company expects to receive shortly.

11.3 Dai Italy paid €465,280 to an Italian Company pursuant to a contractual obligation. Subsequently a subsidiary of that company claimed this sum from Dai Italy by way of a court order. Dai Italy disputes this sum is due as it has already been paid to the claimant's group company. Dai Italy has submitted documentation to the claimant company to demonstrate this.

11.4 A claim has been filed against Dai Italy by a company in San Paolo in Brazil in respect of approximately US$3,846,608. Subject to further information and enquries, the Directors believe, that on the evidence and advice received so far, this claim is groundless.

11.5 **Claim brought by Dai Italy**

Dai Italy is considering taking joint legal action to recover sums due and owing to it. In December 2002 Dai Telecom leased and later purchased a lease of a going concern from a company incorporated in Italy. Part of the receivables of the going concern was the sum of US$1,572,000 from a company incorporated in the US. The US company has refused to pay this sum in full. Dai Italy has received a preliminary opinion under the law of Virginia which supports Dai Italy's claim. If a claim were made any recovery would be divided between the company and its potential co-claimant.

11.6 On 17 March 2005, Dai Israel filed a claim for NIS 9,000,000 (€1,558,226) claiming that the defendants had unilaterally and arbitarily terminated an agreement between the parties.

11.7 Other than as set out in paragraphs 11.1 to 11.6, there are no legal or arbitration proceedings active, pending or threatened against or being brought by any member of the Group which is having or may have a significant effect on the financial position of the Company.

12. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by members of the Group and are, or may be, material to the Group or have been entered into by members of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

12.1 The Placing Agreement dated 30 March 2005 between (1) Seymour Pierce (2) the Company and (3) the Directors pursuant to which Seymour Pierce has agreed on behalf of the Company to use its reasonable endeavours to procure subscribers for the Placing Shares on the terms and conditions of the Placing Agreement. Seymour Pierce is not obliged to subscribe itself for any Placing Shares that are not subscribed for by the placees.

The obligations of the parties under the Placing Agreement are conditional upon certain conditions having been fulfilled (or waived by Seymour Pierce) by 8.00 am on 4 April 2005 or such later date as may be agreed by Seymour Pierce and the Company (being not later than 29 April 2005). The Placing Agreement contains certain representations and warranties given to Seymour Pierce by the Company and the Directors as to the accuracy of the information contained in this document and other matters relating to the Company and its business. The warranties given by the Directors to Seymour Pierce are subject to certain financial limits.

The Company has indemnified Seymour Pierce against all losses, costs, charges and expenses which it may suffer or incur as a result of any proceedings, action or claim which arises out of or in connection with certain of its duties under the Placing Agreement.

The Placing Agreement contains undertakings from the Directors to Seymour Pierce (subject to certain exceptions) not to dispose of any Ordinary Shares (held by him or a connected person) for the period expiring on the first anniversary of Admission and thereafter in respect of 50% of such holding for the period expiring on the second anniversary of Admission.

Under the Placing Agreement, and conditional upon Admission, the Company shall pay to Seymour Pierce for its services a fee of £200,000 and commission of 4% of the funds raised. In addition, Seymour Pierce will be granted a warrant, exercisable at the Issue Price at any time up to five years from Admission, over 648,214 Ordinary Shares representing 1.5% of the Company's Enlarged Share Capital.

12.2 The Nominated Advisor Agreement dated 29 March 2005 between the Company (1), the Directors (2) and Seymour Pierce (3) pursuant to which Seymour Pierce is appointed as nominated adviser to the Company. The agreement is for an initial term of 12 months (subject to earlier termination by either party) and is thereafter terminable by either party on three months' notice. The agreement contains certain undertakings given by the Company and the Directors and indemnities given by the Company in favour of Seymour Pierce.

12.3 The Broker Agreement dated 29 March 2005 between the Company (1), the Directors (2) and Seymour Pierce (3) pursuant to which Seymour Pierce is appointed as broker to the Company. The agreement is for an initial term of 12 months (subject to earlier termination by either party) and is thereafter terminable by either party on three months' notice. The agreement contains undertakings given by the Company and the Directors and indemnities given by the Company in favour of Seymour Pierce.

12.4 Polar Investments Ltd has entered into an agreement dated 29 March 2005 with Seymour Pierce pursuant to which it has undertaken not to sell any Ordinary Shares other than with the written consent of Seymour Pierce (i) during the period from Admission until 12 months after the date of Admission and (ii) thereafter, in respect of 50 per cent of the Ordinary Shares held by it, for a further 12 months.

12.5 The Company is party to an agreement dated 29 March 2005 with its parent company Polar Investments Ltd pursuant to which Polar agrees that as long as it remains a controlling shareholder the Company will be capable of carrying on its business independently of Polar and that all future transactions with it will be at arm's length. The agreement further provides that Polar as a controlling shareholder shall procure that any director of the Company who is a director of Polar shall not be counted in the quorum on any matter, at board meetings, where in the opinion of the independent Directors there is a conflict of interests.

12.6 DAI Italy is party to an agreement dated 1 June 2004 with SD Partners LLC ("SD Partners") pursuant to which SD Partners has agreed to provide certain financial advice and services to DAI Italy and/or its subsidiaries. Pursuant to this agreement DAI Italy has agreed to pay SD Partners a cash fee equal to 5% of funds raised by DAI Italy which were introduced by SD Partners pursuant to that agreement. In consideration of funds introduced to DAI Italy by SD Partners, SD Partners are also entitled to warrants over shares in DAI Italy, which the Company may agree to exchange for warrants in the Company exercisable at the Placing Price, such warrants not to exceed 1.75% of the Enlarged Share Capital. The precise effect of the Agreement could be the subject of discussion between the parties which if not resolved could lead to a dispute.

Dai Israel

12.7 **Supply Agreements with Curitel Communications, Inc.**

12.7.1 Dai Israel is party to an agreement dated 14 March 2001 with Curitel Communications, Inc ("Curitel") pursuant to which certain suppliers including Curitel agree to supply CDMA Products to Dai Israel. The agreement does not contain a termination date and either party may terminate on reasonable notice.

12.7.2 On 7 February 2002 Dai Israel entered into an agreement with Curitel pursuant to which Curitel agrees to provide Dai Israel with localisation services required to enable CDMA Products to be used by Israeli cellular operators and to accommodate the specifications of Dai Israel's customers. Payment for such services is subject to certain minimum sales of products supplied by Curitel. Once such levels are reached the consideration for such services will be a minimum of US$1 million and a maximum of US$4 million for each model supplied by Curitel.

12.7.3 Dai Israel is party to an agreement dated 21 May 2004 with Curitel relating to the provision of warranty services by Dai Israel in Israel in connection with CDMA products and pursuant to which Curitel will provide Dai Israel with all parts components and accessories of the CDMA products. Dai Israel agrees to pay Curitel for spare parts which Curitel supplies and such amount shall be reimbursed by Curitel to the extent that the parts fall within the 15 month warranty period. The agreement is for a period of one year with an automatic extension of a one year period.

12.8 **Customer Agreement with Pelephone Communications Ltd**

Dai Israel is party to an agreement with Pelephone Communications Ltd ("**Pelephone**"), dated 14 March 2001 pursuant to which Dai Israel agrees to import and supply CDMA products to Israel for the Pelephone network. Dai Israel agrees to provide Pelephone with full technical and engineering support. Dai Israel agrees to guarantee the CDMA products for a period of 15 months from delivery. Pelephone is entitled to purchase CDMA products from the manufacturer directly. Either party may terminate the agreement on 90 days prior written notice. Dai Israel is required to furnish a bank guarantee equal to US$300,000 and promissory notes amounting to NIS 700,000 (€119,000 approximately). As at the date of this document Pelephone have not requested that such guarantee be put in place.

12.9 **Distributorship Agreement with TCL & Alcatel**

Dai Israel is party to an agreement with TCL & Alcatel Mobile Phones SAS ("**Alcatel**") dated 20 January 2005 pursuant to which Dai Israel is appointed as an exclusive distributor of specified models of cellular phones and mobile terminals in Israel supplied by Alcatel. The agreement expires on 31 December 2006.

12.10 **Joint Venture Agreement relating to Cell-Time Ltd**

Dai Israel is party to an agreement with Lipman Electronic Engineering Ltd and Store Alliance.Com dated 19 March 2003 relating to the formation of Cell Time Ltd (Israel). Cell Time Ltd was formed to specialise in the development, marketing and operation of a prepaid airtime system for mobile telephones and international telephone calls payable by point of such terminals. Dai Israel holds 29.33% of the issued share capital of Cell-Time Ltd. The shares in Cell-Time Ltd are subject to restrictions on transfer.

Dai Italy

12.11 **Lease and purchase of a going concern**

On 23 December 2002 Dai Italy entered into a lease agreement with Finmek Telit S.p.A (now known as "Nuove Iniziative S.p.A.") for the assets, property, intellectual property, contracts and knowhow of Finmek Telit's business of developing, marketing and supporting digital cellular phones owned and operated by Telit ("the going concern"). On 21 June 2004 Dai Italy exercised its rights pursuant to the lease agreement and entered into an agreement for the purchase of the going concern from Finmek Telit S.p.A.

12.12 **Distribution Agreement with Silverstar S.r.l.**

Dai Italy is party to an agreement with Silverstar S.r.l. dated 9 April 2002 pursuant to which Silverstar S.r.l. is appointed as a non-exclusive distributor for Telit's products in Italy, France, Spain, Portugal, Greece, Turkey, former Yugoslavia countries, Bulgaria, Romania and Israel. The agreement is for a fixed period of 1 year and renews automatically for one year periods unless terminated by either party upon 3 months' written notice. Dai Italy provides a 12-14 month product repair or replace warranty.

12.13 **Supply Agreement with Wind S.p.A.**

Dai Italy is party to an agreement with Wind S.p.A dated 1 March 2004 for a period of one year pursuant to which Dai Italy agrees to supply Wind S.p.A. with GPRS modem and USB card and related accessories distributed by Dai Italy. Dai Italy provides a 36 month product warranty pursuant to this agreement.

12.14 **Blackbird Investments S.A. ("Blackbird")**

On 14 May 2004, Dai Telecom PTE purchasd the entire issued share capital of Blackbird from a third party for an amount of €70,000. Blackbird's sole asset is a debt from Dai Italy of a principal amount of €25 million. Dai Telecom PTE dissolved Blackbird on 25 February 2005.

12.15 **Cross Licence Agreement with Motorola Inc.**

Dai Italy is party to a cross licence agreement with Motorola Inc. dated 21 December 2004 pursuant to which the parties grant each other a worldwide, non-transferable, non-exclusive cross licence concerning certain intellectual property of the parties. The agreement continues until completion of the manufacture the equipment incorporating the licensed intellectual property rights.

13. General

13.1 The total amount being raised by the Company through the Placing is £23 million. The total costs and expenses of, or incidental to, the Placing, and Admission (including professional fees, commissions and the fees payable to the registrars), payable by the Company, are estimated to be approximately £2.29 million (exclusive of value added tax).

13.2 The minimum amount which, in the opinion of the Directors, must be raised under the Placing to provide the sums (or, if any part of them is to be defrayed in any other manner, the balance of the sums) required in respect of the matters specified in paragraph 21 of Schedule 1 of the POS Regulations is £23 million made up as follows:

13.2.1 the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the Placing – £2.22 million;

13.2.2 any preliminary expenses payable by the Company and any commission so payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any Ordinary Shares £2.29 million (excluding VAT);

13.2.3 the repayment of any money by the Company in respect any of the matters referred to in 13.2.1 and 13.2.2 above – £nil; and

13.2.4 working capital – £18.49 million.

The amount to be provided in respect of each of the matters mentioned in this paragraph 13.2 otherwise than out of the proceeds of the Placing is nil.

13.3 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by Seymour Pierce until such time as the Placing Agreement has become unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 29 April 2005 application monies will be returned to applicants at their own risk.

13.4 The expected net proceeds of the Placing accruing to the Company, after deduction of such costs and expenses, is £20.71 million. No expenses of the Placing are being specifically charged to subscribers or purchasers under the Placing and no commission is payable by the Company to any person in consideration of them agreeing to subscribe for Ordinary Shares or for them procuring or agreeing to procure subscriptions for Ordinary Shares.

13.5 Save as disclosed in this document, no person directly or indirectly (other than the Company's professional advisers and trade suppliers) has in the last twelve months received or is contractually entitled to receive directly or indirectly from the Company on or after Admission, any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value or entered into any contractual arrangements to receive the same from the Company at the date of this document.

13.6 Other than the proposed application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange.

13.7 There are no exceptional factors which have influenced the Group's activities.

13.8 There are no significant investments by the Group under active consideration.

13.9 Save as disclosed in this document (including Appendix 2), there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the business of the Group.

13.10 There have been no interruptions in the Group's business which may have or have had in the last 12 months a significant effect on the Group's financial position.

13.11 There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.

13.12 There are no specified dates on which entitlements to dividends or interest payable by the Company arise.

13.13 The Issue Price of 140 pence represents a premium of 139 pence above the nominal value of 1 pence per Ordinary Share. The Issue Price is payable in full on application.

13.14 Seymour Pierce has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which it appears.

13.15 Baker Tilly has given and has not withdrawn its written consent to the inclusion in this document of its name and references to its reports set out in Part III and Part IV in the form and context in which they appear and accept responsibility for such reports in accordance with paragraph 45(1)(b)(iii) of Schedule 1 to the POS Regulations.

14. Documents Available For Inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) free of charge at the offices of Kirkpatrick & Lockhart Nicholson Graham LLP, being the registered office of the Company, from the date of this document for a period of 14 days following Admission:

14.1 the memorandum and articles of association of the Company;

14.2 the reports by Baker Tilly set out in Parts III and Part IV of this document;

14.3 the rules of the Share Option Schemes;

14.4 the executive Directors' service agreements and the non-executive Directors' letters of appointment referred to in paragraphs 6.1.1 to 6.1.5 (inclusive) of this Part V;

14.5 the material contracts referred to in paragraph 12 of this Part V; and

14.6 the letters of consent referred to in paragraphs 13.14 to 13.15 (inclusive) of this Part V.

15. Availability of Admission Document

Copies of this document will be available to the public free of charge during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the offices of Seymour Pierce, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL and at the registered office of the Company, 110 Cannon Street, London EC4N 6AR, from the date of this document until one month from Admission.

Dated 30 March 2005

APPENDIX ONE

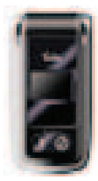
THE COMPANY'S PRODUCT CATALOGUE

GSM:

G83

Tri-band GSM/GPRS, with: WAP, MMS, SMS, EMS, infrared connectivity (IrDA), T9 easy text input, colour display, built in VGA Camera, PIM features. The Company development this product in 2003).

EMS 100



GPRS class 12, huge TFT LCD 260k colors, embedded camera 1.3 mega pixel, 64 polyphonic sound, MMS, T9, camera features: auto focus, 4 zoom, image size variation – 4 type self timer

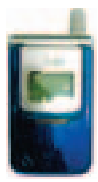
ESL 800

Main LCD 262K TFT , MPEG4, MP3 player with SD card, 1.3 mega pixel camera, class 8
Speaker with stereo earphone,
JAVA MIDP 2.0 , CLDC 1.0
64 Poly stereo sound

T510

Unique sliding design
Huge TFT LCD 65,000 colors
Embedded camera 0.3 mega pixel rotary type 270°
40 polyphonic sound
MMS
Class 10
WAP 2.0

X60i

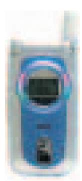


Tri-band GSM/GPRS with: CSTN display, editable ring tones and graphics, messaging, MMS, WAP, voice memo, loudspeaker, PIM T9 easy text imput.

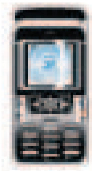
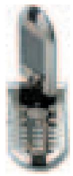
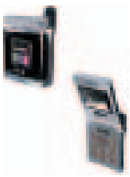
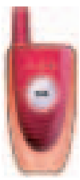
X55

65 color sumulated FSTN , Tri Band, GPRS class 10, WAP 2.0, 40 Polyphonic sound, MMS, T9 easy text input, Long message up to 765 characters, 7 color flashing LED

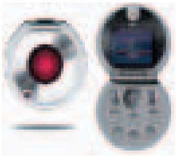
X70



Quad Band, 850/900/1800/1900, color TFT 65,000 Colors
WAP 2.0, 40 Polyphonic sound, 0.3 mega pixel camera
voice memo, games, Graph editing, Melody editing

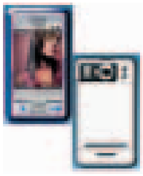
MP100 	Dual Band (EGSM900Mhz/ DCS1800Mhz), class 10, WAP 2.0, 64 poly stereo, biorythm, JAVA games, MP3 decoder external SD card
T90 	Tri-band GSM/GPRS with: Camera (330k VGA with 180 degree Rotary), digital sound, WAP, JAVA, MMS, EMS, SMS.
T91 	Dual-band GSM/GPRS with: Camera (330K VGA CMOS), Hinge Rotary Type 270 degrees (180 + 90), digital sound, 3D Animation, WAP, JAVA (Esmertec (J2ME)).
G42 	Creative games Personalized wall paper, Color WAP 1.2.1 40 poly sound screen
MG-10 	Dual-band GPRS modem with USB connection that is suitable for Windows XP/2000/ME/98ver2, 80mm in length including the antenna, weighting only 16 grams.
C620 	65K TFT LCD , 0.3 MP Camera, 64 Poly Midi, PC Sync Management, Embedded Games, Class 8, JAVA MIDP 1.0
C710 	65K TFT LCD, 0.3 MP Camera, 64 Poly Midi, PC Sync Management, Embedded Games, Class 8, JAVA MIDP 1.0
MG-20 	Twin dual-band WLAN GPRS modem with: compression MNP 5 & V.42 bis, data standards with up to 64Kbps, suitable for Windows XP/2000/ME/98SE, requires 30MB free disk space, Compliant with IEEE 802.11b/11Mbps, supports both Ad-Hoc (Peer-to-peer without AP) and Infrastructure Modes (Communication to wired networks via AP with roaming).

C800



65K TFT LCD, 0.3 MP Camera, 64 Poly Stereo Midi, Speaker, PC Sync Management, Embedded Games, Class 8, JAVA MIDP 1.0

T1000

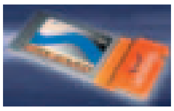


260K TFT LCD, Handwriting Recognition, Touch Panel, 0.3 MP Camera, 64 Poly Midi, PC Sync Management, Embedded Games, Class 8, JAVA MIDP 1.0

Cygnus 3

260k TFT display, 40 poly midi, WAP 1.2.1, MMS, GPRS Class 8, PC Sync management, Predictive text input, Embedded games

UMTS Card



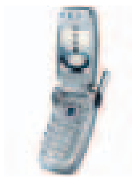
UMTS (2100 MHz band) GPRS – EGSM and DCS Bands (900, 1800 MHz), WLAN 802.11g., 3GPP FDD WCDMA (UMTS) compliant, GSM phase 2+ compatibility, WEP, WPA, 802.1x security (WLAN), All major EAP including EAP-SIM, PCSC compliant SIM interface, PC-Card compliant with Type II PCMCIA physical requirements and featuring:
2 x LED status indicators (WLAN, UMTS/GPRS)
Integrated UMTS/GSM/WLAN (switched diversity) antenna
External antenna connection (GSM/GPRS/UMTS)
2.5 mm Handsfree accessory socket
Future proofing through user friendly Flash Memory technology
NDIS 5.1 compatible WLAN interface.

CDMA:

X60

Large color LCD Speaker phone, 32 polyphonic sound, outlook sync.
BREW TM download platform, Assisted GPS, WAP

X95

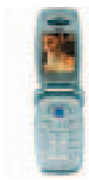


Huge TFT LCD 65,000 colors, Embedded camera 0.3 mega pixel, MMS
Speaker phone, Outlook sync., BREW TM download platform, Assisted GPS, WAP

X110

Large color LCD Speaker phone, 32 polyphonic sound, BREW TM, download platform, Assisted GPS, WAP

X120



Dual TFT LCD 260K COLORS, Embedded camera 1.3 mega pixel, Embedded flash, Speaker phone, MMS, BREW TM download platform
Assisted GPS, WAP

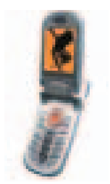
X170

Unique sliding design, Embedded camera 0.3 mega pixel, Embedded flash, Large color LCD 65,000 colors, MMS, BREW TM download platform, Assisted GPS, WAP

V160

3G Technology EV – DO
MOD & VOD
72 Polyphonic sound
Dual TFT LCD 260,000 Colors, Embedded cam corder 1.3 mega pixel
Embedded flash, BREW TM download platform, Assisted GPS, WAP

V200



3G Technology EV – DO, MOD & VOD, 72 Polyphonic sound
Dual TFT LCD 260,000 Colors, Embedded cam corder 2 mega pixel
Embedded flash, MP3, BREW TM download platform, Assisted GPS
WAP

APPENDIX TWO

PATENT AND TRADEMARK PORTFOLIO REPORT

by Studio Lovells
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List of Patent Agents:

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2900 Hellerup – Denmark

To:

The Directors
Telit Communications Plc
110 Cannon Street
London
EC4N 6AR

The Directors
Seymour Pierce Limited
Bucklersbury House
3 Queen Victoria Street
London
EC4N 8EL

28 February 2005

Dear Sirs,

Dai Italy – Intellectual Property Report

1. Introduction

Dai Telecom S.p.A. (herein "**Dai Italy**") has two distinct business operating divisions leveraging on its core intellectual property and know how:

– the Data Products Division, which designs, develops, manufactures, markets and sells a range of data cellular communication products for the machine to machine (m2m) market. Dai Italy's technology and products enable other electronic devices and equipment manufacturers to use the extensive GSM/GPRS cellular infrastructure to relay and accept information without human intervention;

– the Branded Enhanced Value Added Reseller Division, which customizes and distributes to operators and to the open markets, under its well recognized brand "Telit", leading ODM's and OEM's cellular products.

Patent applications have been filed and are pending or have been granted for a number of inventions. Dai Italy is aware of the importance of intellectual property rights and particularly patent protection and has taken steps to protect its inventions throughout the world.

This Report is based on the information and documents we have been provided by Dai Italy.

2. Scope of the Report

This report describes the patent rights owned by Dai Italy as well as third parties' rights of which we are aware and includes a brief description of the inventions which are the subject matter of the patent rights, with brief details of their technical background. The report also details the filing history and elements allowing the identification of the patents together with the scope of Dai Italy's registered trade mark protection for its "Telit" brand and other products.

3. Our Retainer

Lovells is a law firm which has assisted and is currently assisting Dai Italy in relation to the protection and enforcement of its IP Portfolio.

The above listed Patent Agents have assisted Dai Italy in a number of issues in relation to the filing and prosecution of patent and trade mark applications throughout the world.

We have been instructed in connection with the proposed admission of Dai Italy's parent company, Telit Communications Plc, to the Alternative Investment Market.

4. Intellectual Property Rights

Dai Italy is the owner of an intellectual property Portfolio which includes patents, trade marks, utility models, design, copyrights and other intellectual property assets filed or registered world-wide (herein the "**IP Portfolio**"). This report concentrates on patent and trade mark protection although certain components of Dai Italy's products also attract copyright protection, for example, any underlying software supporting the products which Dai Italy has developed in-house. Dai Italy has confirmed that it has not used anyone other than its own employees to produce copyright materials and that accordingly it owns or, where necessary, licences in from third parties all copyright required for the conduct of the business. The remainder of this report concentrates on Dai Italy's patent and trade mark protection.

The IP Portfolio includes two main sets of assets:

(A) IP rights filed and registered directly by Dai Italy and recorded under the name of Dai Italy; and

(B) IP rights initially filed or registered by third parties and acquired by DAI TELCOM by virtue of deeds of assignment. With regards to these rights, recordal formalities under the name of Dai Italy are currently in the process of being carried out before the Patent and Trade Mark Offices world wide. For this reason a number of IP assets still appear recorded under third parties names.

In order to speed up the recordal process, Dai Italy has prepared and distributed the following Confirmatory Intellectual Property Assignments which are in the process of being signed and include a detailed list of the IPR being assigned:

(i) Confirmatory Assignment between TELIT MOBILE TERMINALS S.p.A. (herein "**TMT**" previously named TELITAL S.p.A) – as Assignor – and FINMEK TELIT S.p.A. (herein "**FINMEK**") – as Assignee. This Assignment will be signed by the parties in due course; and

(ii) Confirmatory Assignment between NUOVE INIZIATIVE S.p.A. (herein "**NI**", previously named **FINMEK**) – as Assignor – and Dai Italy – as Assignee. This Assignment was signed on 15 February 2005.

Overview

Patents protect inventions and are registered rights, granted by national or regional patent offices if the invention satisfies particular requirements, primarily novelty and inventive step (non-obviousness) and capability for industrial use.

Patents give the patent owner a monopoly right to prevent others from carrying out the invention claimed in the patent. The right, once granted, may be kept in force for a limited period (normally 20 years from the date of application for the patent) by payment of renewal fees.

Patents are territorial in nature and it is often the case that an invention is the subject of patent applications, and eventually a patent, in a number of territories.

Italian Patent Protection

Dai Italy owns or co-owns a number of Italian Patents. For a detailed list refer to paragraphs 6 to 21 of this report.

European Patent Protection

A European patent application is filed at the European Patent Office which carries out both a novelty search and a full examination of the application. It may take three to six years, or even longer, before a European patent is granted. Once this happens, the patent can then be validated in some or all of the European counties, which were designated in the original application. The European patent then takes on a character of a "bundle of national patents", each of which has to be kept in force by the payment of renewal fees to cover a particular national territory.

A PCT application is often filed when it is desired that the invention be protected in at least several territories. The application may designate a large number of territories, including Europe, USA and Japan. It is normally filed 12 months after the original (priority) application and has the effect of postponing entry into the national/regional patent offices until 20/21 or 30/31 months from the original priority date. A PCT patent application is subject to a novelty search and, optionally, a first stage examination procedure (International Preliminary Examination), both carried out by the European Patent Office.

Dai Italy owns or co-owns a number of European Patents. For a detailed list refer to paragraphs 6 to 21 of this report.

International Patent Protection

In other territories, national patents are obtained often, as in the cases of USA and Japan, only after the national Patent Office carries out a novelty search and a full examination of the application.

Dai Italy owns or co-owns a number of National Patents world-wide. For a detailed list refer to paragraphs 6 to 21 of this report.

5. Details of Dai Italy's Patents and Patent Applications

We have been informed by the Director of Dai Italy that all its patent rights relating to its business are listed below and that they know of no other facts or matters relating to validity other than those set out in this report.

The overall patent position is believed to be strong. In particular, the patentable features of Dai Italy's key M2M products enjoy good protection and have a significant value for Dai Italy's business. This is because many of the invention patents have been granted by at least one of the key examining patent offices (USA, Europe, UK) all of which are jurisdictions that undertake a preliminary examination of patent applications which constitutes a strong presumption of their validity if they were challenged before national judges in patent infringement/revocation proceedings. The position of pending applications is, for most inventions, favourable on the same basis as the above.

The only point we would make is that the process of preliminary examination does not exist in Italy and that the patent applications filed by Telit Mobile Terminals s.P.A from 1996-2000 concerning algorithms and computer-implemented inventions are not viewed as strongly. We understand however that these patent applications are not key to Dai Italy's business.

Besides the issues confirmed in this report, we are not aware of any matter that Dai Italy should take into account when assessing the strength of its IP Portfolio.

The US application no. 10/088,371 and the Chinese application no. 00814723.X based on Italian patent IT1999MI01941 have been opposed. These oppositions are pending and we believe that the applications have a good chance of being granted. The underlying European Patent application has not been granted yet, but there is a positive opinion from the European Examiner.

Dai Italy also enters into agreements with competitors who own patent rights to essential telecommunications components which assist Dai Italy in developing its products. Dai Italy has, for example, entered into a non-royalty paying cross-licence with Motorola Inc allowing it to use some essential patent materials. The execution of such a licence lessens the possibility of competitors seeking to commence a patent infringement claim against Dai Italy for the products which the licence covers and also indicates the validity of the patents subject to the licence.

Apart from the circumstances set out above we are unaware of any other material threats or warning letters made by competitors of Dai Italy of patent infringement. Even if patent infringement proceedings were commenced these would take several years to be heard in the Italian courts.

6. Patent dated 28.3.1991: holder for insertable chip card

6.1 *Description of Invention*

Holder for a manually insertable chip card in a telecommunication device, having contacts on one side, comprising means for guiding the chip card at one card end, with contact elements which can be pressed against the chip card.

6.2 *Filing History and Current Position*

Patents filed:	DE59207645C0 (Germany) FR0505932 R4 (France) GB0505932 R4 (Great Britain) IT0505932 R4 (Italy) SE505932 R4 (Sweden)
Inventor:	Henning Petersen

6.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy acquired this patent from NI (previously named FINMEK Telit S.p.A.). NI previously acquired the patent from TMT who are still named as the recorded owner having acquired the patent from Hagenuk Telecom GmbH following its bankruptcy. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

Please note that these patents are considered very strong, since they concern basic concepts of telecommunications devices using chip cards and are therefore material to Dai Italy's business.

7. Patent dated 28.3.1991: Telephone, particularly wireless telephone

7.1 *Description of Invention*

Telecommunication device that must have a chip card to operate, with contact elements which can be pressed against the chip card.

The chip card is housed in a cavity in the battery pack.

7.2 *Filing History and Current Position*

Patent filed:	DE4110768 C1 (Germany)
Inventor:	Henning Petersen

7.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy acquired this patent from NI (previously named FINMEK S.p.A.) who previously acquired the patent from TMT who are still named as the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

8. Patent dated 14.6.1991: A Method and an Apparatus for determining phase and frequency deviation

8.1 *Description of Invention*

This invention concerns a method and an apparatus for determining a phase difference between two sine-shaped electrical signals. Digital communications systems, such as, for example, the common European radiotelephone system (also known as "GSM"), often employ coherent data receivers. For these to function correctly, it is essential that the data receiver is either in a phase or time synchronism.

A method of determining a phase difference between two sine-shaped electrical signals, where the phase difference is known to be small and the signals are represented in a complex form, is to multiply the complex conjugate value of the one signal by the other signal, using the imaginary value of the result to estimate the phase difference between the two signals. An apparatus for the same purpose has signal paths for the two signals and comprises means which are capable of multiplying the complex conjugated value of one of the signals by the other signal. The apparatus is then capable of representing the imaginary value of the multiplication result on an output and using it as estimate of the phase difference between the two signals.

8.2 *Filing History and Current Position*

Patents filed:	AT147906 (Austria) BE0588884 R4 (Belgium) DE69216827 (Germany) ES0588884 R4 (Spain) FR0588884 R4 (France) IT0588884 R4 (Italy) NL0588884 R4 (Netherlands) SE0588884 R4 (Sweden)
Inventor:	Madsen Benny

Most of the national patents listed above, derive from the European patent no. EP 0588884 B1.

8.3 *Ownership and Title*

Owner: Dai Italy, co-owned 50% with Siemens.

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT who, in turn, acquired the patent from Cetelco. Accordingly, Cetelco is still recorded as joint owner together with Siemens who acquired their title to patent from Bosch, who, in turn acquired the patent from Dancall Telecom A/S. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

By a letter dated 16.12.03, Siemens informed TMT that it intends to abandon its patent rights to the invention in question and that TMT is allowed to maintain the patent rights at its own expenses.

9. Patent dated 9.8.1991: Speech decoder with DTMF regenerator and process for regeneration of a DTMF signal

9.1 *Description of Invention*

This invention regenerates a distorted DTMF signal using a DTMF regenerator which can be connected to the speech decoding system or can be integrated in this system. The DTMF regenerator corrects the distorted DTMF signals to form a standard DTMF signal shape. The regenerator contains a detector which detects the DTMF signal so that the device which contains the speech decoding system can be connected to terminals capable of standard DTMF, such as, for example, answering machines and the like.

9.2 *Filing History and Current Position*

Patents filed:	IT – EP0528505 (Italy) DE 59209938.5-08 (Germany) ES – EP0528505 B1 (Spain) FR – EP0528505 (France) GB – EP0528505 (Great Britain)
Inventor:	Esben Randers

Most of the above listed national patents derive from the European patent n. EP 0528505 B1.

9.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

10. Patent dated 8.3.1994: Hand-held transmitting and/or receiving apparatus

10.1 *Description of Invention*

This invention describes an internal patch antenna used in Telit GM410 phone.

The antenna is easily manufactured and reduces the influence of mechanical tolerances and mechanical and thermal influences on the electrical parameters of the antenna.

10.2 *Filing History and Current Position*

Patents filed:	US5952975 (United States) US5886668 (United States) US6314275 (United States)
Inventors:	Henning Petersen and Jan Thomsen

10.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

11. Patent dated 8.3.1994: Hand-held transmitting and/or receiving apparatus

11.1 *Description of Invention*

This invention describes an internal patch antenna used in Telit GM410 phone.

This antenna is simple to manufacture and the dependence of the electrical parameters of the antenna from mechanical tolerances and from mechanical and thermal influences is reduced.

11.2 *Filing History and Current Position*

Patents filed:	AU9518928 (Australia)
Inventors:	Henning Pedersen and Jan Thomsen

11.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

12. Patent dated 27.9.1995: Electronic equipment with intelligent battery

12.1 *Description of Invention*

This invention concerns an electronic equipment containing a microprocessor, memory, a battery pack and a connection to a controllable power supply, the microprocessor containing at least one charging control routine and the battery including nonvolatile memory with parameters for controlling the power supply.

Electronic equipment may operate with different types of batteries. Each type requires special charging. The various battery types are equipped with memory containing information on the battery and accessible by a microprocessor which controls charging and status of the battery.

12.2 *Filing History and Current Position*

Patents filed:	DE69505976T2 (Germany) ES2126826T3 (Spain) FR766365 (France) GB766365 Great Britain) IT766365 (Italy)
Inventors:	J. Thorsoe

Most of the above listed national patents derive from the European patent no. EP0766365 B1.

12.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

13. Patent dated 29.7.1996: MAP receiver for high-speed numerical transmission through Rayleigh channels noisy and dispersive in time and frequency

13.1 *Description of Invention*

This invention relates to a receiver for high-speed numerical transmission through Rayleigh channels which are noisy and dispersive in time and frequency in which an accurate estimate of the channel response is combined in an optimal manner with the received data sequence detection procedure.

Specifically the a *posteriori* probability of the Markov chain of the states of the channel with intersymbolic interference are calculated recursively from the data received and from the updated channel estimate. The a *posteriori* probabilities calculated are used in turn by a Kalman estimator to record the channel variations. On the basis of the sequence of the calculated a *posteriori* probabilities the detection is then calculated symbol by symbol with the highest a *posteriori* probability having a small decision delay.

13.2 *Filing History and Current Position*

Patents filed:	IT – TO96A000659 (Italy) EP0822673 A1 (European Patent) US6064703 (United States) CN97114781.7 (China)
Inventors:	Roberto Cusani Enzo Baccarelli

13.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

14. Patent dated 22.10.1997: Method and apparatus for transmission and reception of digital signals and estimation of communication channels

14.1 *Description of Invention*

This invention relates to a method and apparatus for estimation of a transmission channel and for the transmission and reception of digital signals over the transmission channel. It comprises the steps of transmission of data sequences intercalated with probe sequences, calculating the reception of a channel, the characteristics for estimating probe sequences received and the interpolation of the channel estimation for the data sequences.

After obtaining the interpolated estimation the transmission and reception method comprises the additional phase of recognition of received information data by equalizing the data sequences with the interpolation result.

14.2 *Filing History and Current Position*

Patents filed:	IT – MI97A002376 (Italy) US6400783 B1 (United States)
Inventor:	Roberto Cusani

14.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.) Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

15. Patent dated 5.8.1998: Receiver for digital signals propagated in channels with multiple paths

15.1 *Description of Invention*

This invention comprises a method and a receiver for the equalization of received digital signals r(n) propagating in a scattered communication channel with multiple time-unvarying and also time-varying paths which give rise to time and frequency distortions with channel pulsed response (CIR) having total length equal to L symbol intervals.

In accordance with the method the scattered channel state is divided into three components: the observable, close hidden and distant hidden states. The channel is then estimated on the basis of a vector p'(n) of the a posteriori probabilities (APP) of the observable state b'(n) and on the basis of the received sequence r(n) and the received symbol decision is made on the basis of a maximum a posteriori probability (MAP) based on the above mentioned APP vector p'(n) of the channel observable state.

The CIR can be estimated in relation to a probe sequence contained in the received signal and the result of the estimate is used during reception of the remaining part of the signal and if necessary updated if the channel is time-varying.

15.2 *Filing History and Current Position*

Patents filed:	IT – MI98A001839 (Italy)
Inventors:	Roberto Cusani and Jari Mattila

15.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

16. Patent dated 19.5.1999: Multistandard reception apparatus with cascadedmultistage-structured numerical filters

16.1 *Description of Invention*

This invention relates to a multistandard receiver in which a received and digitized signal is applied to the input of a digital filtering section having outputs from which can be taken signals corresponding to predetermined transmission standards and contents in the received signal. The filtering section comprises a cascaded multistage filter structure and at selected points along the cascade additional shunt filters are connected whose outputs are above mentioned outputs for talking signals corresponding to the predetermined transmission standards.

16.2 *Filing History and Current Position*

Patents filed:	IT – MI99A001102 (Italy)
Inventors:	Nevio Benvenuto Gian Antonio Mian Fabio Momola

16.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

17. Patent dated 30.7.1999: Method and apparatus for correction of errors in Fire codes used in GSM control channels

17.1 *Description of Invention*

This invention comprises a new technique and a new apparatus for a shortened fire codes double burst error correction.

17.2 *Filing History and Current Position*

Patents filed:	IT – MI99A001711 (Italy)
Inventors:	Silvano Pupolin Daniele Tonetto Lorenzo Venturato

17.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

18. Patent dated 20.9.1999: Portable cellular telephone and communication system thereof description

18.1 *Description of Invention*

This invention comprises a portable cellular telephone, comprising means for performing subscriber interface functions and a transmitting and receiving section for a cellular telephone network. The means for performing subscriber interface functions are gathered in the first part of the said portable cellular telephone, whereas the transmitting and receiving section for a cellular telephone network is in the second part of said portable cellular telephone. These first and second parts being bidirectional communication with each other which when separated allow wireless communication with a further station or network.

18.2 *Filing History and Current Position*

Patents filed:	IT – MI99A001941 (Italy) EP00960899.1 (Spain) US10/088,371 (United States) CN00814723.X (China)
Inventor:	Massimo Zanzi

As referred to above, in China and in the United States opposition procedures are in course.

18.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT who are still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

19. Patent dated 7.11.2000: Control method of echo acoustic suppressors fortelephone terminals with handset or handsfree

19.1 *Description of Invention*

This invention proposes a control method for the digital filter adjustment that erases the echo signal in the telephone terminals with handset or hands-free. The method is based on a variable adaptation step that integrates a detector of the contemporary spoken one, a detector of the variations of the echo characteristics and an automatic control regarding the level of the bottom noise.

19.2 *Filing History and Current Position*

Patents filed:	IT – TS2000A000017 (Italy)
Inventors:	Vojko Pahor Alberto Carini

19.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this patent from NI (previously named FINMEK) who previously acquired the patent from TMT who are still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

20. Patent dated 17.5.2004: no English title available (Stazioni mobili wireless con funzionalità per il riconoscimento e la segnalazione della presenza di apparati disturbatori e servizio associato)

20.1 *Description of Invention*

This invention comprises a method which is applied to wireless telecommunication systems mobile stations where the effects of disturbing devices can jeopardize the reliability and the functionality of the whole system. To remedy this situation the invention foresees the insertion inside the mobile station of two devices, one to recognize and another to signal the presence of disturbing devices. The principles are pointed out to define a service to activate the countermeasures to guarantee the full functionality of the system of communication.

20.2 *Filing History and Current Position*

Patent filed:	IT – TS2004U000003 (Italy)
Inventors:	Yossi Moscovitz Fabio Deperini Mira Locatelli

20.3 *Ownership and Title*

Owner: Dai Italy

This patent was filed directly by Dai Telecom.

21. Patent dated 22.7.2004: method for localizing a mobile station in anunsynchronized network

21.1 *Description of Invention*

This invention relates to a method for localizing a mobile station (MS) in an unsynchronized mobile network. In particular, when a mobile station (MS) is located in a given area, the invention can measure travel time differences between signals emitted by base stations (BTS) of the network and received by the mobile station (MS).

This identifies the Auto LMU (Location Measurement Units) of a mobile telecommunication device used in a LBS (Location Based Services).

21.2 *Filing History and Current Position*

Patent filed:	FR0408137 (France)
Inventors:	Cyrille Manente Monique Gibeaux Fabio Deperini Francisco Barceló Arroyo Israel Martín Escalona Jaume Riba Sagarra Andreu Urruela Planas

21.3 *Ownership and Title*

Owner: Dai Italy and Bouygues Telecom and Universitat Politècnica de Catalunya

The patent was filed directly by Bouygues Telecom with Dai Italy and Universitat Politècnica de Catalunya, which results in Bouygues Telecom being named as the recorded owners. The ownership issue is to be regulated by an agreement which is currently under discussion.

UTILITY MODELS

Although Dai Italy prefers to rely on the protection afforded by patents, following the acquisition of the Telit business Dai Italy inherited some utility models (a method of intellectual property protection similar to patent protection). Other utility models, however, have been applied for by Dai Italy directly.

22. Utility model dated 26.11.2002: no English title available (implementazione di menù grafici, a rotazione e a scorrimento per dispositivi aventi schermi di piccole dimensioni

22.1 *Description*

Applied in G80 and protects a particular look and feel of MMI.

The invention proposes a system of rotating the graphic menu on a cellular phone, employed for the activation of all the commands of man-machine interface of a cellular phone, and in secondarily the combination of a graphic menu with bar and slide, this last used for facilitating the access to the commands used more frequently by the User.

22.2 *Filing History and Current Position*

Utility model filed:	IT – TS2002U000018 (Italy)
Inventor:	Andrea Garbin

22.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this utility model from NI (previously named FINMEK) who are still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

23. Utility model dated 5.4.2004: no English title available (simless: stazione mobile cellulare con SIM card integrata)

23.1 *Description*

This invention teaches how to realize a cellular Mobile Stations (MS), in which the component SIM (Subscriber Identity Module) is modified in a becomes Integrated SIM functionality, and therefore not removable.

23.2 *Filing History and Current Position*

Utility model filed:	IT – TS2004U000003 (Italy)
Inventors:	Yossi Moscovitz Fabio Deperini Miran Locatelli

23.3 *Ownership and Title*

Owner: Dai Italy

This utility model was filed directly by Dai Italy.

24. Utility model dated 17.5.2004: no English title available (Metodo e dispositivo per il riconoscimento di apparati disturbatori in sistemi wireless e servizio di sicurezza associato)

24.1 *Description*

The method is applied to GSM/GPRS mobile stations where the effects of disturbances to devices can jeopardize the reliability and the functionality of the whole system.

Toremedy this situation the method and the device can recognise and signal the presence of apparatus causing the disturbance and signal to a Manager the presence of the disturbance allowing the Manager to take countermeasures to guarantee the full functionality of the system of communication.

24.2 *Filing History and Current Position*

Utility model filed:	IT – TS2004U000004 (Italy)
Inventors:	Yossi Moscovitz Fabio Deperini Miran Locatelli

24.3 *Ownership and Title*

Owner: Dai Italy

This utility model was filed directly by Dai Italy.

25. Utility model dated 14.1.2005: no English title available (Metodo e dispositivo per l'implementazione del canale di ritorno in sistemi per l'offerta di servizi interattivi)

25.1 *Description*

The method and the device described in the invention apply to systems that offer interactive services, within the digital telecast satellite/terrestrial. The method and the device allow a return channel, using an integrated modem in the Set Top Box, through the integration of a cellular or wireless connectivity device which is directly installed inside the remote control of the Set Top Box.

25.2 *Filing History and Current Position*

Utility model filed:	IT – TS2005U000001 (Italy)
Inventors:	Yossi Moscovitz Fabio Deperini

25.3 *Ownership and Title*

Owner: Dai Italy

This utility model was filed directly by Dai Italy.

26. TRADE MARKS

The brand "TELIT" is registered as a word mark and as a device mark in yellow/black, black/white and red/blue. These "TELIT" trade marks are Dai Italy's key trade marks enjoying world-wide protection in classes 9, 37 and 38 and in addition in some countries in Class 12. We view the territorial scope of these trade marks as more than adequate for Dai Italy's requirement to protect the "Telit" brand. Dai Italy has acquired this trade mark from NI (previously named FINMEK) who previously acquired the trade mark from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

Dai Italy has also acquired a number of registered trade marks which are held for defensive purposes. These include: "TELITAL" (a word mark), "Tttt" (a device mark in black/white) and "Tttt TELITAL" (a device mark in black/white). These were acquired from NI (previously named FINMEK) who previously acquired the trade mark from TMT (previously named Telital S.p.A.). Accordingly, Telital S.p.A. is still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

Finally, Dai Italy has also applied for a number of registered trade marks to protect the brand names of certain of its products in Italy. These include:

(a) "FOTOFONINO" – word mark: Dai Italy has acquired this trade mark from NI (previously named FINMEK). Therefore, the recorded owner is FINMEK. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

(b) "LEONARDO" – figurative mark: Dai Italy has acquired this trade mark from TMT by virtue of deed of assignment dated 1 March 2004. TMT is still however recorded as owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

(c) All of the following are owned and were filed by Dai Italy: "EASY GPRS" – word mark, "EASY CAMERA" – word mark, "SIMLESS" – word mark, "EASY SCAN" – word mark, "EASY SCRIPT" – word mark, "NUOVA TELIT" – word mark, "TRIZIUM" – word mark and "TRIZIUM" – figurative mark.

DESIGN

Although design right has not been used by Dai Italy it has inherited further to its acquisition of the "Telit" business the following registered design rights.

27. Design dated 1.6.2001: no English title available (terminale wireless contenuto in un involucro morbido) i.e. wireless user terminal contained in a soft casing, like a leather wallet

27.1 *Description*

An innovative concept design of a wireless user terminal contained in a soft casing, like a leather wallet.

27.2 *Filing History and Current Position*

Design filed:	IT – TS2001O000006 (Italy) DE – DM/060 048 (Germany) FR – DM/060 048 (France)
Inventors:	Francesco Trabucco Raffaella Mangiarotti

27.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this design from NI (previously named FINMEK) who previously acquired the design from TMT who are still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

28. Design dated 28.7.1999: telephones and microphones for telephones

28.1 *Description*

This design protects the aesthetic form of some of the Telit telephones such as, for example, the telephone model GM910i.

28.2 *Filing History and Current Position*

Designs filed:	CH – DM/048 938 (China) BX – DM/048 938 (Benelux) IT- DM/048 938 (Italy) FR – DM/048 938 (France) DE – DM/048 938 (Germany)
Inventors:	unknown

28.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy has acquired this design from NI (previously named FINMEK) who previously acquired the design from TMT which still results to be the recorded owner. Currently, recordal formalities are being carried out.

COPYRIGHT

29. Copyright dated 3.10.2001: no English title available (animazioni e loghi Telit) i.e. animation on Telit logos

29.1 *Description*

Images used in some Telit Phones, to identify the look and feel of cellular phones (animation of MMI): around 350 little images used in GM822 and GM910i.

29.2 *History and Current Position*

Copyright no.:	SIAE0104533
Created by:	Cristina Pisani

29.3 *Ownership and Title*

Owner: Dai Italy

Dai Italy acquired this copyright from NI (previously named FINMEK) who previously acquired the copyrightfrom TMT who are still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

30. Copyright dated 11.11.2002: no English title available (animazioni e loghi per telefoni cellulari et al.) i.e. animations and logos for mobile telephones

30.1 *Description*

Images used in some Telit Phones, to identify the look and feel of cellular phones (animation of MMI): around 2.300 little images used in G80.

30.2 *History and Current Position*

Copyright no.:	SIAE0205006
Created by:	Cristina Pisani Andrea Garbin

30.3 *Ownership and Title*

Owner: Dai Italy.

Dai Italy acquired this copyright from NI (previously named FINMEK) who are still the recorded owner. As mentioned previously at paragraph 4 of this report, recordal formalities are being carried out to perfect title.

Yours faithfully,

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