SHL
Telemedicine

Annual Report 2007

Contents

SHL – Poised for Growth

2007 proved to be a special year for SHL with the sale of Raytel's US cardiac monitoring services to Philips and the continued growth of our operations in Germany, substantiating our belief in the telemedicine market and further enhancing our co-operation with Philips. We begin 2008 stronger than ever, with significant resources to support growth and development of world leading telemedicine solutions.

We were very satisfied with the vote of confidence received from Philips, acknowledging our achievements in the US market. We are also pleased that our relationship and co-operation with Philips is further enhanced by the agreement for long-term participation in Raytel's revenues from its current services and certain future services to be introduced in North America. We expect to also benefit from the future sales of our proprietary telemedicine devices as well as from revenues emanating from Philips' access to SHL's future R&D.

In Germany, 2007 proved to be yet another year of significant growth with subscribers and revenues growing by over 80% and some major health insurers covering over 1.5 M insured adopting our telemedicine services. In addition, studies were published by reputable research institutes further supporting the significant cost savings achieved for health-insurers by using our CHF telemedicine solution. We believe that all this together with the resources available to us after the Raytel/Philips deal will enable the continuation of the rapid growth of PHTS Telemedizin bringing it to profitability, already in 2008.

In Israel our telemedicine operation continued with its solid financial performance, showing steady growth with the CardioSen'C, our new 12 lead digital cellular ECG device, achieving great market acceptance.

This year's results are marked by the sale of Raytel to Philips for USD 110 million leading to a capital gain, net of taxes, of USD 39.3 million, the discontinuation of all of Raytel's medical centers and the significant growth in Germany. Our revenues for the year amounted to USD 62.1 million with profit for the year reaching USD 27.6 million.

This year, due to the Raytel/Philips deal, we have decided to share with you our success by distributing a cash dividend in the amount of USD 0.37 per share, totaling USD 4.0 million, payable on April 15, 2008 to shareholders of record on April 14, 2008.

We have high hopes for 2008 and beyond and believe that with the added resources we will be able to justify the support shown in us over the years by our partners, shareholders and employees worldwide.

Sincerely

Yoram Alroy,
Chairman and President

2007: a momentous year for SHL.

SHL is poised for significant growth and profitability in the coming years

2007 was a very momentous year for SHL in which the groundwork was laid for solid expansion of our activities in the coming years by expanding the service bases and telemedicine applications in the markets where we operate as set out below. This position has been reached after much preparation and effort and gives us a tremendous opportunity to realize these benefits as we move forward.

- Philips, an 18.6% shareholder, within the framework of its development of consumer healthcare medical services in the US, acquired Raytel, our US cardiac monitoring services company, for USD110 million and entered into a long term agreement with SHL for SHL's participation in future revenues from current and future products expected to be introduced into the North American market in the coming years.
- Our German operation continued to develop very well with the expansion of PHTS's client base, the increased recruitment rates from existing customers and the signing of new contracts with several new health insurers covering over a further 1.5 million insured members.
- The Israeli business continued its steady progress to provide sustained profitability and cash flow.
- We introduced our next generation of personal ECG devices and, in addition, received FDA clearance for a new proprietary cardiac looping recorder and transmitter, first in a new family of wireless, cellular-based devices developed by SHL.

Review by Markets

North America

Transaction with Philips

On November 30, 2007, Raytel Cardiac Services, the provider of cardiac monitoring systems together with other ancillary operations in the U.S. was sold to Royal Philips Electronics (an 18.6% shareholder in SHL). Over the last year Philips has become the leading provider of personal response systems in the US and Canada and is expanding its consumer healthcare product offerings. Philips markets its services through a network of over 2500 hospitals and healthcare providers and serves a subscriber base of over 750,000 individuals. Raytel was a natural fit into these activities and provides the potential for the introduction of new SHL products and services to these markets in the coming years.

We received USD 110 million as upfront cash consideration and debt assumption for the sale of 100% of Raytel's stock and the granting to Philips (Raytel) of a license for the use of the Company's IT platform in the North American market to provide them with current and future services .We are also due to receive guaranteed minimum payments of USD 13 million from services to be provided by Philips as well as further additional payments up to 2016, from these services, subject to milestones and other conditions. We should also benefit from the sales of our proprietary telemedicine devices to Philips for these markets.

Sale and discontinuation of US medical services operation

During 2007 we completed the sale and discontinuation of all of the remaining imaging centers. In addition SHL has sold other ancillary operations to Philips. As a result SHL has ceased its operations in the medical services business segment which is categorized as discontinued operations in the financial statements.

Germany – significant growth

The expansion of PHTS's client base continued during the year at a good pace as a result of a higher rate of recruitment of patients from existing contracts with health insurers and the signing of contracts with several new health insurers, covering over 1.5 million insured, examples of which are described below:

- The private health insurer, HUK Coburg-Krankenversicherung joined Deutsche BKK in a project with Klinikum Coburg.
- An integrated care services contract was signed in the state of Schleswig-Holstein providing services to IKK Direct and IKK Nord patients.
- An integrated telemedicine net giving exclusive services to the city of Cologne was launched together with Heart Net Center (HNC) and Barmer Ersatzkasse, Germany's biggest health insurer.
- Agreements were forged with BKK Essanelle and BKK Merck, both based in Darmstadt, covering employees of well known companies such as: Henkel, Schering, MAN, Rhine metal and Merck.

- An expansion and long term co-operation agreement was finalized after a successful pilot was completed with Debeka, Germany's biggest private health insurer.

As a result of these new contracts and the improved recruitment rate from PHTS's existing contracts, the overall number of subscribers to PHTS's services virtually doubled during the year, resulting in a top line growth of over 85%. These numbers and the continued expansion of PHTS's services are now expected to contribute to SHL's profitability and cash flow in the coming years.

During the year PHTS's personnel appeared at medical conferences and seminars and are making important contributions to the telemedicine and cardiac monitoring fields in Germany. Its Medical Advisory Board was also further strengthened by the addition of several prominent German figures such as Prof. Dr. Med. Klaus Pethig and Prof. Dr. Med. Christoph A. Nienaber, both leading cardiologists.

Israel

2007 marked another good year for our Israeli telemedicine operations with steady growth in subscribers coupled with the continued leadership in the Israeli telemedicine services market.

We introduced into the market our new personal 12 lead digital cellular ECG device - the CardioSen'C, which has been very well accepted and has helped boost the rate of subscriber acquisition. This has helped our operations to continue to show solid financial performance with EBITDA margins of over 20% and positive operating cash flow. SHL expects subscriber recruitment rate to increase bringing continued profitability and strong cash flow.

Technology

As set out above, 2007 was marked by the introduction to the market of its next generation of personal ECG devices; the 12 lead digital cellular CardioSen'C. This revolutionary technology transmits digital encoded ECG data through the cellular network and allows for maximal ECG accuracy. The launch of the device has been a great success in Israel with demand exceeding supply.

At the end of Q3 07 we received FDA clearance for our new proprietary cardiac looping recorder and transmitter, first in a new family of wireless, cellular-based devices developed by SHL. This device is the first wireless cellular looping monitor available in the world.

SHL continues with its extensive experience and knowledge to devote resources to the development of new products that will be in the forefront of technology and provide greater service benefits to our subscribers

Financial results:

SHL's financial results for 2007 include those of Raytel up to its divesture at November 30, 2007.

SHL's continuing operations do not include the entire medical services business segment which is categorized as discontinued operations. Revenues for the year amounted to USD 62.1 million compared to revenues of USD 62.8 million in 2006 with gross margins remaining steady at 52% bringing gross profit to USD 32.6 million in 2007 compared with USD 32.7 million in 2006. Revenues and gross profit from our German operations increased significantly compared to the previous year offsetting the decrease in Raytel's contribution to SHL's financial results.

LBITDA for the year amounted to USD 1.6 million compared to an EBITDA of USD 7.6 in 2006 with operating loss amounting to USD 10.1 million compared to an operating profit of USD 0.3 million in 2006.

The decrease in results of operation, is due to significant one time costs and the write-offs of old trade receivables at Raytel, connected with the sale, as well as impairment of development costs and inventory .

The capital gain, net of taxes, from the sale of Raytel as described in the above section amounted to USD 39.3 million. After bringing this into account, the net income from continuing operations for 2007 amounted to USD 23.6 million compared to a net loss from continuing operations of USD 3.4 million in 2006.

The discontinued operations of the medical services business segment contributed USD 4.0 million to net income for the year bringing the Company's net income to USD 27.6 million compared to a net loss of USD 7.1 million in 2006.

As a result of the divesture of Raytel, SHL's balance sheet has improved considerably. Equity at December 31, 2007 has doubled to over USD 60 million compared to around USD 30 million at December 31, 2006. Current assets reflecting the cash received from the Raytel transaction improved by some USD 54 million while the total liabilities declined by USD 14 million.

Cash flow used in operations amounted to USD 1.8 million compared to a positive cash flow from operations of USD 1.8 million in 2006. The decrease in operating cash flow results from one time payments related to the Raytel sale.

Dividend distribution and share buyback program

This year, for the first time, we have decided to share with our shareholders our successul sale of Raytel by distributing a special cash dividend in the amount of USD 0.37, per share, totaling approximately USD 4.0 million payable on April 15, 2008 to shareholders of record on April 14, 2008

In addition the Company's Board of Directors approved the buyback of SHL shares for an amount up to USD 2 million.

Looking ahead

As stated at the outset, as a result of the improved visibility into the future and the resources to continue supporting significant growth in Germany, the 2008 financial performance and cash flows are expected to significantly improve.

- Revenues are expected to grow by 35 % to 45 % (excluding the operations of Raytel) reaching between USD 38 million and USD 41 million.
- EBITDA margins are expected at 17 % to 20 % reaching between USD 7.0 and USD 8.0 million.
- Positive cash flow from operations

The Development of the Telemedicine Market

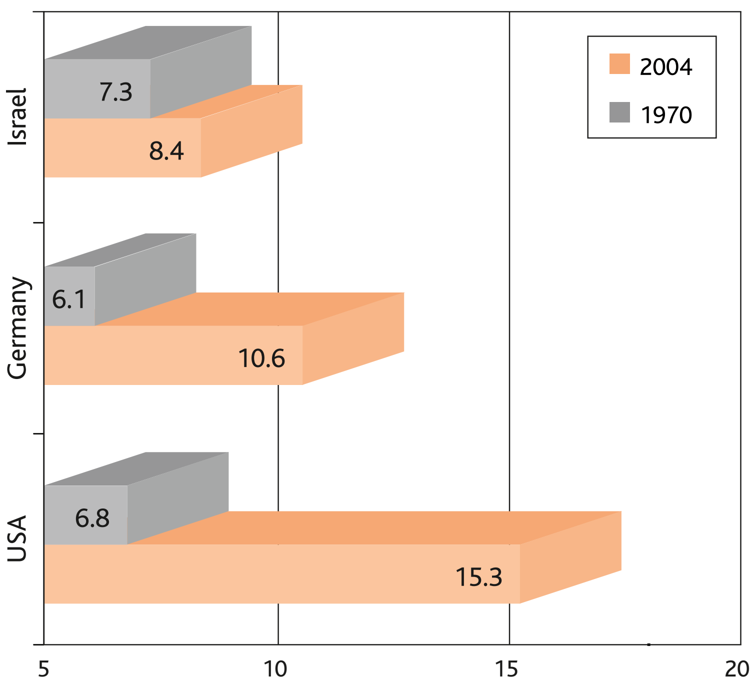
Sophisticated medical services for private patients

It is a time where people in developed countries across the world are increasingly taking personal responsibility for medical issues and treatments. Economic pressure adds to this need for individual flexibility in the use of medical services. Cost pressure in the health care industry has become an ongoing political issue, be it in Israel, Germany or the U.S. In the OECD countries, average growth rate of health care spending has risen by a rate of 5% per year in the past decade. Given the demographic trends, i.e. the aging society, health care systems will be put under further stress in the years to come.

The burden of health care spending

Health care spending in % of gross domestic product

Source: OECD Health Data 2007

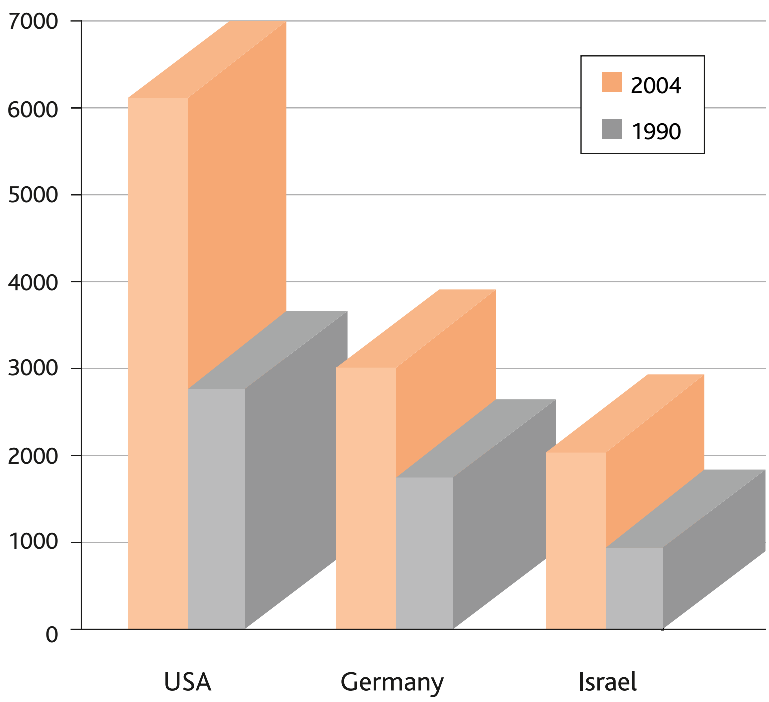


Better value across the board

Technological progress has made it possible to invent both sophisticated and easy-to-use medical products and services. They bring value to patients, physicians, hospitals and insurers. Patients, using services that enable access to medical counsel from home and a continuous monitoring around the clock enjoy less hospitalizations, improved clinical outcomes and better quality of life. Physicians enjoy a cost effective way to monitor and manage their patients and higher quality of care, better data on their health status and history and more efficient time utilization.. Hospitals and insurers alike profit from higher efficiency thanks to cost savings and revenues optimization. Hospitals can minimize unnecessary hospitalizations and reduce costly emergency room admissions. In addition,

Increased spending by individuals on healthcare

Expenditure per capita in USD,
in terms of PPP of the Gross Domestic Product



hospitalization days are being shortened and service and medical treatment improved.

Benefit for patients with cardiovascular diseases

Aging society has meant increased prevalence of chronic conditions. Amongst them, cardiovascular diseases (CVD) are the most frequent cause of death and at the same time the most costly as well. This is particularly true for congestive heart failure (CHF), a common form of heart failure that results in a patient retaining excessive fluid, often leading to swelling of the legs and ankles and congestion in the lungs, because a large amount of the costs for the treatment of CHF are spent on unnecessary hospitalizations.

In Germany alone, over 1.5 million people suffer from CHF. Still, the implementation of modern therapy strategies in daily practice is, regretfully, insufficient. Profiting from SHL's experience in Israel, PHTS Telemedizin has responded to this opportunity and become Germany's leading provider of sophisticated medical services in cardiac monitoring. Based on the Medical Monitoring Center in Dusseldorf, it has successfully launched the SHL CHF monitoring service into the market. With this service, SHL has again proved both from a scientific viewpoint and in the day-to-day experience that disease management with concomitant telemedicine for chronic heart failure is safe and effective and has a huge potential for cost savings and improvements in quality of life.

Information for investors

Capital structure

The issued share capital is divided into 10,688,535 registered shares with a par value of NIS 0.01 each

Distribution of profits

SHL Telemedicine Ltd. Currently intends to retain any future earnings to finance development of its business and does not anticipate paying any cash dividends in the forseeable future.

Significant shareholders'

Shareholders' with more than 5% of all shares may be registered. There are no restrictions on voting rights.

Royal Philips Electronics	18.63%
Alroy Group*	18.26%
Tower Holdings B.V.	14.22%
G.Z. Assets and Management Ltd.	8.67%
Public	40.22%

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2007, after deducting from the total number of shares outstanding 61,159 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Statistics on SHL Telemedicine as at December 31, 2007

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,688,535
Market price high/low (CHF)	12.1/4.82
Market capitalization high/low (CHF million)	129.3/51.5
Market capitalization 31/12/07 (CHF million)	104.4
Share capital – nominal value (NIS)	106,885
Majority interests	60.10%

Key figures per share at Decmber 31, 2007

Basic profit per share attributable to Equity holders of SHL (USD)	2.20

Share price development

Listing

All SHL shares are listed on SWX Swiss Exchange
Ticker symbol: SHLTN
Currency: CHF
Listing date: November 15, 2000

Investor relations

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Annual General Meeting

May 14, 2008

Next Publications

Q1 Results:	May 15, 2008
Q2 Results:	August 13, 2008
Q3 Results:	November 11, 2008

Corporate Governance 2007

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SHL TeleMedicine Ltd. Corporate Governance Report

Introduction

In this section of our 2007 Annual Report we are happy to bring to you our Corporate Governance Report in order to give all those who are interested in the future of SHL a greater understanding of who we are.

The principles and rules of SHL on corporate governance are laid down in the Articles of Association of SHL and the Israeli Companies Law, 5759-1999 (the "Israeli Companies Law"). The information presented here is as of December 31, 2007, and complies with the Corporate Governance Directive of the SWX Swiss Exchange.

1. Group Structure and Shareholders

1.1 Group Structure

1.1.1 Management Principles:

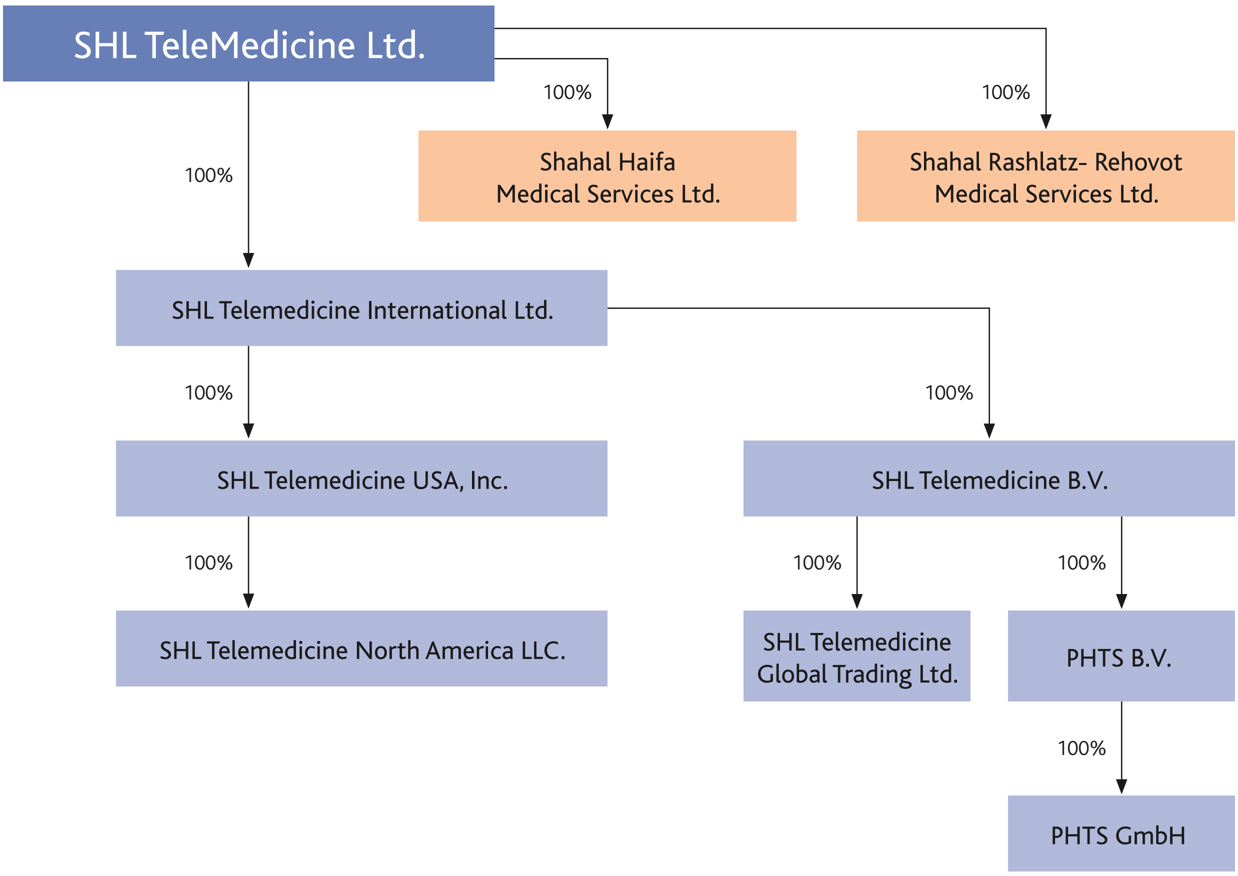
SHL Telemedicine Ltd. is a company incorporated in Israel whose shares are publicly-traded on the SWX Swiss Exchange under the symbol SHLTN (see Section 1.1.2 for additional information on the Company). SHL and its subsidiaries develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine systems are designed to improve quality of care and life for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health.

The Company and its subsidiaries operate in Israel, Germany and the US in two business segments:

Telemedicine services - providing telemedicine services and devices to subscribers utilizing telephonic and Internet communication technology.

Medical services - operating a network of cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular diseases.

Each of the operations enjoys a high degree of autonomy, with its own management group. Corporate management which is located in Israel complements and oversights those businesses. In addition, certain services are centralized in Israel and are provided to all group companies, such as R&D and specialized IT services, finance and accounting etc.



During 2007, the Company completed the discontinuation and divesture of its remaining imaging centers in the U.S. (see Note 4 to the financial statements) and has sold other ancillary operations to Philips (see Note 3 to the financial statements) and as a result has ceased its operations in the medical services business segment at the end of 2007.

On November 30, 2007, the Company completed the sale of Raytel Cardiac Services, Inc. and Raytel Imaging Networks, Inc. to Royal Philips Electronics, an 18.6 % shareholder and of the controlling shareholders of the Company (the "Philips Transaction"), following the approval of the transaction by a Special General Meeting of the Company's shareholders on November 27, 2007 (see Note 3 to the financial statements) (for further information on the Philips Transaction, please see the description of the U.S. subsidiaries of SHL under Section 1.1.2 below).

1.1.2 Description of the most important group companies, listed and unlisted, belonging to the SHL group are:

SHL TeleMedicine Ltd. ("SHL") - SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each. SHL's issued and outstanding share capital is NIS 106,885.35 divided into 10,688,535 fully paid registered ordinary shares of NIS 0.01 par value each (including 61,159 ordinary shares of NIS 0.01 par value each held by SHL). For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 20. The registered shares of SHL are traded on the main board of the SWX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As at December 31, 2007, SHL's market capitalization was CHF 104.4 million. SHL's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

Shahal Haifa - Medical Services Ltd. ("Shahal Haifa") - Shahal Haifa's authorized share capital is comprised of NIS 13,000 divided into 12,000 ordinary shares of NIS 1 par value each and 1,000 voting shares of NIS 1 par value each. Shahal Haifa's issued and outstanding share capital is comprised of 100 ordinary shares of NIS 1 par value each, all of which are held by SHL and 100 voting shares of NIS 1 par value each, all of which are held by SHL. Shahal Haifa's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

Shahal Rashlatz-Rehovot Medical Services Ltd. ("Shahal Rishon") - Shahal Rishon's authorized share capital is comprised of NIS 16,600 divided into 16,600 ordinary shares of NIS 1 par value each of which 100 ordinary shares of par value NIS 1 are issued and outstanding, all of which are held by SHL. Shahal Rishon's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

SHL Telemedicine International Ltd. ("STI") - STI's authorized share capital is comprised of NIS 101,000 divided into 91,000 ordinary shares of NIS 1 par value each and 10,000 Preferred shares of NIS 1 par value each of which STI's issued and outstanding share capital is comprised of 8,260 ordinary shares of NIS 1 par value each and 1,740 preferred shares of NIS 1 par value each, all of which are held by SHL. STI's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

SHL Telemedicine B.V. ("SHL BV") - SHL BV's authorized share capital is comprised of Euro 30,000,000 divided into 300,000 ordinary shares of Euro 100 par value each of which 74,043 ordinary shares of Euro 100 par value each are issued and outstanding, all of which are held by STI. SHL BV's registered office is located at Stadhouderskade 125 hs, 1074 AV, Amsterdam, The Netherlands.

SHL Telemedicine USA, Inc. ("SHL USA") – SHL USA was established in the course of a restructuring process (for further information, see also the company descriptions of SHL N. America and Raytel below) in connection with the Philips Transaction, which was consummated on November 30, 2008. SHL USA's authorized share capital is comprised of USD 1 divided into 100 shares of common stock of USD 0.01 par value each of which 100 shares of common stock of USD 0.01 par value each are issued and outstanding, all of which are held by STI. SHL USA's registered office is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

SHL Telemedicine North America, LLC. ("SHL N. America") – SHL N. America was converted into an LLC in the course of the restructuring process in connection with the transaction with Royal Philips (for further information. please refer to the description of SHL USA above), and all 100 membership units are currently held by SHL USA. Before the restructuring process, the authorized share capital of SHL N. America was comprised of US$ 100,000, divided into 1,000,000 shares of common stock of US$0.1 par value each, of which 1,000,000 shares of common stock of US$0.1 par value each were issued and outstanding, all of which were held by STI. The company is now named SHL Telemedicine North America LLC ("SHL N. America LLC") and its registered office is located at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

Raytel Medical Corporation LLC ("Raytel") – Raytel was converted into an LLC in the course of the restructuring process in connection with the transaction with Royal Philips (for further information, please refer to the description of SHL USA above) and all 100 membership units are currently held by by SHL N. America LLC. Before the restructuring, Raytel's authorized share capital was comprised of US$ 22,000 divided into 20,000,000 shares of common stock of US$ 0.001 par value each and 2,000,000 shares of preferred stock of US$ 0.001 par value each, of which 2,988,687 shares of common stock of US$0.001 par value each were issued and outstanding, all of which were held by SHL N. America. The company is now named Raytel Medical Corporation LLC ("RMC LLC") and its registered office is located at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

SHL Telemedicine Global Trading Ltd. ("SHL Global") - SHL Global's authorized share capital is comprised of Euro 1,000,000 divided into 1,000,000 ordinary shares of Euro 1.00 par value each of which 1,000 ordinary shares of Euro 1.00 par value each, are issued and outstanding, all of which are held by SHL BV. SHL Global's registered office is located at Wil House, Shannon Business Park, Shannon, Co. Clare, Ireland.

Personal Healthcare Telemedicine Services Europe B.V. ("PHTS BV") – PHTS BV's authorized share capital is comprised of Euro 4,000,000 divided into 400,000 shares of common stock of Euro 10 par value each, of which 81,500 shares of common stock of Euro 10 par value each are issued and outstanding, all of which are held by SHL BV. PHTS BV's registered office is located at Stadhouderskade 125 hs, 1074 AV, Amsterdam, The Netherlands.

Personal Healthcare Telemedicine Services GmbH ("PHTS") – PHTS' authorized share capital is comprised of Euro 300 divided into 300,000 shares of common stock of Euro 0.001 par value each, of which 300,000 shares of common stock of Euro 0.001 par value each are issued and outstanding, all of which are held by PHTS BV. PHTS registered office is located at Heinrich-Heine-Allee 1, 40213 Düsseldorf, Germany.

There are no companies belonging to the consolidated entities of SHL whose equity securities are listed on a stock exchange.

1.2 Significant Shareholders

Royal Philips Electronics	18.63%
Alroy Group*	18.26%
Tower Holdings B.V.	14.22%
G.Z. Assets and Management Ltd.	8.67%
Public	40.22%

* Alroy Group is comprised of Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.76% of the issued and outstanding share capital of SHL, Mr. Elon Shalev, brother-in-law of Mr. Yoram Alroy, that holds, individually and through Elon Shalev Investments Ltd., a private company wholly owned by Mr. Elon Shalev, approximately 6.76% of the issued and outstanding share capital of SHL, and Y. Alroy Family Ltd., a private company wholly owned by Mr. Yoram Alroy, Mr. Elon Shalev and members of their family, that holds approximately 4.74 % of the issued and outstanding share capital of SHL.

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2007, after deducting from the total number of shares outstanding 61,159 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Pursuant to the Shareholders Agreement (the "Shareholders Agreement") between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., (which is effective for a period of two (2) years as of November 2007, and which shall be automatically renewed for additional two (2) year periods unless either party provides a three (3) months written notice to terminate the Shareholders Agreement), Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include three (3) nominees determined by the Alroy Group, two (2) nominees determined by Royal Philips Electronics, one (1) nominee determined by Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall have the right to nominate two (2) directors as long as it holds at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall be required to vote its shares to the appointment to the Board of (i) three (3) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least twelve-and-one half (121/2) percent of the issued and outstanding share capital of SHL; (ii) two (2) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least ten (10) percent of the issued and outstanding share capital of SHL; and (iii) one (1) director nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least five (5) percent of the issued and outstanding share capital of SHL. Philips has elected not exercise its right to appoint directors. Additionally, the Shareholders Agreement provides that any committee of the Board of Directors shall include one (1) of the members of the Board of Directors nominated by the Alroy Group, one (1) member of the Board of Directors nominated by Royal Philips Electronics and one (1) of the members of the Board of Directors nominated by either Tower Holdings B.V. or G.Z. Assets and Management Ltd. The Shareholders Agreement further provides a reciprocal right of first offer to each of the shareholders party thereto with respect to any disposition by any of them of all or any of their securities of SHL.

1.3 Cross-Shareholdings

There are no cross-shareholdings exceeding 5% of the share capital and voting rights by any of the Significant Shareholders and SHL.

2. Capital Structure

2.1 Capital on the Disclosure Deadline

Authorized share capital as of December 31, 2007

Number of Ordinary Shares	14,000,000
Par value of	NIS 0.01 each
Share capital	NIS 140,000

Issued and outstanding share capital as of December 31, 2007

Number of Ordinary Shares	10,688,535*
Par value of	NIS 0.01 each
Share capital	NIS 106,885.35

* Including 61,159 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 20.

2.2 Authorized and Conditional Capital

General

Under Israeli Law, a company's authorized share capital represents the maximum amount of shares which is authorized for issuance by the company. SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"). The issued and outstanding share capital of SHL is NIS 106,885.35divided into 10,688,535 fully paid registered Ordinary Shares (including 61,159 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 20). According to the Articles of Association of SHL, any increase of the authorized share capital shall require a resolution approved by a sixty-six (66) percent majority of the voting power of the shareholders represented at the meeting and voting thereon. Any increase in the authorized share capital is valid as of the date of the approval thereof by the shareholders. Authorized share capital, or any increase thereof is not limited in time. However, the shareholders may, at the General Meeting, cancel authorized but not yet issued share capital, provided that the company did not undertake to issue shares out of such authorized but unissued share capital. Pursuant to SHL's Articles of Association, the unissued shares are under the sole control of the Board of Directors of SHL who has the authority to allot or otherwise dispose of them on such terms and conditions as it may see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

SHL approved a maximum number of up to 1,056,627 Ordinary Shares (subject to adjustments as set forth in the 2005 Key Employee Share Option Plan, as such term is hereinafter defined) reserved for issuance upon exercise of options that may be granted pursuant to the Option Plans. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 32.

As of December 31, 2007, SHL held 61,159 Ordinary Shares of SHL, purchased by it on the SWX Stock Exchange. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 20.

Share Options

In September 2000, SHL adopted an option plan for the issuance of options to purchase Ordinary Shares ("Options") to its employees, directors, consultants and contractors that was amended in November 2000 (the "2000 Share Option Plan"). In September 2000, SHL approved a maximum pool of up to 856,627 Ordinary

Shares reserved for issuance upon exercise of Options that may be granted pursuant to the 2000 Share Option Plan (the "Option Pool").

In November 2000, after the completion of the Public Offering, SHL granted to employees and consultants of the SHL group 496,202 Options to purchase 496,202 Ordinary Shares at the price of CHF 34.00 (the public offering price) under the terms of the 2000 Share Option Plan. During 2001, a further 23,340 Options to purchase 23,340 Ordinary Shares were granted under the terms of the 2000 Share Option Plan and at the same exercise price. The aforesaid Options are subject to a four-year vesting schedule which provides for fifty (50) percent of the options to be vested on the second anniversary of the date of the grant and an additional twenty-five (25) percent) to be vested on each of the third and fourth anniversary of the date of the grant.

During 2001, SHL granted to employees and consultants of the SHL Group an additional 97,975 options to purchase 97,975 Ordinary Shares at the price of CHF 22.65 (the market price at the date of the approval) under the terms of the 2000 Share Option Plan. The aforesaid Options are subject to a three-year vesting schedule which provides for one-third (1/3) of the options to be vested on each of the first, second and third anniversary of the date of the grant.

In July 2002, SHL adopted the 2002 International Share Option Plan (the "2002 International Share Option Plan") for the issuance of Options to non-Israeli employees, directors, officers and consultants of SHL and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2000 Share Option Plan shall further serve for purposes of the 2002 International Share Option Plan.

In October 2003, due to a tax reform in Israel that changed the tax regime with respect to Options granted to employees and directors, SHL adopted the 2003 Share Option Plan (the "2003 Share Option Plan") for the issuance of Options to employees, directors, consultants and contractors of SHL and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2000 Share Option Plan and the 2002 International Share Option Plan shall further serve for purposes of the 2003 Share Option Plan.

In October 2003, SHL granted to employees and consultants of the SHL Group and an executive member of the Board of Directors of SHL 113,560 Options to purchase 113,560 Ordinary Shares under the terms of the 2003 Share Option Plan. One-third (1/3) of such Options have an exercise price of CHF 6.89; one-third (1/3) of such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2005, the exercise price shall be CHF 6.89; and one-third (1/3) of such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2006, the exercise price shall be CHF 6.89. All such Options shall fully vest on October 30, 2004. CHF 6.89 was the market price on the date of grant. In December 2003, SHL effectuated an options exchange program (the "Options Exchange Program") aimed at reducing the exercise price of Options granted under the terms of the 2000 Share Option Plan to reflect the market price of Ordinary Shares of SHL. The Options Exchange Program offered holders of such Options to cancel all Options previously granted to them in exchange for new Options to be granted under the terms of the 2003 Share Option Plan at an exchange ratio of 1:0.8 (i.e. 0.8 new Options for every 1 Option cancelled) and at an exercise price equal to the market price on the date of exchange (which was determined as December 17, 2003). As a result of the Options Exchange Plan, 485,627 Options to purchase 485,627 Ordinary Shares at the price of CHF 34.00 or CHF 22.65 (as applicable), which were previously granted under the terms of the 2000 Share Option Plan, were cancelled, and in exchange 388,501 Options to purchase 388,501 Ordinary Shares at the price of CHF 5.9 (the market price on the date of exchange) were granted under the terms of the 2003 Share Option Plan to employees, consultants and executive members of the Board of Directors of SHL that participated in the Options Exchange Program. The Options granted under the Options Exchange Program will vest in accordance with the original vesting schedule under which the Options they replaced were to vest, provided, however, that all such Options not yet vested on December 31, 2004, will fully vest on such date.

In August 2004, SHL adopted the 2004 International Share Option Plan (the "2004 International Share Option Plan"), which replaces the 2002 International Share Option Plan. In August 2004 SHL granted to employees and consultants of the SHL Group 73,000 Options to purchase 73,000 Ordinary Shares under the 2004 International Share Option Plan and 16,250 Options to purchase 16,250 Ordinary Shares under the 2003 Share Option Plan.. The options are fully vested as of December 31, 2004 (or as of August 1, 2004 with respect to one employee that was granted 18,000 Options under the 2004 International Option Plan (the "Senior Employee Options"). The exercise price of such Options is 9.5 CHF, provided, however, that if exercised on or after January 1, 2006 (or on or after August 1, 2005 with respect to the Senior Employee Options) one-third (1/3) of such Options will have an exercise price of CHF 5.5; if exercised on or after January 1, 2007 (or on or after August 1, 2006 with respect to the Senior Employee Options) an additional one-third (1/3) of such Options will have an exercise price of CHF 5.5; and if exercised on or after January 1, 2008 (or on or after August 1, 2007 with respect to the Senior Employee Options) an additional one-third (1/3) of such Options will have an exercise price of CHF 5.5. CHF 5.5 was the market price on the date of grant

In May 2005, SHL adopted the 2005 Key Employee Share Option Plan (the "2005 Key Employee Share Option Plan")(The 2000 Share Option Plan, the 2002 International Share Option Plan, the 2003 Share Option Plan, the 2004 International Share Option Plan and the 2005 Key Employee Share Option Plan, together - the "Option Plans"). The maximum number of Ordinary Shares which may be issued under the 2005 Key Employee Share Option Plan and under any other existing or future share incentive Option Plans of the Company was set at 856,627 Ordinary Shares at the time of adoption of the plan, subject to adjustments as provided in the 2005 Key Employee Share Option Plan. The exercise price shall be the closing price for an Ordinary Share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors. Options granted under the 2005 Key Employee Share Option Plan shall vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board of Directors, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

In July and August 2005, SHL approved the grant of 362,542 options to officers under the 2005 Key Employee Share Option Plan, including 87,400 options to three (3) officers who are considered controlling shareholders of SHL.

In 2006, SHL approved the grant of 254,500 options to employees, consultants and Directors, including its 2 external (independent) directors, under the 2005 Key Employee Share Option Plan. The exercise price of such options granted is between CHF 4.98 and CHF 5.01, which was the market price at the date of grant.

In May 2007, SHL approved an additional pool of 200,000 Ordinary Shares which may be issued under the 2005 Key Employee Share Option Plan and under any other existing or future share incentive Option Plan, bringing the total number of Ordinary Shares available for issuance under any Option Plan to 1,056,627. In 2007 SHL approved the grant of 67,250 options to employees, consultants and Directors, including one external (independent) director, under the 2005 Key Employee Share Option Plan. The exercise price of such options granted is between 8.50 CHF and 11.50 CHF, which were the respective market prices at the date of grant.

Generally, all Options granted under the Option Plans (except, as aforementioned, of the 2005 Key Employee Share Option Plan) are valid for a term of ten (10) years from the date of their grant, subject to early termination due to cessation of employment or service of the option holder.

Information with respect to the number of Options granted under the Option Plans is as follows:

	No. of Options			Exercise Price
Outstanding at beginning of year	3,840		CHF	34.00
	16,000	**	CHF	9.50
	8,000	**	CHF	5.50
	489,052	***	CHF	4.98-8.23
	59,560	*	CHF	6.89
	278,675		CHF	5.90
Total Outstanding at beginning of year	**855,127**		**CHF**	**6.38**
Granted ***	67,250		CHF	8.78
Exercised	(10,635)		CHF	5.90
Forfeited****	(30,845)		CHF	8.26
Outstanding at end of year	640		CHF	34.00
	7,750	**	CHF	9.50
	15,168	**	CHF	5.50
	532,802	***	CHF	4.98-11.50
	57,560	*	CHF	6.89
	266,977		CHF	5.90
Total Outstanding at end of the year	**880,897**		**CHF**	**6.47**

* Such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2006, the exercise price shall be CHF 6.89.

** The Options are fully vested as of December 31, 2004. The exercise price may change, so that from January 1, 2006 one-third (1/3) of the Options will have an exercise price of CHF 5.5, from January 1, 2007 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5, and from January 1, 2008 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5.

*** Such Options vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, contingent upon the achievement of certain market and performance conditions based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

**** Options that are forfeited are returned to the pool and may be re-granted in the future.

2.3 Changes in Capital Structure within the Last Three Financial Years

As aforementioned, in May 2007 SHL approved an additional pool of 200,000 Ordinary Shares which may be issued under the 2005 Key Employee Share Option Plan and under any other existing or future share incentive Option Plan, bringing the total number of Ordinary Shares available for issuance under the Option Plans to 1,056,627. As of December 31, 2005, 2006 and 2007, SHL's issued share capital was comprised of 10,677,337, 10,677,337 and 10,688,535 Ordinary Shares, respectively. The foregoing changes in the company's share capital result from the exercise of share options previously granted under SHL's Option Plans.

2.4 The Ordinary Shares

General

SHL's authorized share capital is comprised of NIS 140,000 divided into 14,000,000 ordinary shares of NIS 0.01 par value each (the "Ordinary Shares"), as set forth above. All the issued Ordinary Shares rank pari passu in all respects. The Ordinary Shares do not have preemptive rights. The ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to citizens of countries, which are in a state of war with Israel, is not restricted in any way by the Articles of Association of SHL or the laws of the State of Israel. The Ordinary Shares are in book entry form only. No share certificates are issued; however, shareholders of record are entitled to receive non-negotiable confirmations from SHL evidencing their ownership of Ordinary Shares. Based on an agreement between SHL and SIS SegaInterSettle AG ("SIS"), all issued Ordinary Shares will be booked into the SIS Clearing System.

Liquidation and Dividend Rights

In the event of SHL's liquidation, after satisfaction of liabilities to creditors, SHL's liquidation proceeds will be distributed to the holders of Ordinary Shares in proportion to the nominal value of their respective holdings. This liquidation right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. Under the Israeli Companies Law, dividends may be paid out of profits and other surpluses, as calculated under the Israeli Companies Law, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher provided, however, that there is no reasonable concern that the payment of dividend will prevent the company from satisfying its existing and foreseeable obligations as they become due. Any dividends will be subject to Israeli withholding tax. SHL's Articles of Association provide that the Board of Directors may from time to time declare and cause SHL to pay such dividend as may appear to the Board of Directors to be justified by the profits of SHL. The shareholders entitled to receive dividends are the shareholders on the date upon which it was resolved to distribute the dividends or at such later date as shall be provided in the resolution in question. Accordingly, under the SNOC Agreement, each Registered Person is entitled to dividends.

Voting Rights

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. For additional information regarding voting rights of the Ordinary Shares, see Section "Voting Rights Restrictions and Representations" on page 32.

In case a company purchases its own shares, under the Israeli Companies Law, such shares become dormant and do not confer voting or any other rights so long as such shares are held by the company.

There are no preferential voting rights attached to any of the Shares of SHL.

For information on the Shareholders Agreement between certain shareholders of SHL, please refer to the Section on "Significant Shareholders" on page 16.

Duties of Shareholders

Under the Israeli Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns twenty-five (25) percent or more of the voting rights if no other shareholder owns more than fifty (50) percent of the voting rights. Subject to certain exceptions, extraordinary transactions (including a private placement which is an extraordinary transaction) with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, (including the terms and conditions of the directors and office holders insurance and indemnification) require the approval of the audit committee, the board of directors and the shareholders. The shareholders approval must include at least one-third of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of shareholders having no personal interest voted against the transaction do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

Any shareholder participating in such vote is required to disclose, prior to his or her vote, whether he or she has a personal interest in the transaction. Failure to comply with such duty will result in such shareholder not being entitled to vote.

An "interested party" in a private placement (i.e. a holder of more than five (5) percent of the shares of a company or one who may become such holder as a result of the private placement) must promptly disclose any personal interest that he or she may have and any material information known to him or her in connection with such private placement.

In addition, under the Israeli Companies Law, each shareholder has a duty to act in good faith and customary way toward the company and other shareholders and to refrain from abusing his or her powers in the company, such as in shareholder votes, and from discriminating other shareholders. In addition, a shareholder may not discriminate other shareholders. Furthermore, specified shareholders have a duty of fairness towards the company. These shareholders include any controlling shareholders, any shareholder who knows that he or she possesses the power to determine the outcome of a shareholders vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint an office holder or any other power with respect to the company. However, the Israeli Companies Law does not define the substance of this duty of fairness. The aforesaid duties of shareholders also apply to Registered Persons to the extent such Registered Persons exercise the rights attached to the Ordinary Shares.

2.5 Dividend-right Certificates

No dividend-right certificates were issued by SHL as of the disclosure deadline.

2.6 Limitations on Transferability and Nominee Registrations

Transfer of Ordinary Shares

Fully paid Ordinary Shares may be transferred freely. Pursuant to SHL's Articles of Association no transfer of shares shall be registered in SHL's Register of Shareholders unless a proper instrument of transfer in form and substance satisfactory to the Board of Directors has been submitted to SHL together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered, SHL may continue to regard the transferor as the owner thereof. Any Registered Person who wishes to become registered in SHL's Register of Shareholders may request SNOC to sign a deed of transfer. Pursuant to SHL's Articles of Association with regard to Ordinary Shares registered in the Register of Shareholders in the name of SNOC or any nominee substituting SNOC, a written request in a form satisfactory to the Board of Directors from a Registered Person, to be registered in the Register of Shareholders instead of SNOC, together with a written confirmation issued by SAG evidencing the registration of such person, including the number of Ordinary Shares registered on such person's behalf, in the SAG Register, shall also be a proper instrument of transfer.

Except as specifically stated hereinabove, there are no statutory restrictions limiting the transferability of the Shares.

SNOC Agreement and Shareholder Registration

SHL has entered into an agreement with SNOC Swiss Nominee Company ("SNOC", the "SNOC Agreement") according to which SNOC has agreed to act as a nominee on behalf of any person registered in a Share Register maintained by SAG SEGA Aktienregister AG ("SAG", the "Share Register"). SNOC is registered in SHL's Register of Shareholders as shareholder of all of the issued and outstanding Ordinary Shares. The registration of SNOC as shareholder of record is due to certain legal requirements under the Israeli Companies Law requiring a company such as SHL to keep a register of shareholders registering its shareholders of record. Under the SNOC Agreement, SNOC has irrevocably agreed and instructed SHL to enable each person registered from time to time with the SAG Register (a "Registered Person") to exercise, on behalf of SNOC, with respect to numbers of such Ordinary Shares registered in the sub register on behalf of such Registered Person, all present and future rights and claims attached to the Ordinary Shares registered on SNOC's name in SHL's Register of Shareholders. SHL has irrevocably acknowledged and accepted such instruction of SNOC that a Registered Person is entitled to exercise all present and future rights and claims attached to the Ordinary Shares with respect to the number of Ordinary Shares registered on behalf of such person in the SAG Register.

SNOC undertook to execute and deliver, upon request, to any Registered Person or to SHL any and all documents reasonably necessary to enable the Registered Person to exercise all rights attached to the Ordinary Shares, including voting rights.

Upon request of a Registered Person in the SAG Register, record ownership of the number of Ordinary Shares registered in the name of such person in the SAG Register will be transferred to such person, as a consequence of which settlement of such Ordinary Shares may not be possible through SIS, Clearstream and Euroclear.

During 2004 SNOC merged with SIS whereas all rights and obligations pursuant to the SNOC agreement were assigned to SIS.

2.7 Convertible Bonds and Options

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section "Share Options" on page 32.

3. Board of Directors

The primary duties of the Board of Directors of SHL (the "Board of Directors") are defined in the Israeli Companies Law and in the Articles of Association of SHL.

3.1 Members of the Board of Directors

The Articles of Association provide for a Board of Directors consisting of up to nine (9) members and not less than three (3) until otherwise determined by simple resolution of the shareholders of SHL. The Board of Directors of SHL currently consists of 7 members only, of whom the only executive member is Mr. Yoram Alroy. None of the current non-executive members of the Board of Directors was a member of the management of SHL or of any of SHL's group companies in the three (3) financial years preceding the period under review. The non-executive members of the Board of Directors have no important business connections with SHL or SHL's group companies. For family relationship between Mr. Elon Shalev and other members of the Alroy Group, see "significant Shareholders" on page 16 and "Share Ownership" on page 31.

The following table sets forth the name, principal position, time of the first election, and the remaining term of office of each member of the Board of Directors:

Name	Nationality	Position	First Election	Remaining Term (*)
Yoram Alroy	Israeli	Chairman of the Board of Directors and President	1987	2008
Elon Shalev	Israeli	Non-executive member	1987	2008
Monty Hilkowitz	Israeli	Non-executive member	2006	2008
Colin Schachat	Israeli	Non-executive member	2001	2008
Ziv Carthy	Israeli	Non-executive member	1997	2008
Nehama Ronen	Israeli	Non-executive member/ Independent director	2007	2010
Ron N. Salpeter**	Israeli	Non-executive member/ Independent director	2003	2009

* For additional information regarding the election and term of office of SHL's directors please refer to section "Election of Directors and term of Office" on page [ ].

** Ron Salpeter tendered his resignation from his position as a director of SHL, effective as of April 2, 2008.

The following table sets forth the name, principal position, time of first election, and date of resignation/ dismissal of the members of the Board of Directors who resigned or were replaced during the year under review:

Name	Nationality	Position	First Election	Resigned/ Replaced
Dvora Kimhi	Israeli	Non-executive member/ Independent director	2001	June 2007

Yoram Alroy, Chairman, and President

Yoram Alroy founded SHL in 1987. Commencing in 1987 and until September 2003 he has served as CEO and Chairman of SHL's Board of Directors. As of September 2003 Mr. Alroy serves as the President of SHL and the Chairman SHL's Board of Directors. Prior to founding SHL, Mr. Alroy was Executive Vice President of IBM Israel and was for seventeen (17) years a member of IBM's Israeli executive committee. Mr. Alroy is also a member of the Board of Trustees of the Ofek College for Engineering. Mr. Alroy is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Elon Shalev

Elon Shalev has served as a director of SHL since 1987. From 1990 to 1993, he was SHL's Chief Operating Officer after which he served three (3) years as Chief Executive Officer for an Israeli TV News company. From 1996 to 1999, he was Editor in Chief of "Yediot Aharonot", the largest daily newspaper in Israel and from 2000-2001 was an Executive Vice President of Discount Investment Corporation Ltd. of the IDB group, one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur in the telecom market and is the Chairman and founder of Logia Ltd., a global provider of innovative mobile content solutions. In addition Mr. Shalev serves as a consultant to the Saban Capital Group and also serves as a Board member in several large and well known Israeli firms which are Bezeq (the Israeli national telecommunications provider), Yes (a multi channel satellite broadcast company) and Bezeq International (a long distance telecommunications provider). Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a director of the Board of Directors of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Monty Hilkowitz

Monty Hilkowitz joined the Board of Directors of SHL as a non-executive member on June 2006. Mr Hilkowitz has an Israeli citizenship; Mr. Hilkowitz has over 40 years experience in actuary and has served in senior managerial positions in several insurance and banking institutes around the world. In 1983 Mr. Hilkowitz was appointed as the Managing Director of Liberty Life Association of Africa and in 1986 was appointed as the CEO of Westpac Banking Corporation. In 1989, Mr. Hilkowitz joined the board of directors of MLC Ltd., the holding company of MLC Life, the third largest life insurance company in Australia. In 1994, Mr. Hilkowitz joined the board of directors of Irish Life & Permanent plc., the largest insurance company in Ireland and its third largest bank serving on the Board until 2003. In 2001 he founded Dublin Network, a financial services consulting company and in 2002 was appointed as a non-executive director of Discovey Health and Discovery Life in South Africa. Education: 1966 – Fellow of the Institute of Actuaries; 1985 – Advanced management program, Stanford university, California.

Colin Schachat

Colin Schachat joined the Board of Directors of SHL as a director in April 2001. In 1998 Colin Schachat was appointed Managing Director of Stonehage Israel, a subsidiary of the Stonehage Group which is based in London. The Stonehage Group provides international financial services as well as wealth advisory services to high net worth families internationally. He also serves as an Executive Director of the Group with various management responsibilities. Mr. Schachat is a qualified lawyer and holds a BA and an LL.B. from the University of Witwatersrand, South Africa. Nationality: Israeli.

Ziv Carthy

Ziv Carthy has been on the Board of Directors since 1997. Between 1994 and 1997 Mr. Carthy served as a member of SHL's management team; since 1997 Mr. Carthy has been acting as CEO of G.Z. Assets and Management Ltd. Mr. Carthy holds a B.Sc. in Information Systems Engineering from the Technion in Haifa, Israel, and an MBA from Harvard University. Mr. Carthy is also a director of the Board of Directors of STI. Nationality: Israeli.

Nehama Ronen, Independent Director

Nechama Ronen joined the Board of Directors of SHL as an Independent Director on June 13, 2007. Ms. Ronen is currently the chairman of Maman Cargo Terminals & Handling Ltd. and of the Recycling corp. both in Israel. In addition, Ms. Ronen currently serves as an independent director of Kamur Ltd., and as the chairman of the board of directors of Logisticare Ltd., a large logistics planning and storage company. Ms. Ronen is also a member of the presidency of the Israeli Chamber of Commerce. From 2001 to 2003 Mrs. Ronen was a member of the Israeli parliament and from 1996 to 1999 she was the Director General of the Israeli Ministry of the Environment. Ms. Ronen holds a BA in Education and History and an MA in Public Administration, both from Haifa University. Nationality: Israeli.

Ron N. Salpeter, Independent Director

Ron Salpeter joined the Board of Directors of SHL as an Independent Director in April 2003. Mr. Salpeter. From 1999 to until Mr. Salpeter was involved in the field of investment banking consulting and commencing in 2001 he is involved in the field of business development consulting large international enterprises. Mr. Salpeter holds a LL.B. from the Faculty of Law, University of Tel-Aviv, Israel and a Master Degree (LL.M.) from Osaka University, Japan. Prior to 1999, Mr. Salpeter practiced law both in Israel and in Japan. Nationality: Israeli. Mr. Salpeter tendered his resignation from his position as a director of SHL, effective as of April 2, 2008.

3.4 Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, all members of the Board of Directors, except the two (2) Independent Directors, (who are to be elected as described below), are elected individually at the Annual General Meeting of the shareholders by a vote of the holders of a majority of the voting power represented at such meeting to serve until the next Annual General Meeting. All directors of SHL, except for the Independent Directors - who may only serve two three-year terms (please refer to the description below) - may be re-elected with no limit.

Pursuant to the Shareholders Agreement (for a complete description of the Shareholders Agreement, please refer to the Section on "Significant Shareholders", on p. 17) between SHL, the Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., the aforesaid shareholders of SHL agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include three (3) nominees determined by the Alroy Group, two (2) nominees determined by Royal Philips Electronics, one (1) nominee determined by Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall have the right to nominate two (2) directors as long as it holds at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall only be required to vote its shares to the appointment to the Board of (i) three (3) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least twelve-and-one half (121/2) percent of the issued and outstanding share capital of SHL; (ii) two (2) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least ten (10) percent of the issued and outstanding share capital of SHL; and (iii) one (1) director nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least five (5) percent of the issued and outstanding share capital of SHL.

Independent Directors

Israeli companies that have offered securities to the public in or outside of Israel under the provisions of the Israeli Companies Law are required to appoint two (2) Independent ("external") Directors, and pursuant to an amendment of the Israeli Companies Law, an Independent Director must possess financial and accounting expertise or professional skills as such terms are defined in rules promulgated under said law, provided that at least one (1) of the Independent Directors possesses financial and accounting expertise. To qualify as an Independent Director, an individual may not have, and may not have had at any time during the two (2) years prior to his appointment as an Independent Director, any affiliations with the company or its affiliates, or with its controlling shareholder or with any entity whose controlling shareholder, at the time of appointment or during the two (2) years prior to his appointment as an Independent Director is the company or its controlling shareholder, as such terms are defined in the Israeli Companies Law. In addition, no individual may serve as an Independent Director if the individual's position or other activities create or may create a conflict of interest with his or her role as an Independent Director or may adversely affect such role. For a period of two (2) years from termination from office, a former Independent Director may not serve as a director or employee of the company in which he serves as an Independent Director or provide professional services to such company for consideration.

The Independent Directors generally must be elected by the shareholders, including at least one-third (1/3) of the shares of non-controlling shareholders voted on the matter. However, the independent directors can be elected by shareholders without this one-third approval if the total shares of non-controlling shareholders voted against the election do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date). The term of an Independent Director is three (3) years and may be extended for one (1) additional three (3) years period. Each committee of a company's board of directors authorized to exercise the powers of the board of directors is required to include at least one (1) independent director, and pursuant to the Israeli Companies Law, the board of directors is required to appoint an audit committee which must be comprised of at least three (3) directors, including all of the Independent Directors.

Ms. Nehama Ronen serves as an Independent Director of SHL until 2010. Mr. Ron N. Salpeter has tendered his resignation from his position as an Independent Director, effective as of April 2, 2008. A new external director shall be appointed upon SHL's next annual general meeting.

3.5 Internal Organizational Structure

Pursuant to Israeli Companies Law and SHL's Articles of Association, the Board of Directors is ultimately responsible for the general policies and management of SHL. The Board of Directors establishes the strategic, organizational, accounting and financing policies of SHL. The Board of Directors has all powers vested in it according to the Israeli Companies Law and the Articles of Association, is authorized to determine the policy of SHL and to supervise the performance and actions of the General Manager, and, without derogating from the above, has the following powers:

- determine SHL's plans of action, the principles for financing them and the order of priority among them;
- examine the financial status of SHL, and set the frame of credit that SHL shall be entitled to acquire;
- determine the organizational structure of SHL and its compensation policies;
- may resolve to issue series of debentures;
- prepare and approve the financial statements of SHL;
- report to the Annual General Meeting of the status of SHL's affairs and of their financial outcomes;
- appoint the General Manager and terminate such appointment, in accordance with the Israeli Companies Law;
- resolve in the matters on actions and transactions that require its approval according to the Israeli Companies Law and the Articles of Association;
- issue shares and convertible securities up to the total amount of the authorized share capital of SHL, in accordance with the Israeli Companies Law;
- decide on a "distribution" as set forth in Sections 307 – 308 of the Israeli Companies Law;
- express its opinion on a special tender offer, as set forth in Section 329 of the Israeli Companies Law.

Pursuant to the Articles of Association of SHL a quorum at a meeting of the Board of Directors shall be constituted by the presence in person or by telephone conference of a majority of the directors then in office who are lawfully entitled to participate in the meeting. Any director may call a meeting of the Board of Directors upon a seven (7) day notice, unless such notice has been waived by all the directors. The notice of a meeting shall include the agenda of the meeting. Pursuant to the Articles of Association of SHL the Board of Directors may meet and adjourn its meetings according to SHL's needs but at least once in every three (3) months, and otherwise regulate such meetings and proceedings as the directors think fit. During the year under review the Board of Directors held twelve meetings. The length of such meeting depends on the agenda. Meetings of the Board of Directors may be held telephonically or by any other means of communication provided that each director participating in such meeting can hear and be heard by all other directors participating in such meeting. A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board of Directors. A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a simple majority of the directors then in office who are lawfully entitled to participate in the meeting and vote thereon and present when such resolution is put to a vote and voting thereon. The Board of Directors may also adopt resolutions by unanimous written consents.

The Articles of Association of SHL provide that any director may, by written notice to SHL, appoint another person to serve as an alternate director and may cancel such appointment. Any person that meets the qualifications of a director under the Israeli Companies Law may act as an alternate director. One person may not act as an alternate director for more than one director, and in a public company a person serving as a director of the company or as an alternate director may not act as an alternate director. However, a director can serve as an alternate director to a member of a committee of the board of directors, provided that the alternate director is not a member of the committee in question; and provided further that in the event the alternate director is to serve as an alternate to an Independent Director, such alternate director shall have financial and accounting expertise or professional skills, dependant on the expertise and skills of the Independent Director such alternate director is supposed to replace. An alternate director to an Independent Director may not be otherwise appointed.

Under the Israeli Companies Law a company is entitled to have several General Managers to be appointed by the Board of Directors who shall be responsible for the day-to-day operation of the company within the limits of the policy determined by the Board of Directors and subject to its directors. Office holders who are not directors are appointed by the General Manager who may determine the powers and duties of such office holders.

Under the Israeli Companies Law, the same person may not act as both Chief Executive Officer and Chairman of the Board of Directors of a publicly-traded company, unless the shareholders consent to such service, which, in any event, may not exceed three (3) year periods from the date of each such approval. Approval shall be obtained by the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, approval by the shareholders requires that either (i) the majority vote in favor of the resolution shall include the consent of at least one-third of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than one (1) percent of the voting rights in the company

Committees of the Board and Internal Auditor

The Articles of Association of SHL provide that the Board of Directors may delegate any or all of its powers to committees of the Board of Directors as it deems appropriate, subject to the provisions of the Israeli Companies Law. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. Any such committee authorized to execute the powers of the Board of Directors shall include at least one (1) Independent Director. A committee authorized to execute the powers of the Board may only be comprised of members of the Board of Directors. A committee whose powers are limited to providing recommendations to the Board of Directors may be comprised of non members. The Shareholders Agreement provides that any committee of the Board of Directors shall include one (1) of the members of the Board of Directors nominated by the Alroy Group, one (1) member of the Board of Directors nominated by Royal Philips Electronics and, one (1) of the members of the Board of Directors nominated by either Tower Holding B.V. or G.Z. Assets and Management Ltd.

Pursuant to Israeli Companies Law a board of directors may not delegate the following matters to a committee: determination of a general policy; distribution (except for self purchase of company shares pursuant to a framework approved by the board); appointment of directors; issuance of securities (except for issuance to employees pursuant to an option plan approved by the board); approval of financial statements; approval of interested party transactions.

As required under the Israeli Companies Law the Board of Directors has appointed an Audit Committee. In addition, the Board of Directors further appointed a Compensation Committee and an Option Committee. The Committees of the board of Directors meet regularly and are required to make full reports and recommendations to the Board of Directors. Pursuant to the Israeli Companies Law, the Board of Directors also appointed an internal auditor proposed by the Audit Committee.

The Chief Executive Officers and the Chief Financial Officer of the Company are invited to all meetings and regularly attend such meetings. The Board of Directors invites from time to time its external legal counsel to participate in meetings, as it deems necessary.

Audit Committee – Pursuant to the Israeli Companies Law the Audit Committee must be comprised of at least three (3) directors, including all of the Independent Directors. The Audit Committee may not include the chairman of the Board of Directors, a controlling shareholder, its relative, or any director who is employed by the company or provides services to the company on a regular basis. Currently, the Audit Committee is composed of the following members: Mr. Colin Schachat, Ms. Nehama Ronen and Mr. Ron N. Salpeter. The role of the audit committee is to examine flaws in the business management of the company, in consultation with the internal auditor and the independent accountants, and to propose remedial measures to the Board of Directors. The Audit Committee also reviews for approval transactions between the company and office holders or interested parties. The Audit Committee meets from time to time when deemed necessary. During the year under review it held eight meetings.

Compensation Committee - the Board of Directors has appointed a Compensation Committee composed of the following members: Mr. Colin Schachat, Ms. Nehama Ronen and Mr. Ron N. Salpeter. The Compensation Committee was appointed by the Board of Directors for the purpose of referring to it for its recommendations to the Board of Directors all matters regarding the compensation and terms of employment of any of SHL's controlling shareholders who are employed by the Company. The Compensation Committee does not have decision making powers. The Compensation Committee meets from time to time when deemed necessary. During the year under review it held eight meetings. Compensation is determined inter alia based on external consultants, then recommended by said committee to the Board. As aforementioned, under Israeli Companies

Law any the compensation to a controlling shareholder is deemed an extraordinary transaction and needs approval of the Audit Committee, the Board and the Shareholders Meeting with a special majority vote.

Option Committee – the Board of Directors has appointed an Option Committee, which is currently composed of the following members: Mr. Colin Schachat, Ms. Nehama Ronen and Mr. Ron N. Salpeter. The Option Committee was appointed by the Board of Directors for the purpose of administering the "2005 Key Employee Share Option Plan" in accordance with its terms and conditions. The Options Committee has limited decision making powers as determined in said option plan. The Option Committee meets from time to time when deemed necessary. During the year under review it held no meetings.

Pursuant to the Articles of Association, the Committees conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee are, mutatis mutandis, governed by the provisions contained in the Articles of Association for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors.

Internal Auditor – The Board of Directors has appointed Avi Schwarztuch of the accounting firm Schwarztuch, Widavski and Co. as an Internal Auditor, upon the recommendation of the Audit Committee. The role of the Internal Auditor is to examine, among other things, whether SHL's activities comply with the law and orderly business procedure. Pursuant to the Israeli Internal Audit Law, 1992, in connection with the Israeli Companies Law, the Internal Auditor is authorized to demand and receive any kind of document and/ or information that is in the Company's or its employees' possession, which he deems necessary for the performance of his role, and he is to have access to all databases or data processing programs of the Company. Pursuant to the Israeli Companies Law the Chairman of the Board of Directors or the Chairman of the Audit Committee may order the Internal Auditor to conduct an internal audit on matters where an urgent need for examination arose. Pursuant to the Companies Law, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings. The Internal Auditor has no decision making powers.

3.6 Definition of areas of responsibility; Information and control instruments vis-à-vis senior management

The Senior Management of SHL implements the general policies and strategic decisions of the Board of Directors. It manages the day-to-day business operations of SHL, including:

- Regularly assessing the achievement of targets set for the Company's business;
- Drawing up detailed corporate policies, strategies and strategic plans within the framework given by the Board of Directors;
- Ensuring the efficient operation of the Company and achievement of optimized results;
- Ensuring that management capacity, financial and other resources are used efficiently.

The Board of Directors controls the actions of Senior Management through a variety of control mechanisms:

- The CEO's and CFO inform the Board of Directors regularly about current developments, including by submitting written reports on relevant topics.
- Informal teleconferences are held as required between the Board of Directors and CEOs and CFO as deemed necessary.
- Control over financial management is exercised by the Board together with SHL's external auditors (for further information on the Company's external auditors, please refer to the Section tilted "Auditors" on p. 35) through quarterly discussions of SHL's results, which are part of the external auditors' authorization of the Company's financial statements. The Board discusses with the auditors not only the financial statements themselves but also their assessment of the internal controls and whether any material weaknesses have come to the auditors' attention during their audit or review. Additionally, the Company's accountant and CFO are invited to board meetings where financial statements are discussed and approved.
- SHL has an internal auditor (for further information, please refer to p. 27) who is appointed by the Board of Directors, upon recommendation by the Audit Committee. The Internal Auditor examines the processes and controls of the Company - not only with regard to financial operations, but also with regard to compliance of management with internal and external policies - and coveys his findings to the Audit Committee and the external auditors.

4. Senior Management

4.1 Members of Senior Management

The following table sets forth the names and principal positions of those individuals who serve as members of SHL's management as of the disclosure deadline:

Name	Nationality	Position
Yoram Alroy	Israeli	Chairman of the Board of Directors and President
Yariv Alroy	Israeli	Co-CEO
Erez Alroy	Israeli	Co-CEO
Haim Brosh	Israeli	Executive Vice President of Finance
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Reuven Kaplan*	Israeli	General Manager - SHL Israel
Eyal Lewin	Israeli	Managing Director – Personal Healthcare Telemedicine Services Germany
Arie Roth	Israeli	Chief Medical Manager

* In February 2008, Mr. Kaplan resigned from his position, effective as of April 23, 2008.

Yoram Alroy, Chairman of the Board of Directors and President

For additional information see Section "Members of the Board of Directors" on page 22.

Yariv Alroy, Co-CEO

Yariv Alroy has been a Managing Director of STI since its incorporation in 1997, and prior to that he was Chief Operating Officer of SHL Israel. Before joining SHL, Mr. Alroy served as a senior partner in a large Israeli law firm. Mr. Alroy holds an LL.B degree from Tel-Aviv University in Israel. . Nationality: Israeli.

Erez Alroy, Co-CEO

Erez Alroy has been an executive manager of SHL since its inception. Prior to holding his current position of Co-President, he served as the General Manager of SHL's operation in Israel, prior to that he has served as SHL's Sales Manager and Vice President of Marketing in Israel. Mr. Alroy holds an MBA from the Hebrew University in Jerusalem. Nationality: Israeli.

Haim Brosh, Executive Vice President of Finance

Haim Brosh has joined the SHL management team in 2006 as Executive Vice President of Finance. Prior to joining SHL, Mr. Brosh held several senior finance and operations positions with Amdocs (NYSE: DOX), both in Israel and in the US. Mr. Brosh is a certified public accountant (CPA) in Israel and has a B.A. in accounting and economics from Tel Aviv University. Nationality: Israeli.

Irit Alroy, Executive Vice-President and CTO

Irit Alroy has served as SHL's Executive Vice-President and Chief Technology Officer since SHL's inception. Prior to that Mrs. Alroy held different positions in the filed of IT development in Israel. Mrs. Alroy holds a B.Sc. from the Hebrew University of Jerusalem, Israel. Nationality: Israeli.

Erez Nachtomy, Executive Vice-President

Erez Nachtomy joined SHL in March 2001 as an Executive Vice President. Before joining SHL, Mr. Nachtomy served as a senior partner (Corporate and M&A) in one of the leading law firms in Israel. Mr. Nachtomy holds an LL.B. from Tel-Aviv University, Israel. Nationality: Israeli.
Reuven Kaplan, General Manager - SHL Israel

Reuven Kaplan, General Manager - SHL Israel

Reuven Kaplan joined the SHL group in January 2003. Prior to joining SHL Mr. Kaplan was the CEO of "Hashmira Medical" a group of health services companies. Mr. Kaplan holds an MBA from the Hebrew University of Jerusalem.
In February, 2008 Mr. Kaplan resigned from his position, effective as of April 23, 2008.

Eyal Lewin, Managing Director - Personal Healthcare Telemedicine Services Germany.

Eyal Lewin started with PHTS Germany in August 2004. Prior to joining PHTS Germany, Mr. Lewin held the position of Vice President of International Strategic Marketing & Sales for Comverse. Mr. Lewin holds a BA in Economics and Management, from Tel Aviv University.

Prof. Arie Roth, MD, Chief Medical Manager

Prof. Arie Roth has served as SHL's Chief Medical Manager since its start of operations. Prof. Roth is a senior member of the department of cardiology at the Tel-Aviv Sourasky Medical Center, University of Tel-Aviv, Israel, and received a medical degree from the Sackler School of Medicine of the University of Tel-Aviv, Israel. Nationality: Israeli.

The following table sets forth the name, principal position, and term of employment of the members of SHL's management who resigned or were replaced during the year under review:

Name	Nationality	Position	Term
Jeff M. Flanegin	USA	President Raytel Diagnostic Services	2005 - 2007
Robert E. Sass	USA	General Manager Raytel Cardiac Services	2005 - 2007

Management Contracts

SHL has not entered into management contracts with third parties, except as set forth below:

In March 2001 SHL has entered into a management contract with Erez Nachtomy pursuant to which Mr. Nachtomy is to provide SHL with services as an Executive Vice-President. The aforesaid management contract may be terminated be either party, at any time, by providing the other party ninety (90) days prior written notice.

In January 1990 SHL has entered into a management contract with Prof. Arie Roth, pursuant to which Prof. Roth is to provide SHL with services as Chief Medical Manager. The initial term of the aforesaid management contract was for a period of two (2) years and it is thereafter renewable for additional periods of one (1) year each, unless either party thereto provides the other party with six (6) months advance written notice of its wish not to renew the management contract as aforesaid.

On September 21, 2003, Mr. Yoram Alroy's employment agreement with SHL has terminated. Following such termination, SHL entered into a management services agreement with Alroy Yoram Consulting and Management Ltd., an Israeli based company wholly owned by Mr. Yoram Alroy, (the "Service Provider"), pursuant to which the Service Provider, through Mr. Alroy exclusively, shall provide SHL with management and consulting services as the President of SHL. The terms and provisions of the management agreement with the Service Provider were approved by the Audit Committee, the Board of Directors and the General Meeting of the shareholders of SHL. The initial term of the aforesaid management agreement ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by Service Provider); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement.

On November 30, 2005, Mr. Yariv Alroy's and Mr. Erez Alroy's employment agreements with SHL terminated. Following such termination, SHL entered into management services agreements with T.N.S.A Consulting and Management Ltd. and A.T.A.A Consulting and Management Ltd, Israeli based companies wholly owned by Mr. Yariv Alroy (and Mr. Erez Alroy, respectively (each – a "Service Provider"; together - the "Service Providers"), pursuant to which the Service Providers, through each of Mr. Yariv Alroy and Mr. Erez Alroy, exclusively, shall provide SHL with management and consulting services as the CO-CEOs of SHL. The terms and provisions of the management agreements with the Service Providers were approved by the Audit Committee, the Board of Directors and the General Meeting of the shareholders of SHL. The initial term of each of the aforesaid management agreements ended on September 21st, 2006, and is automatically renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by one of the Service Providers); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement.

On November 30, 2007, Mr. Haim Brosh's employment agreement with SHL was terminated. Following such termination, SHL entered into a services agreement with Haim Brosh Management Services Ltd., an Israeli based company, which company is wholly owned by Mr. Haim Brosh (the "Service Provider"), pursuant to which the Service Provider, through Mr. Haim Brosh exclusively, shall provide SHL with financial consulting services as the CFO of SHL. The agreement is for an unlimited period of time which the Service Provider is entitled to terminate upon three (3) months notice. The Company is entitled to terminate the agreement with twelve (12) months notice, in the event that notice is given within eighteen (18) months as of September 1, 2006, and with three (3) months written notice, in the event notice is given following thereafter. Under certain circumstances, the Company is entitled to terminate the agreement on a six (6) months written notice.

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 31.

5. Compensation, Shareholdings and Loans

Content and Method of Determining the Compensation and of the Shareholding Programs

The goal of SHL's compensation scheme is to attract and retain qualified and motivated board members, senior executives and employees. SHL's Option Plans are reviewed regularly by the Board of Directors for compliance with the Company's compensation goals, and further to the first, 2000 Share Option Plan, new and revised Option Plans were adopted in 2002, 2003, 2004, and 2005 (for a full description of the Option Plans, please refer to the Section titled "Share Options", on page 17). SHL's current 2005 Option Plan is administered by the Compensation Committee, which may determine from time to time and subject to the provisions of the 2005 Option Plan, additional grantees of options under the plan and any matter related to the administration of the 2005 Option Plan. The Compensation Committee informs the Board of Directors of its decisions and recommendations with regard to the Option Plans. The vesting of options granted to a particular grantee pursuant to the 2005 Option Plan is, with regard to 50% of such options, subject to the achievement of performance goals with regard to the increase of the market price of SHL's shares, and, with regard to the other 50% of such options, subject to performance goals in connection with earnings per share figures.

Compensation of senior management is generally determined according to the procedures set forth below, and is comprised of a base salary component, a performance based cash bonus and share options incentive award. The performance based cash bonus of the Company's President and Co-CEOs is tied to the achievement of certain performance targets based on earnings before tax. The amount of cash bonuses for other members of senior management is subject to the discretion of the Company's Co-CEOs, and the grant of share option awards to any member of senior management is subject to board approval, both as described below. Factors taken into account for the composition of the compensation packages of senior management members include seniority of such management member and responsibilities taken on.

Overall, the compensation of senior management in the year under review was comprised, on an average, approximately to 48 % of a cash base salary and 52% of cash bonuses, mainly related to the Philips Transaction (for more information on Philips Transaction and the restructuring in connection therewith, please refer to the Section titled "Group Structure" on page 14; for more information on senior management compensation, see also Section 4.2 "Compensation for Acting Members of Governing Bodies" on page 31).The aggregate amount of cash bonuses to be paid to certain members of senior management, who are deemed controlling shareholders of the Company in connection with the Philips Transaction was approved at a Special General Meeting of shareholders held in relation to the approval of the consummation of said transaction on November 27, 2007. Further to the aforementioned approval and authorization by the Shareholders General Meeting, the Audit Committee and the Board of Directors of the Company approved and authorized the allocation of the aggregate cash bonus amount among the relevant members of senior management, divided into a one-time cash bonus paid in 2007, and certain future bonus payments subject to the achievement of certain milestones in the years 2008 - 2010.

In addition to the foregoing, all members of senior management are entitled to additional benefits in the form of a company car and a mobile phone at the expense of SHL.[

In May 2005, the shareholders accepted the recommendations of SHL's Audit Committee and Board of Directors and approved, pursuant to Israeli Companies Law, payment to the three (3) non-executive Members of the Board of Directors, in their capacity as such (and not just to the Independent Directors as was the case prior to such approval), in a sum equivalent to the compensation paid to each of the Independent Directors. The Independent Directors of SHL are entitled to compensation, as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto, which compensation is comprised of a fixed fee per each Board or Committee meeting attended. Directors are reimbursed for travel and other expenses related to their capacity as Directors of SHL.

Responsibility and Procedure:

Pursuant to the Articles of Association the salaries and emoluments of the executives of SHL are determined by the Chief Executive Officers. Notwithstanding the aforesaid, pursuant to the Israeli Companies Law, the compensation to be paid to the directors as such, as well as the terms of employment (including, except for the Independent Directors, the terms and conditions of the directors and officers insurance and indemnification) of any of the directors in any other position, and the engagement of a controlling shareholder, or with any relative thereof, as an office holder or employee, require the approval of the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee, requires either (i) the majority vote in favor of the resolution shall include the consent of at least one-third of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than one percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated to date).

The grant of share options to employees, directors and consultants of SHL and its subsidiaries is in the sole discretion of the Board of Directors. Notwithstanding the aforesaid, should such options be granted to the directors or any of the controlling shareholders as part of their compensation, such grant shall require the approval of the Audit Committee, the Board of Directors and the shareholders. Pursuant to the Israeli Companies Law, the qualified majority described above with respect to the approval by the shareholders of the engagement of a controlling shareholder as an office holder or employee is also required for the approval by the shareholders of the grant of share options to the controlling shareholders as part of their compensation.

As mentioned above, all matters regarding the compensation and terms of employment of any of SHL's controlling shareholders who are employed by the Company are referred to the Compensation Committee for its recommendations to the Board of Directors.

Pursuant to the provisions of the Israeli Companies Law, as a general rule, a director may not participate or vote at a Board of Directors or Audit Committee meeting where the terms of his office are discussed. However, if the majority of the members of the Board of Directors or the Audit Committee, as applicable, have a personal interest in the terms of office of such a director, then the relevant director may be present during the deliberations and may vote on his terms of office.

Senior Management members do not participate in Board of Directors meetings where the terms of their employment with SHL are discussed.

Compensation for Acting Members of Governing Bodies

The total of all compensation (including all employer contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) which is payable to the executive members of the Board of Directors and the Senior Management amounted in the financial year 2007 to approximately USD 4,861 thousand. The aforesaid sum includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section 4.2 "Management Contracts" on page 29, and a one-time bonus paid to certain members of Senior Management who are deemed controlling Shareholders of SHL in connection with the Philips Transaction (for further information on the Philips Transaction, see the Section titled "Group Structure" on page 14; for further information on the bonuses approved in connection with the Philips Transaction, please refer to the Section titled "Content and Method of Determining the Compensation and of the Shareholding Programs" on page 29).

The total of all compensation payable to the non-executive members of the Board of Directors amounted in the financial year 2007 to approximately USD 95 thousand.

In May 2005, as a result of a change in the Israeli Companies Law, the shareholders adopted the recommendations of the Audit Committee and the Board of Directors and approved (i) the renewal and/or purchase of insurance policy of all directors and officers, in office from time to time, in a total coverage of up to USD 10 M; and (ii) the undertaking by SHL to indemnify all directors and officers, in office from time to time, to the extent and limitations set forth in the indemnification letters issued to such persons, in an aggregate sum of up to USD 15M; as well as (iii) the requisite change in the Articles of Association of SHL to effect the above.

Compensation for Former Members of Governing Bodies

One non-executive director, Dvora Kimhi, gave up her functions during the year under review. The total compensation paid to Mrs. Kimhi based on her former service as a member of the Board of Directors was USD 10 thousand.

In the financial year 2007, severance and other payments with regard to termination of employment of members of Senior Management who gave up their functions during the year under review amounted to approximately USD 592 thousand.

Share Allotment in the Year Under Review

No Ordinary Shares of SHL were allotted to the executive or to the non-executive members of the Board of Directors, or to the Management or parties closely linked to any such person during the year under review.

In 2007, SHL approved the grant of 18,000 options to non-executive members of the Board of Directors under the 2005 Key Employee Share Option Plan. The exercise price such options granted is CHF 8.50, determined pursuant to the provisions of the 2005 Key Employee Share Option Plan. For additional information regarding options granted to the aforementioned persons and the terms of the 2005 Key Employee Share Option Plan please refer to section "Share Options" on page 17.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2007 by the executive members of the Board of Directors and Senior Management and parties closely linked to such persons amounted in aggregate to 1,941,007.

Elon Shalev, a non-executive member of the Board of Directors is a member of the Alroy Group. The Alroy Group holds, pursuant to the Share Register, as of December 31, 2007, an aggregate of 1,941,007 Ordinary Shares. Ziv

Carthy, a non-executive member of the Board of Director is a controlling shareholder of G.Z. Assets and Management Ltd., which holds, pursuant to the Share Register, as of December 31, 2007, an aggregate of 921,533 Ordinary Shares. No other non-executive member of the Board of Directors and parties closely linked to such person holds, pursuant to the Share Register, as of December 31, 2007, Ordinary Shares.

Share Options

Information with regard to Options held pursuant to the Option Plans as of December 31, 2007 by the non-executive and executive members of the Board of Directors and Senior Management and parties closely linked to such persons is as follows:

	No. of Options	Exercise Price	
Outstanding at beginning of year	42,560	CHF	6.89
	5,000	CHF	9.50
	571,317 ***	CHF	4.98-8.23
Total outstanding at beginning of year	**618,877**	**CHF**	**6.32**
Granted	18,000 ***	CHF	8.50
Forfeited	-		-
Outstanding at end of year	42,560	CHF	6.89
	5,000 **	CHF	9.50
	589,317 ***	CHF	4.98-8.50
Total Outstanding at end of year	**636,878**	**CHF**	**6.38**

* Such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2006, the exercise price shall be CHF 6.89.

** The Options are fully vested as of December 31, 2005. The exercise price may change, so that from January 1, 2006 one-third (1/3) of the Options will have an exercise price of CHF 5.5, from January 1, 2007 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5, and from January 1, 2008 an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5.

*** Such Options vest one-third on each of the first, second and third anniversary of the date of grant, contingent upon the achievement of certain market and performance conditions based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 17 above.

As of December 31, 2007 parties closely linked to the non-executive members of the Board of Directors hold 901 Options with an exercise price of CHF 5.90 each, pursuant to the Option Plans.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and Senior Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2007 to SHL or to any of its subsidiaries for additional services performed during the year under review which reach or exceed half of the ordinary remuneration of the member in question. Two (2) persons closely linked to the members of the Board of Directors and the Management are employees of SHL, with market standard employment agreements. Such persons' total remuneration in the year under review amounted to approximately USD 59 thousand.

Loan Granted to Governing Bodies

No guarantees, outstanding loans, advances or credits were granted during the year under review by SHL and its subsidiaries to executive members of the Board of Directors, Senior Management or parties closely linked to such persons.

No guarantees, outstanding loans, advances or credits were granted during the year under review by SHL and its subsidiaries to non-executive members of the Board of Directors or parties closely linked to such persons.

Highest Total Compensation

The highest total compensation (including all employer's contribution into pension funds, managers insurance, other social benefit payments and national insurance payments) payable to an executive member of the Board of Directors and Senior Management amounted in the year under review to approximately USD 1,139 thousand.

SHL has not issued any Ordinary Shares to such executive member of the Board of Directors in the Management during the financial year 2007. SHL has not issued Options to purchase Ordinary Shares to such executive member of the Board of Directors and the Management during the financial year 2007 under the 2005 Key Employee Share Option Plan.

The highest total compensation payable to a non-executive member of the Board of Directors amounted in the year under review to approximately USD 19 thousand.

SHL has not issued any Ordinary Shares to non-executive members of the Board of Directors during the financial year 2007. SHL issued 18,000 options to non-executive members of the Board of Directors under the 2005 Key Employee Share Option Plan. The exercise price such options granted is CHF 8.50. For additional information regarding options granted to the aforementioned persons and the terms of the 2005 Key Employee Share Option Plan please refer to section "Share Options" on page 17.

6. Shareholders' Participation

6.1 Voting Rights' Restrictions and Representation Restrictions

There are currently no voting-rights and representation restrictions in place. Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SNOC Agreement each person registered in the SAG Register is entitled to vote the number of shares registered in his name in the SAG Register. The voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights if authorized in the future, such an authorization requires a majority of sixty-six (66) percent of the voting power present at the General Meeting.
The quorum required for any meeting of shareholders is at least two (2) shareholders present in person or by proxy who together hold or represent at least thirty-three and one third (331/3) percent of the outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power present and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two (2) shareholders present in person or by proxy, regardless of the number of Ordinary Shares represented.
Under SHL's Articles of Association all resolutions submitted to the shareholders, unless provided for otherwise in the Articles of Association or under any applicable law, shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon. For resolutions that require special majority, see Section "Statutory Quorums" on page 33.

6.2 Statutory Quorums

The following resolutions require a special majority of sixty-six (66) percent of the voting power represented at the shareholders meeting: (a) increase of authorized share capital; and (b) creation of shares with special rights or modifications of share rights. Furthermore, under Israeli law and under SHL's Articles of Association a voluntary winding-up would require a majority of seventy-five (75) percent of the voting power represented at the shareholders meeting.

6.3 Convocation of the General Meeting of Shareholders

Under SHL's Articles of Association, an Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors. All General Meetings other than Annual General Meetings are called "Special General Meetings".
Not less than twenty-one (21) days' prior notice shall be given to any General Meeting and shall be published in one newspaper in Israel and in one newspaper in Switzerland or in accordance with the rules and regulations of the stock exchange on which SHL's shares are listed. However, pursuant to regulations promulgated under the Companies Law and adopted in 2006, shareholders may vote on certain matters (such as the election or removal of directors or transactions between a company and any of its officers or controlling shareholders or in which such persons may have a personal interest) by submitting a written ballot with respect thereto (the "Ballot") (but may vote thereon in person or by Proxy). In the event such matters are included in the agenda of a General Meeting then not less than thirty five (35) days' prior notice shall be given.
In addition, SHL and SAG will, pursuant to an agreement between SHL and SAG, take all necessary steps to ensure that notices will be sent to the persons registered in the SAG Register. Pursuant to the Israeli Companies Law, the notice of the General Meeting shall include the agenda.
The aforementioned regulations also stipulate that any shareholder wishing to state his position with respect to any of the said matters on the agenda may do so by requesting the Company to deliver such position to the other shareholders (the "Shareholder Statement"). The Proxy must be delivered to the registered office of the Company or to SAG not later than 48 hours prior to the Annual Meeting. The Ballot must be delivered to the registered office of the Company or to SAG not later than 72 hours prior to the Annual Meeting. For the Ballot to become effective: (i) any shareholder whose shares are registered with the Company's registrar of shareholders must enclose a copy of such shareholder's identity card, passport or certificate of incorporation, as the case may be; and (ii) any shareholder whose shares are registered with SAG must enclose a written confirmation from SAG as to its ownership of the voting shares. The Shareholder Statement must be delivered to the registered office of the Company or to SAG not later than 10 days following the Record Date as such date is determined by the Board of Directors. Shareholder Statement shall be delivered to all shareholders by SAG no later than 5 days following receipt thereof. Should a company elect to state its position with respect to such Shareholder Statement, it shall deliver such position (the "Company Statement") to

the shareholders, via SAG, no later than 12 days prior to the Annual General Meeting. Any such Statement must be written in a clear and simple language, and shall include no more than 500 words per subject matter, and a total of no more than 1,500 words. A Shareholder Statement shall detail the identity of such shareholder, as well as his percentage interest in the Company; a shareholder who is a corporate entity shall detail the identity of its controlling shareholder(s), as well as additional holdings (if any) of such controlling shareholder(s) in shares of the Company, to the best knowledge of the shareholder submitting the Shareholder Statement. A shareholder submitting the Shareholder Statement, who acts in consort with others with respect to voting in shareholder meetings, whether in general or with respect to certain matter(s) on the agenda, shall indicate so in the Shareholder Statement, and shall describe the aforementioned arrangements and the identity of the shareholders so acting in consort. Any shareholder (as well as any shareholder acting in consort with such shareholder) having a personal interest in any matter on the agenda, shall describe the nature of such personal interest. Any shareholder may revoke his/hers/its Ballot by submitting a cancellation notice (the "Cancellation Notice"). The Cancellation Notice together with sufficient proof as to the identity of such canceling shareholder, to the absolute discretion of an officer of the Company, must be delivered to the registered office of the Company or to not later than 24 hours prior to the Annual Meeting. Any such shareholder submitting a Cancellation Notice may only vote by attending the Annual Meeting in person or by Proxy. One or more shareholders holding, at the Record Date, shares representing 5 percent or more of the total voting power in the Company, as well as any holder of such percentage out of the total voting power not held by the controlling shareholder(s), as such term is defined under Section 268 of the Companies Law, may, following the Annual General Meeting, in person or by proxy, inspect the Ballots and the record thereof at the Company's registered office, The competent court may, at the request of any shareholder who does not hold, at the Record Date, the aforementioned percentage, instruct the Company to allow the inspection of said documents and records, in whole or in part, on terms and conditions determined by the court.

6.4 Agenda

Pursuant to the Israeli Companies Law the agenda at a General Meeting shall be determined by the Board of Directors. One (1) or more shareholders who hold no less than one (1) percent of the voting rights at the General Meeting, may request that the Board of Directors include a subject on the agenda of a General Meeting that will be convened in the future, on the condition that the subject is one suitable for discussion at a General Meeting. At a General Meeting resolution may be adopted only on subjects that were specified in the agenda for the particular General Meeting.

6.5 Registration in the Share Register

The shareholders entitled to participate in and to vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, such date shall not, pursuant to the aforementioned regulations, be earlier than forty (40) days prior the date of the General Meeting and not later than twenty eight (28) days prior to the date of such General Meeting, or different periods as shall be permitted by applicable law. A determination of shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

Pursuant to the applicable provisions of the Swiss Stock Exchange Act any person who by acquiring exceeds the threshold of thirty-three and one third (331/3) percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SWX Swiss Exchange, such person must make a mandatory offer to acquire all other shares. Since SHL is not incorporated in Switzerland, SHL believes that these provisions do not apply. However, it cannot be excluded that the Swiss securities supervisory authority or Swiss courts could rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction. For the provisions of the Israeli law, please see below. Pursuant to the Listing Agreement, SHL agreed to comply, to the extent possible, with procedural rules and will accept recommendations issued by the Swiss Takeover Board.
SHL's Articles of Association do not contain provisions regarding opting out or opting up.
Under the Israeli Companies Law, except in certain cases specified under said Law, an acquisition of shares in a public company must be made by a means of a special tender offer if as a result of the acquisition the purchaser would become a twenty-five (25) percent (or more) shareholder, unless there is already a twenty-five (25) percent shareholder (or more). Similarly, an acquisition

of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a forty-five (45) percent (or more) shareholder, unless there is already a shareholder holding more than forty five (45) percent of the voting rights in a company. These tender offer provisions shall not apply to SHL if the rules of the foreign country contain mandatory bid provisions. In any event, if as result of an acquisition of shares the acquirer will hold more than ninety (90) percent of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. If more than ninety-five (95) percent of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it.

7.2 Clauses on Changes of Control

There are no clauses on changes of control in agreements and plans benefiting members of the Board of Directors and/or members of the Management and/or other members of SHL's cadre.

8.Auditors

8.1 Duration of the Mandate and Term of Office of the Head Auditor

Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent resolution. SHL's auditors were last re-appointed at the 2007 Annual General Meeting.

Since 1997 Mr. Chen Shein (CPA) is the head auditor within Kost, Forer, Gabbay & Kasierer responsible for the auditing of SHL.

8.2 Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2007 approximately USD 699 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group.

In addition, Ernst & Young charged approximately USD 205 thousand for additional services performed for the SHL Group in the field of management consulting, tax advice, due diligence and other auditing activities. The aforesaid sums include payments made to other member firms of Ernst & Young outside of Israel.

8.3 Supervisory and Control Instruments vis-a-vis the Auditors

The Board of Directors assesses the performance, compensation and independence of the auditors. The Board of Directors annually controls the extent of the external auditing, the auditing plans and the respective programs.

9. Information Policy

SHL is committed to a policy of open and effective communications with customers, partners, shareholders and staff alike. SHL's investor relations program features regular publication of relevant information for the benefit of the public and the capital markets. SHL publishes price-sensitive information in accordance with the obligation to disclose price-sensitive facts (ad-hoc publicity) as required by the SWX Swiss Exchange, and conducts regular communication briefings with media representatives and financial analysts in addition to its Annual General Meeting.

SHL informs interested parties through a variety of corporate publications including annual and half-yearly reports, which can be ordered or downloaded from **www.shl-telemedicine.com**. These reports feature operational reviews as well as consolidated balance sheets, profit & loss statements and cash flow statements as of December 31 and June 30 respectively. The actual share price, press releases and presentations are also available on the website. SHL maintains two (2) websites offering up-to-date corporate and product information: **www.shl-telemedicine.com** and **www.shahal.co.il**.

Investor's calendar

Annual general meeting	May 14, 2008
Q1 Results	May 15, 2008
Q2 Results	August 13, 2008
Q3 Results	November 11, 2007

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Consolidated Financial Statements 2007

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Financial Overview

General

2007 was a very momentous year for SHL in which the groundwork was laid for solid expansion of our activities in the coming years by expanding the service bases and telemedicine applications in the markets where we operate as set out below. This position has been reached after much preparation and effort and gives us a tremendous opportunity to realize these benefits as we move forward.

- Philips, an 18.6% shareholder, within the framework of its development of consumer healthcare medical services in the US, acquired Raytel, our US cardiac monitoring services company, for USD110 million and entered into a long term agreement with SHL for SHL's participation in future revenues from current and future products expected to be introduced into the North American market in the coming years.
- Our German operations continued to develop very well with the expansion of PHTS's client base with increased recruitment rates from existing customers and the signing of new contracts with several new health insurers covering over a further 1.5 million insured members.
- The Israeli business continued its steady progress to provide sustained profitability and cash flow.
- We introduced our next generation of personal ECG devices and, in addition, received FDA clearance for a new proprietary cardiac looping recorder and transmitter, first in a new family of wireless, cellular-based devices developed by SHL.

In 2007 SHL operated in two business segments:

Telemedicine services

SHL provides telemedicine services to subscribers utilizing telephonic and Internet communication technology. SHL's telemedicine solution offers centralized remote diagnostic and monitoring services to end-users, making use of sophisticated computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers solutions not only to subscribing patients, but also to health insurance companies, hospitals and clinics, physicians and other health care providers. Need to add license part

Medical Services

In 2007 SHL operated a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular diseases. During 2007 SHL completed the discontinuation and divesture of its remaining imaging centers in the US and has sold other ancillary operations to Philips and as a result has ceased its operations in the medical services business segment which is categorized as discontinued operations.

Results of Operations

SHL's financial results for 2007 include those of Raytel up to its divesture at November 30, 2007.

SHL's continuing operations do not include the medical services business segment which is categorized as discontinued operations.

Revenues

Revenues in 2007 amounted to USD 62.1 million compared to revenues of USD 62.8 million in 2006.

Revenues from our German operations increased by 89 % to USD 8.9 million up from USD 4.7 million in 2006 with the US telemedicine operations reporting revenues of USD 34.6 million (USD 40.1 million in 2006) and the Israeli operations reporting revenues of USD 18.6 million (USD 17.6 million in 2006).

Gross profit

Gross margins remained steady at 52% bringing gross profit to USD 32.6 million compared to USD 32.7 million in 2006.

Research and Development costs, net

R&D costs, net amounted to USD 2.6 million which included an impairment charge of USD 1.4 million compared to USD 0.9 million in 2006. R&D expenses before capitalization and amortization amounted to USD 1.8 million and USD 1.6 million for 2007 and 2006, respectively.

Selling and Marketing Expenses

Selling and marketing expenses amounted to USD 12.6 million in 2007, 19% of revenues compared to USD 10.9 million or 17 % of revenues in 2006.

General and Administrative Expenses

G&A expenses amounted to USD 27.5 million in 2007, 44% of revenues compared to USD 20.6 million or 35% of revenues in 2006. The significant increase in G&A expenses is related to significant one time costs and to the write-off of old trade receivables at Raytel, connected with the sale.

Earnings before Income Tax, Depreciation and Amortization (EBITDA) and Earnings/Loss before Income Taxes (EBIT/LBIT)

LBITDA for the year amounted to USD 1.6 million compared to an EBITDA of USD 7.6 million in 2006 with LBIT amounting to USD 10.1 million compared to an EBIT of USD 0.3 million in 2006. As described in the above sections the decrease in EBITDA and EBIT is mainly related to the significant one time costs related to the sale of Raytel.

Financial Expenses

Financial expenses for the year amounted to USD 3.2 million down from USD 3.7 million in 2006. The decrease in financial expenses resulted mainly from the decrease in the prime interest rate on SHL's loans denominated in NIS, from the decrease in the LIBOR on SHL's USD denominated loans and from the exchange rate gains related to the devaluation of the US dollar against the NIS on our USD loans, net of USD cash deposits.

Other Income (expenses), net

Other income (expenses), net amounted to USD 43.5 million which includes the capital gain from the sale of Raytel in the amount of USD 42.8 million compared to other expenses, net in the amount of USD 0.5 million in 2006.

Taxes on Income

Taxes on income amounted to USD 6.5 million, of which USD 3.5 million is related to the capital gain from the sale of Raytel in the US, compared to a tax benefit of USD 0.4 million in 2006.

Net Income from Continuing Operations

SHL's net income from continuing operations amounted to USD 23.6 million compared to a net loss from continuing operations of USD 3.4 million.

Discontinued Operations of the Medical Services Business Segment

As described in the previous sections, SHL has discontinued the operations of its medical services business segment which is categorized as discontinued operations and recorded from the medical services business segment a net gain of USD 4.0 million compared to a net loss of USD 3.7 million in 2006.

Net Income (Loss)

Net income for the year amounted to USD 27.6 million out of which USD 23.3 million is attributable to the shareholders of SHL and USD 4.3 million is attributable to the minority shareholders.

Net loss for 2006 amounted to USD 7.1 million out of which USD 8.5 million is attributable to the shareholders of SHL and an income of USD 1.4 million is attributable to the minority shareholders.

Major Changes in Assets, Liabilities and Equity

During 2007 SHL's balance sheet structure has improved considerably due to the divesture of Raytel in the US for an upfront cash consideration and debt assumption of USD 110 million.

At December 31, 2007 SHL's current assets increased significantly to USD 91.6 million of which USD 84.6 million is cash, cash equivalents and short term investments, compared with USD 37.2 million in 2006 of which USD 12.5 million was in cash, cash equivalents and short term investments and USD 18.8 million in trade receivables.

SHL's long-term assets are without a significant change totalling USD 20.4 million compared with USD 20.5 million at the end of 2006.

Fixed assets amounted to USD 15.6 million down from USD 23.7 million in 2006 with Intangible assets amounting to USD 16.5 million down considerably from USD 47.0 million.

SHL's current liabilities amounted to USD 67.6 million of which USD 42.4 million is short-term bank credit and current maturities of long term loans and USD 10.5 million is deferred revenues, compared to USD 47.5 million at December 31, 2006 of which USD 29.5 million was short-term bank credit and current maturities of long term loans. Long term liabilities decreased significantly to USD 16.1 million from USD 51.0 million with the repayment of several long term loans at the end of the year. Long term liabilities include USD 7.6 million in long term loans from banks and lease obligations compared to USD 44.4 million in long term loans from banks and lease obligations.

Total equity at December 31, 2007 has doubled to USD 60.5 million compared to USD 29.8 million at December 31, 2006.

Cash Flow

During 2007 SHL received USD 103.5 million from the sale of Raytel and used cash in operations of USD 1.8 million compared to positive operating cash flow of USD 1.8 million in 2006.

The Company invested during the year in fixed and intangible assets USD 5.9 million compared to USD 6.6 million in 2006.

With the proceeds received from the sale of Raytel the Company repaid loans and other debt, net of loans received in the amount of USD 22.4 million compared to a net repayment of USD 5.2 million in 2006.

Dividend distribution and share buyback program

On March 25, 2008 the Board of Directors of SHL approved the distribution of a special cash dividend in the amount of USD 0.37 per share, totalling USD 4.0 million payable on April 15, 2008 to shareholders of record on April 14, 2008.

Haim Brosh,
Executive Vice President Finance

INDEPENDENT AUDITORS' REPORT To the Shareholders of SHL TELEMEDICINE LTD.

We have audited the accompanying financial statements of SHL Telemedicine Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of operations, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2007 and 2006, and of its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 25, 2008

Kost Forer Gabbay and Kasierer

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2007	December 31, 2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	84,546	9,678
Short-term investments	6	-	2,804
Trade receivables	7	2,641	18,810
Prepaid expenses	9	2,066	3,552
Income tax receivable		514	272
Other accounts receivable	10	1,277	386
Inventory		601	604
		91,645	36,106
Assets of disposal group classified as held-for-sale	4	-	1,106
		91,645	**37,212**
LONG-TERM ASSETS:			
Trade receivables	8	3,385	3,166
Prepaid expenses	9	5,916	5,659
Investment in associate		59	46
Long-term deposits	11	4,363	4,346
Deferred taxes	21d	6,717	7,235
		20,440	**20,452**
FIXED ASSETS:	12		
Cost		42,316	53,795
Less - accumulated depreciation		26,689	30,134
		15,627	**23,661**
INTANGIBLE ASSETS	13	16,451	46,994
Total assets		**144,163**	**128,319**

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

CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	Note	December 31, 2007	December 31, 2006
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	14	42,422	29,519
Deferred revenues		10,548	2,247
Trade payables		1,998	7,988
Income tax payable		2,826	535
Other accounts payable	15	9,797	7,220
		67,591	**47,509**
LONG-TERM LIABILITIES:			
Loans from banks, lease obligations and others	16	7,649	44,421
Provisions	18	2,194	2,459
Accrued severance pay	19	452	752
Deferred revenues		5,435	2,828
Deferred taxes	21d	346	544
		16,076	**51,004**
COMMITMENTS AND CONTINGENT LIABILITIES	23		
Total liabilities		83,667	98,513
EQUITY:	24		
Equity attributable to equity holders of the parent:			
Issued capital		31	31
Additional paid-in capital		92,295	92,006
Treasury shares at cost		(269)	(269)
Foreign currency translation reserve		(120)	(7,773)
Accumulated deficit		(31,529)	(54,904)
		60,408	29,091
Minority interest		88	715
Total equity		**60,496**	**29,806**
Total liabilities and equity		**144,163**	**128,319**

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

March 25, 2008		
Date of approval of the financial statements	Yariv Alroy Co - CEO	Yoram Alroy Chairman of the Board of Directors and President

CONSOLIDATED STATEMENTS OF OPERATIONS U.S. dollars in thousands (except per share data)

	Note	Year ended December 31, 2007	2006
Continuing operations:			
Revenues		62,124	62,848
Cost of revenues	25a	29,574	30,144
Gross profit		32,550	32,704
Research and development costs, net	25b	2,550	911
Selling and marketing expenses	25c	12,610	10,910
General and administrative expenses*)	25d	27,534	20,578
Operating income (loss)		(10,144)	305
Financial income	25e(1)	4,758	3,126
Financial expenses	25e(2)	(7,988)	(6,695)
Other income (expenses), net	25f	43,524	(530)
Income (loss) before taxes on income		30,150	(3,794)
Taxes on income (tax benefit)	21c	6,497	(412)
Profit (loss) from continuing operations		23,653	(3,382)
Discontinued operations:			
Profit (loss) from discontinued operations (Note 3)		3,981	(3,712)
Income (loss)		**27,634**	**(7,094)**
Attributable to:			
Equity holders of the parent		23,375	(8,464)
Minority interest		4,259	1,370
		27,634	**(7,094)**
Earnings per share	26		
Basic profit (loss) for the year attributable to ordinary equity holders of the parent		2.20	(0.80)
Diluted profit (loss) for the year attributable to ordinary equity holders of the parent		2.16	(0.80)
Earnings per share for continuing operations			
Basic profit (loss) for continuing operations attributable to ordinary equity holders of the parent		1.83	(0.45)
Diluted profit (loss) for continuing operations attributable to ordinary equity holders of the parent		1.79	(0.45)

*) Includes one-time expenses related to the sale of Raytel, see Note 3.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY U.S. dollars in thousands

	Attributable to equity holders of the parent								
	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Accumulated deficit	Total	Minority interest	Total equity	Total recognized income (expenses)
Balance at January 1, 2006	**31**	**91,762**	**(269)**	**(7,168)**	**(46,440)**	**37,916**	**1,152**	**39,068**	
Share-based payments	-	244	-	-	-	244	-	244	
Currency translation differences	-	-	-	(605)	-	(605)	-	(605)	(605)
Distribution to minority interest	-	-	-	-	-	-	(1,867)	(1,867)	
Change in equity of minority interest	-	-	-	-	-	-	60	60	
Income (loss)	-	-	-	-	(8,464)	(8,464)	1,370	(7,094)	(7,094)
									(7,699)
Balance at December 31, 2006	**31**	**92,006**	**(269)**	**(7,773)**	**(54,904)**	**29,091**	**715**	**29,806**	
Exercise of options	-	52	-	-	-	52	-	52	
Share-based payments	-	237	-	-	-	237	-	237	
Currency translation differences	-	-	-	7,653	-	7,653	-	7,653	7,653
Distribution to minority interest	-	-	-	-	-	-	(4,754)	(4,754)	
Change in equity of minority interest	-	-	-	-	-	-	(132)	(132)	
Income	-	-	-	-	23,375	23,375	4,259	27,634	27,634
									35,287
Balance at December 31, 2007	**31**	**92,295**	**(269)**	**(120)**	**(31,529)**	**59,236**	**88**	**60,496**	

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

CONSOLIDATED STATEMENTS OF CASH FLOWS U.S. dollars in thousands

	Year ended December 31,	
	2007	2006
Cash flows from operating activities:		
Profit (loss)	27,634	(7,094)
Adjustments required to reconcile profit (loss) to net cash provided by (used in) operating activities (a)	(29,435)	8,894
Net cash provided by (used in) operating activities	(1,801)	1,800
Cash flows from investing activities:		
Purchase of fixed assets	(4,524)	(5,015)
Cash received upon sale of subsidiaries (b)	107,283	2,150
Investment in intangible assets	(1,388)	(1,558)
Proceeds from sale of fixed assets	199	37
Marketable securities, net	2,884	(1,133)
Net cash provided by (used in) investing activities	104,454	(5,519)
Cash flows from financing activities:		
Proceeds from exercise of options	52	-
Proceeds from long-term loans from banks and others	14,833	18,355
Repayment of long-term loans from banks and others	(37,239)	(23,515)
Short-term bank credit, net	(519)	548
Distributions to minority interest	(4,886)	(1,867)
Capital contribution from minority interests	-	60
Net cash used in financing activities	(27,759)	(6,419)
Effect of exchange rate changes on cash and cash equivalents	(26)	753
Increase (decrease) in cash and cash equivalents	74,868	(9,385)
Cash and cash equivalents at the beginning of the year	9,678	19,063
Cash and cash equivalents at the end of the year	**84,546**	**9,678**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS U.S. dollars in thousands

	Year ended December 31,	
	2007	2006
(a) Adjustments required to reconcile profit (loss) to net cash provided by (used in) operating activities:		
Income and expenses not involving operating cash flows:		
Loss (gain) on sale of business	(48,248)	166
Depreciation, amortization and impairment	8,730	8,648
Deferred taxes, net	920	95
Loss on disposal of fixed assets	14	270
Accrued severance pay	(350)	(353)
Exchange rate and linkage differences on principal of long-term liabilities, net	(270)	(1,121)
Loss on marketable securities	-	75
Exchange rate differences on short-term and long-term deposits, net	(2)	331
Share-based payments	237	244
Others	-	(52)
	(38,969)	**8,303**
Changes in operating assets and liabilities:		
Decrease in short and long-term trade receivables, net	5,048	2,180
Decrease in prepaid expenses	1,337	1,282
Decrease (increase) in other accounts receivable	(1,639)	173
Decrease in inventory	59	90
Increase (decrease) in trade payables	149	(518)
Decrease in deferred revenues	(1,792)	(1,340)
Increase (decrease) in short and long-term other payables	5,772	(1,276)
	9,534	591
	(29,435)	**8,894**
(b) Net cash received upon sale of businesses (Note 3 and 4):		
Working capital (excluding cash and cash equivalents)	14,810	882
Fixed assets, net	7,789	52
Intangible assets, net	31,737	1,382
Long-term liabilities	(5,718)	-
Gain (loss) on sale	48,248	(166)
Currency translation differences	10,367	-
	107,283	**2,150**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS U.S. dollars in thousands

	Year ended December 31,	
	2007	2006
(c) Significant non-cash transactions:		
Purchase of fixed assets	-	370
(d) Supplemental disclosure of cash flows activities:		
Interest received	625	873
Interest paid	4,477	4,827
Income taxes paid	4,156	785

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

NOTES TO CONSOLIDATED STATEMENTS U.S. dollars in thousands

NOTE 1 | GENERAL

SHL Telemedicine Ltd. ("SHL" or "the Company") is a company incorporated in Israel whose shares are publicly-traded on the SWX Swiss Exchange under the symbol SHLTN. SHL and its subsidiaries ("the Group") develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine systems are designed to improve quality of care and life for people suffering from various health conditions ranging from the high-risk and chronically ill to ordinary users of healthcare products and services who wish to take a more active role in managing their own health.

The Company completed on November 30, 2007, the sale of Raytel Cardiac Services and other ancillary operations in the U.S. ("Raytel") to Royal Philips Electronics ("Philips") (the "Transaction"), an 18.6 % shareholder in the Company, following the approval of the Transaction by a Special General Meeting of the Company's shareholders on November 27, 2007 – see Note 3.

During 2007 the Company completed the discontinuation and divesture of its remaining imaging centers in the US (see Note 4) and has sold other ancillary operations to Philips and as a result has ceased its operations in the medical services business segment which is categorized as discontinued operations (see Note 27).

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) on a historical cost basis, except for available-for-sale marketable securities which are measured at fair value.

b. Accounting policies:

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did, however, give rise to additional disclosures, including in some cases, revisions to accounting policies.

IFRS 7	Financial Instruments: Disclosures
IAS 1	Amendment - Presentation of Financial Statements
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are provided in Note 17.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

According to this interpretation an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

c. Significant accounting judgments, estimates and assumptions:

The preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions by the Company's management. Management is not presently aware of any significant uncertainty in applying these estimates, which might result in a material change in the carrying amounts of assets and liabilities within the next financial year. Following are the most significant effects of the estimations on the amounts recognized in the financial statements:

1. Impairment of non-financial assets:

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

2. Share-based payments:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 24c.

3. Deferred tax assets:

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 21.

4. Development costs are capitalized in accordance with the accounting policy in Note 2n. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

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

The majority of the Company's revenues from the operations in Israel are received in New Israeli Shekels ("NIS") and the majority of the costs are paid in NIS, thus the NIS is the currency of the primary economic environment of the Company and therefore its functional currency is the NIS.

The Company has selected the U.S. dollar as the presentation currency in the consolidated financial statements. The Company believes that most of the readers of its financial statements are more familiar with the U.S. dollar, than the NIS.

Because the presentation currency is the U.S. dollar, the financial statements of the Company and of a subsidiary whose functional currency is the NIS and the Euro have been translated from the functional currency to the presentation currency, in accordance with the following principles set forth in IAS 21, the effects of changes in foreign exchange rates, as follows:

Assets and liabilities are translated into U.S. dollars at the closing rate at the date of each balance sheet (as for share capital, additional paid-in capital and treasury shares - see below). Income and expenses are translated at average monthly exchange rates for the periods presented. The exchange differences resulting from the translation are recognized as a separate component of equity.

Share capital, additional paid-in capital and treasury shares are translated into U.S. dollars using the exchange rate at the date of the transaction.

e. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances between the Company and its subsidiaries eliminated in consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Acquisition of subsidiaries is accounted for using the purchase method of accounting.

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

Minority interest represents interests in certain investments of Raytel Medical Corporation LLC. ("Raytel"), a wholly-owned subsidiary of SHL Telemedicine North America ("NA").

f. Business combinations and goodwill:

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

g. Investment in associate:

Investment in an associate over which the Company exercises significant influence, is accounted for under the equity method of accounting.

h. Cash and cash equivalents:

Cash and cash equivalents in the balance sheets comprise cash in banks and on hand and short-term deposits with an original maturity of three months or less.

i. Inventory:

Inventory of devices is presented at the lower of cost or net realizable value. Cost is determined using the "first-in, first-out" method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j. Trade receivables:

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Accounts are written off only after all reasonable collection efforts have been exhausted.

k. Financial instruments:

Under IAS 39, the Group classifies its investments in marketable debt and equity securities into the following categories: held-to-maturity, trading, or available-for-sale depending on the purpose for acquiring the investments. As of December 31, 2007, all marketable securities of the Group are classified as trading. Trading securities are presented at fair value based on quoted market prices. The fair value changes of trading securities are recognized in the statement of operations.

l. Prepaid expenses:

Prepaid expenses, which are related to sales commissions on deferred revenues, are amortized to the statement of operations, over the estimated average service period of subscriber contracts, as adjusted for cancellations.

m. Fixed assets:

1. Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method on the basis of the estimated useful life of the asset. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Recoverable amount is the higher of net selling price and value in use.

Capital leases are recorded at the present value of the future minimum lease payments and the underlying assets are amortized over their estimated useful lives on a straight-line basis.

2. The annual depreciation rates are as follows:

	%
Computers and communication equipment	15 - 33
Medical equipment	10 - 15
Office furniture and equipment	6 - 15
Motor vehicles and ambulances	15 - 20
Leasehold improvements	Over the shorter of the term
	of the lease or the useful life
Devices on loan to customers	Over the estimated term
	of the related service

n. Intangible assets:

1. Research and development costs are expensed as incurred, except for development costs which relate to the design and testing of new or improved products which are recognized as an asset to the extent that it is expected that such assets will generate future economic benefits.
Deferred development costs are amortized from the date of commercial production of the product. Such costs are amortized using the straight-line method over a period of up to 5 years.
At each balance sheet date, the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated and if necessary, the costs are written down to their recoverable amount.

2. Goodwill represents the excess of acquisition cost over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is reviewed for impairment, annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less accumulated amortization and any impairment in value (see f above).
Tax benefits as a result of tax losses from the time in which the investment was acquired, and which could not have been taken into account in order to determine the amount for goodwill, are recognized on an ongoing basis at the time in which a tax benefit is utilized, and the balance of goodwill is adjusted accordingly.

3. Non-competition agreements are amortized using the straight-line method over their estimated useful lives, which according to the agreements is up to 10 years.

o. Impairment of assets:

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.

p. Deferred taxes:

1. Deferred taxes are provided using the liability method for temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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 income will be available to allow all or part of the deferred tax asset to be utilized.
Deferred tax assets and liabilities are measured based on the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or subsequently enacted at balance sheet date.

2. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is the Company's intention to hold these investments. Similarly, taxes that would apply in the event of the distribution of earnings by subsidiaries as dividends have not been taken into account in computing deferred taxes, when the distribution of dividend does not involve an additional tax liability or when the Company has decided not to distribute dividends that will cause additional tax liability.

q. Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where

discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

r. Treasury shares:

The cost of shares held by the Company is presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the statement of operations on the purchse, sale, issue on cancellation of the group's own equity instruments.

s. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from services and sales of devices are recognized ratably over the estimated average service period of subscriber contracts (eight years), as adjusted for cancellations.

A consideration received for services not yet performed as of balance sheet date, is reported as deferred revenues, which is recognized as the services are performed.

Interest revenues are recognized as the interest accrues.

t. Exchange rates and linkage basis:

1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rate as published by the Bank of Israel on December 31, 2007.

2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

Data regarding Israeli CPI and exchange rates of the U.S. dollar and the Euro:

For the year ended	Israeli CPI	Exchange rate of € 1	Exchange rate of U.S. $ 1	Exchange rate of CHF 1
	Points *)	NIS	NIS	NIS
December 31, 2007	191.1	5.66	3.85	3.42
December 31, 2006	184.9	5.56	4.23	3.47
December 31, 2005	185.0	5.45	4.6	3.5
Change during the year	%	%	%	%
2007	3.4	5.4	(9.0)	1.3
2006	(0.1)	2.2	(8.2)	(0.9)

*) The index on an average basis of 1993 = 100.

u. Earnings (loss) per share:

Basic earnings (loss) per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period.

v. Accrued severance pay:

The Company operates a defined benefit plan for severance pay pursuant to the Israeli Severance Pay Law. Under the law, Israeli resident employees are entitled to receive severance pay upon involuntary termination of employment, or upon retirement, which is calculated based on the most recent monthly salary at the time of termination, multiplied by the number of years of employment.

The Company funds its liability for severance pay to part of its employees by monthly payments to insurance companies.

The cost of providing severance pay is determined using the projected unit credit actuarial value method. Actuarial gains and losses are recognized immediately in the period in which they occur.

The severance pay liability recognized in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan 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.

w. Share-based payment transactions:

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in Note 24c.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of operations for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 26).

x. Borrowing costs:

Borrowing costs are charged to operations as incurred

y. IFRS and IFRIC Interpretations not yet effective:

IAS 23, "Borrowing Costs":

A revised IAS 23, "Borrowing Costs", was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IAS 1 (Revised), "Presentation of Financial Statements":

The revised IAS 1, "Presentation of Financial Statements", was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together will all other items of recognized income and expense, either in one single statement, or in two linked statements.

The effect of the adoption of IAS 1 (Revised) will require the Company to disclose the above items in the financial statements.

IFRS 3 (Revised), "Business Combinations" and IAS 27 (Revised) Consolidated and Separate Financial Statements:

The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on a goodwill, nor will it give rise to a gain or loss.

Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 2 (Revised), "Share-based Payment":

The amendment to IFRS 2, "Share-based Payments", was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

The Company estimates that the revised Standard will not have a material effect on its financial position and operating results.

IFRIC 12 Service Concession Arrangements:

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

This interpretation becomes effective for annual periods beginning on or after March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity>s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This interpretation is not expected to have an impact on the Group.

IFRIC 13 Customer Loyalty Programs:

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction:

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group.

NOTE 3 | SALE OF SUBSIDIARY

The Company completed on November 30, 2007, the sale of Raytel Cardiac Services and other ancillary operations in the U.S. ("Raytel") to Royal Philips Electronics ("Philips") (the "Transaction"), an 18.6 % shareholder of the Company, following the approval of the Transaction by a Special General Meeting of the Company's shareholders on November 27, 2007.

The Transaction consisted of the sale of 100% of Raytel's stock, the granting to Philips (Raytel) of an exclusive license for the North American market to use the Company's IT platform to provide current and future services by Philips (Raytel) in the North American market, and the future sale of the Company's proprietary telemedicine devices to Philips (Raytel) in the North American market. At the closing of the Transaction, and subject to final immaterial purchase price adjustments, the Company received cash in the amount of $ 103,594, in addition to a debt assumption by Philips of Raytel's debt in the amount of about $ 6,500. In addition, the Company is entitled to receive additional payments during the years 2008-2016, subject to milestones and conditions related to revenues derived by Philips (Raytel) from certain current and future services provided in the North American market, with guaranteed minimum payments of $ 13,000 by end of 2012.

The total amount of the cash and future guaranteed payments (discounted to their present value of $ 11,485) was allocated between the different elements included in the Transaction based on their relative fair values, as determined by an independent valuation expert. The fair value allocated to the Raytel business sold and those parts of the exclusively licensed IT platform already delivered to Philips (Raytel) amounted to $ 92,059, which resulted in a gain to the Company, in an amount of $ 42,789 ($ 39,263, net of income taxes). The fair value allocated to the other elements included in the Transaction of $ 23,020 will be recognized as revenues in the future.

The Group ceased consolidating Raytel's results of operations as of November 30, 2007.

NOTE 4 | DISCONTINUED OPERATIONS

During 2006 and 2007, a wholly-owned subsidiary of the Company, SHL Telemedicine North America (NA) sold the operations of eight of its imaging centers and closed two other imaging centers. NA also sold its partnership interest in three catherization labs and closed one other.

As a result, all of the imaging centers and catherization labs are categorized as Discontinued Operations in the financial statements. The results of operations have been separated between discontinued and continuing operations.

The results of the discontinued operations are presented below:

	Year ended December 31,	
	2007	2006
Revenues	18,579	27,875
Cost of revenues	(12,967)	(18,039)
Selling, general and administrative	(5,973)	(9,918)
Other expenses	(366)	(2,555)
Gain (loss) on sale	5,459	(166)
Profit (loss) before tax from discontinued operations	4,732	(2,803)
Income taxes	(751)	(909)
Profit (loss)	**3,981**	**(3,712)**

During 2006, NA recognized a loss on sales of discontinued operations of $ 166, which included a write-off of goodwill of $1,382. Other expenses, include an accrual of $ 1,053 made in 2006 to cover closing costs and future lease obligations of the discontinued centers. An additional accrual of $ 242 was made in 2007 for shutdown costs. As of December 31, 2007, $ 253 remains in the accrual related to future lease obligations and miscellaneous shut down costs, which is expected to be paid out by the end of 2009. Due to the anticipated sales price of the centers, NA also recognized an impairment charge of $ 795 related to the fixed assets of the remaining centers during 2006, as well as an impairment charge of goodwill in the amount of $ 306. As this adjustment was made in 2006, the sale of the 5 imaging centers in 2007 generated a gain of $ 130. The sale of the catherization lab generated a gain of $ 4,773, of which the portion attributable to the equity holders of the parent was $ 292 after the write-off of goodwill. The sale of the Company's ownership percentage in another lab generated a gain of $ 556, after the closing cost and write-off of goodwill in the amount of $ 964.

The major classes of assets classified as held for sale at December 31, 2006 are as follows:

Goodwill	838
Fixed assets	268
Assets classified as held for sale	**1,106**

The net cash flows of discontinued operations are as follows:

	Year ended December 31,	
	2007	2006
Operating cash flows	926	164
Investing cash flows	6,761	1,574
Financing cash flows	(7,224)	(1,938)
Net cash in flows (outflows)	**463**	**(227)**

NOTE 5 | CASH AND CASH EQUIVALENTS

	Year ended December 31,	
	2007	2006
Cash in banks	2,356	1,614
Short-term deposits	82,190	8,064
	84,546	**9,678**

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.
(weighted average rate at December 31, 2007 - 4.65%)

NOTE 6 | SHORT-TERM INVESTMENTS

	Year ended December 31,	
	2007	2006
Marketable securities:		
Corporate debentures - in U.S. dollars	-	531
Debentures - in NIS - unlinked	-	1,538
	-	2,069
Short-term deposit and other investments	-	735
	-	**2,804**

The fair value of the quoted marketable securities is determined by reference to published price quotations in an active market.

NOTE 7 | TRADE RECEIVABLES

a. Composition:

	Year ended December 31, 2007	2006
Gross amount *)	4,190	37,736
Less - allowance for doubtful accounts	2,456	19,797
	1,734	17,939
Current maturities of long-term receivables	907	871
	2,641	**18,810**

*) Trade receivables are non-interest bearing and are generally for up to 60 days.

b. Movements in the allowance for doubtful accounts were as follows:

	Collectively impaired
At January 1, 2006	15,851
Charge for the year	3,946
At December 31, 2006	19,797
Charge for the year	2,438
Utilized	(11,731)
Allowance in respect of subsidiary sold	(8,048)
At December 31, 2007	2,456

c. As at December 31, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30 – 60 days	60 – 90 days	90 day
2007	2,641	2,641	-	-	-	-
2006	18,810	11,710	2,397	2,356	1,571	785

NOTE 8 | LONG-TERM TRADE RECEIVABLES

	December 31, 2007	2006
Gross amounts (1)	37,941	47,197
Less - deferred revenues	33,649	43,160
	4,292	**4,037**
Less - current maturities	**907**	**871**
	3,385	**3,166**

(1) Represent customers' future installments that are secured by pre-approved future debits to customers' bank accounts and credit card vouchers, which are linked to the Israeli Consumer Price Index.

NOTE 9 | PREPAID EXPENSES

Prepaid expenses are recognized in the statement of operations in future years, as follows:

	December 31, 2007	2006
First year prepaid expenses - short-term	2,066	3,552
Second year	1,648	1,449
Third year	1,499	1,188
Fourth year	1,205	1,109
Fifth year	824	978
Thereafter	740	935
Prepaid expenses - long-term	5,916	5,659
Total prepaid expenses	**7,982**	**9,211**

NOTE 10 | OTHER ACCOUNTS RECEIVABLE

	December 31, 2007	2006
Government authorities	722	83
Employees	52	33
Interest receivable	-	16
Others	503	254
	1,277	**386**

NOTE 11 | LONG-TERM DEPOSITS

	December 31, 2007	2006
Structured deposit (1)	2,000	2,000
Structured deposit (2)	2,200	2,200
Bank deposit (3)	163	146
	4,363	**4,346**

(1) The deposit is in U.S. dollars and bears annual interest of 11% less 2 times the 12-month LIBOR. The interest is paid every six months. The maturity date will be the earlier of the receipt of 12% cumulative interest or August 2013. The cumulative interest which the Company received until December 31, 2007, is 11%. In February 2008, the bank approved early repayment of the deposit

(2) The deposit is in U.S. dollars and bears interest of 11% in the first year and from the second year to the maturity date 8% less 2 times the 6-month LIBOR. The interest is paid every six months. The maturity date will be the earlier of the receipt of 11.75% cumulative interest or November 2013. The cumulative interest which the Company received until December 31, 2007, is 11.5%.

(3) In Euro and bears interest at the annual rate of 2.3%.

NOTE 12 | FIXED ASSETS

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance at January 1, 2006	10,147	15,202	1,108	1,038	3,338	21,995	52,828
Additions during the year	1,516	2,926	77	381	237	248	5,385
Impairment	(23)	(246)	(34)	-	(492)	-	(795)
Disposals during the year	(41)	(3,564)	(218)	(153)	(183)	-	(4,159)
Assets held-for-sale	(232)	(1,243)	(164)	(874)	-	(2,513)	
Currency translation differences	359	278	54	108	80	2,170	3,049
Balance at December 31, 2006	11,726	13,353	823	1,374	2,106	24,413	53,795
Additions during the year	2,107	905	70	262	35	1,145	4,524
Disposals during the year	(7, 482)	(10,697)	(215)	(189)	(1,137)	-	(19,720)
Currency translation differences	516	347	67	144	99	2,544	3,717
Balance at December 31, 2007	6,867	3,908	745	1,591	1,103	28,102	42,316
Accumulated depreciation:							
Balance at January 1, 2007	6,783	7,813	538	681	1,591	10,404	27,810
Additions during the year	1,689	2,392	324	188	394	1,608	6,595
Assets held-for-sale	(210)	(1,169)	(154)	-	(712)	-	(2,245)
Disposals during the year	(33)	(3,170)	(301)	(153)	(143)	-	(3,800)
Currency translation differences	291	200	23	66	40	1,154	1,774
Balance at December 31, 2006	8,520	6,066	430	782	1,170	13,166	30,134
Additions during the year	1,853	2,183	175	157	199	1,708	6,275
Disposals during the year	(5,471)	(5,318)	(268)	(189)	(734)	-	(11,980)
Currency translation differences	418	278	33	78	60	1,393	2,260
Balance at December 31, 2007	5,320	3,209	370	828	695	16,267	26,689
Depreciated cost at December 31, 2007	**1,547**	**699**	**375**	**763**	**408**	**11,835**	**15,627**
Depreciated cost at December 31, 2006	**3,206**	**7,287**	**393**	**592**	**936**	**11,247**	**23,661**

As for charges, see Note 23.

NOTE 13 | INTANGIBLE ASSETS, NET

	Development costs	Goodwill	Non-competition agreement	Total
At January 1, 2007, net of accumulated amortization	5,614	40,925	455	46,994
Additions during the year	1,388	-	-	1,388
Impairment*)	(1,436)	-	-	(1,436)
Amortization during the year	(987)	-	(65)	(1,052)
Disposal upon sale of discontinued operations (Note 4)	-	(964)	-	(964)
Disposal upon sale of subsidiary (Note 3)	-	(29,598)	(390)	(29,988)
Currency translation differences	487	1,022	-	1,509
At December 31, 2007, net of accumulated amortization	**5,066**	**11,385**	**-**	**16,451**
At December 31, 2007:				
Cost	11,133	11,385	2,108	25,623
Accumulated amortization	(6,067)	-	(2,108)	(9,172)
Net carrying amount	**5,066**	**11,385**	**-**	**16,451**

*) Impairment refers mainly to the write-off of costs for development projects that were discontinued in 2007.
The expense is included in research and development costs (see Note 25b).

NOTE 14 | SHORT-TERM CREDIT FROM BANKS AND CURRENT MATURITIES OF LONG-TERM LOANS

	Interest rate	December 31,	
	%	2007	2006
Credit from banks:			
NIS - unlinked	Prime (1)+0.2	19,240	19,856
U.S. dollars	Libor (2)+0.6	2,200	-
Current maturities of long-term loans (see Note 16)		20,982	9,663
		42,422	**29,519**

(1) The Prime rate as of December 31, 2007 - 5.75%.

(2) Three-month Libor as of December 31, 2007 – 5.13%.

As for collateral, see Note 23.

NOTE 15 | OTHER ACCOUNTS PAYABLE

	December 31,	
	2007	2006
Employees and payroll accruals	1,448	2,447
Accrued expenses	6,660	2,969
Liability regarding the acquisition of activity	-	294
Government authorities	84	94
Former Raytel shareholders	384	398
Provision for restructuring - current portion (Note 18)	-	155
Future participation rights - current portion (Note 18)	1,167	565
Other	54	298
	9,797	7,220

NOTE 16 | LONG-TERM LOANS FROM BANKS, LEASE OBLIGATIONS AND OTHERS

a. Composed as follows:

	Average interest rate 2007	December 31,	
	%	2007	2006
Loans from banks:			
NIS - unlinked	NIS Prime (1) + 0.44	7,807	11,677
NIS - linked to Israel's CPI	5.75	4,327	11,057
U.S. dollars	Libor(2) + 1.63	6,206	8,368
Euro		-	3,023
CHF	4.745	9,510	9,023
Promissory notes - U.S. dollars	Libor(2)+1.95	781	2,484
		28,631	45,632
Less - current maturities		20,982	8,976
		7,649	36,656
Lease obligations:			
Euro		-	500
Capital lease obligations and non-recourse notes		-	253
		-	753
Less - current maturities		-	687
		-	66
Other long-term loans:			
Revolving credit facility		-	7,699
		7,649	**44,421**

(1) The NIS Prime rate as of December 31, 2007 - 5.75%.

(2) Three month Libor as of December 31, 2007 - 5.13%.

b. The long-term loans are repayable in future years, based on contractual undiscounted payments (including interest), as follows:

	December 31,	
	2007	2006
First year	22,338	11,910
Second year	2,634	12,245
Third year	2,134	14,155
Fourth year	1,442	7,132
Fifth year	836	4,160
Thereafter	1,691	9,442

c. The Company is required to meet certain financial covenants, such as equity financial ratios and amounts. As of December 31, 2007, is in compliance with all such requirements.

d. As for collateral, see Note 23.

NOTE 17 | FINANCIAL INSTRUMENTS

The Group's principal financial liabilities, comprise bank borrowings and overdrafts and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and deposits, which arise directly from its operations.

It is, and has been throughout 2007 and 2006, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

a. Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group's policy is to manage its interest costs by using a combination of fixed and variable rate debts.

Interest rate risk table:

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/ decrease in basis points	Effect on profit before tax
2007:		
U.S. dollar	+67.5	37
U.S. dollar	-67.5	(37)
NIS	+28.75	78
NIS	-28.75	(78)
CHF	+82	78
CHF	-82	(78)
2006:		
U.S. dollar	+84	119
U.S. dollar	-84	(119)
Euro	+111	57
Euro	-111	(57)
NIS	+30	90
NIS	-30	(90)
CHF	+63	57
CHF	-63	(57)

b. Concentration of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and trade receivables. Cash and cash equivalents are deposited with major banks. Management believes that the financial institutions that hold the Company's investments are financially sound, and, accordingly, minimal credit risk exists with respect to these investments.

The Company's trade receivables are mainly derived from sales to customers in Israel, Germany and the U.S. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

c. Foreign currency risk:

The Group is subject to foreign exchange risk as it operates and has sales in different countries worldwide. Thus certain revenues and expenses are denominated in currencies other than the functional currency of the relevant entity in the Group.

Group management regularly monitors its foreign exchange risk and attempts to limit such risks by making adequate decisions regarding cash and credit positions.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate in relation to the NIS, with all other variables held constant, of the Group's profit before tax (due to changes in the carrying value of monetary assets and liabilities).

	Increase/decrease in exchange rates	Effect on profit before tax
2007	+10%	7,719
	-10%	(7,719)
2006	+10%	(208)
	-10%	208

The following table demonstrates the sensitivity to a reasonably possible change in the CHF exchange rate in relation to the NIS, with all other variables held constant, of the Group's profit before tax (due to changes in the carrying value of monetary assets and liabilities).

	Increase/decrease in exchange rates	Effect on profit before tax
2007	+5%	(472)
	-5%	472
2006	+10%	(902)
	-10%	902

d. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments and other receivables, credit from banks and others, trade payables and other current liabilities approximate their fair value due to the short-term maturity of such instruments. The fair value of long-term bank loans also approximate the carrying value, as these loans bear interest in mainly variable rate.

e. Liquidity risk:

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. (See Note 16b for a summary of the maturity profile of the Group's long-term financial liabilities).

f. Capital management:

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and sufficient capital (equity), including externally imposed capital requirements, in order to support its business and maximize shareholder value. The Company complies with the externally imposed capital requirements to which it is subject. (See Note 16c).

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions.

g. Linkage terms of monetary balances in the consolidated balance sheet of the Group are as follows:

	In or linked to:					
	U.S.$	CHF	Euro	Israeli CPI	NIS	Total
December 31, 2007						
Assets:						
Cash and cash equivalents	83,311	136	426	-	673	84,546
Trade receivables	610	-	282	4,292	842	6,026
Other accounts receivable	294	-	740	-	757	1,791
Long-term deposits	4,200	-	163	-	-	4,363
	88,415	**136**	**1,611**	**4,292**	**2,272**	**96,726**
Liabilities:						
Credit from banks and others	2,200	-	-	-	19,240	21,440
Trade payables	151	-	652	-	1,195	1,998
Income tax payable	-	-	-	-	2,826	2,826
Short and long-term other accounts payable	1,180	-	2,381	-	6,236	9,797
Long-term loans and leases from banks and others (including current maturities)	6,988	9,510	-	4,326	7,807	28,631
Accrued severance pay	-	-	99	-	353	452
	10,519	**9,510**	**3,132**	**4,326**	**37,657**	**65,144**
December 31, 2006						
Assets:						
Cash and cash equivalents	5,833	-	299	-	3,546	9,678
Short-term investments	531	-	-	-	2,273	2,804
Trade receivables	16,534	-	679	4,037	726	21,976
Other accounts receivable	124	-	22	373	139	658
Long-term deposits	4,200	-	146	-	-	4,346
	27,222	**-**	**1,146**	**4,410**	**6,684**	**39,462**
Liabilities:						
Credit from banks and others	17,656	-	-	-	2,200	19,856
Trade payables	6,691	-	453	-	844	7,988
Income tax payable	73	-	-	462	-	535
Short and long-term other accounts payable	4,140	-	3,652	-	1,887	9,679
Long-term loans and leases from banks and others (including current maturities)	18,802	9,023	3,524	11,057	11,678	54,084
Accrued severance pay	-	-	-	-	752	752
	47,362	**9,023**	**7,629**	**11,519**	**17,361**	**92,894**

NOTE 18 | PROVISIONS

	December 31,	
	2007	2006
Provision for future participation rights (1)	3,361	3,024
Less - current maturities	1,167	565
	2,194	2,459
Provision for restructuring	-	155
Less - current maturities	-	155
	2,194	**2,459**

(1) In connection with the acquisition of a subsidiary in 2004, the Company has an obligation to pay 3.5% of the annual revenues of such subsidiary, in certain countries, until 2010. The above balance is presented at present value.

c. Amounts recognized in the statement of operations are as follows:

	December 31,	
	2007	2006
Current service cost	350	310
Interest cost	161	96
Expected return on plan assets	(131)	(70)
Net actuarial gain recognized in the year	(139)	(116)
Total expense included in statement of operations	**241**	**220**

d. The principal actuarial assumptions used are as follows:

Discount rate	3.92%	3.85%
Future salary increase	3%	3%

NOTE 19 | ACCRUED SEVERANCE PAY

a. The amount included in the balance sheet arising from obligations in respect of the defined benefit plan for severance pay is comprised as follows:

	December 31,	
	2007	2006
Present value of funded obligation	3,160	2,692
Fair value of plan assets	2,708	1,940
	452	**752**

b. The amounts recognized in the balance sheet are as follows:

Liability at the beginning of the year	752	1,032
Expense recognized in the statement of operations	241	220
Benefits not paid from assets	(206)	(268)
Contribution to assets	(385)	(321)
Currency translation differences	50	89
Liability at the end of the year	**452**	**752**

NOTE 20 | INVESTMENTS IN SUBSIDIARIES

a. Principal subsidiaries:

	Country of incorporation	Percentage in equity 2007 and 2006
Shahal Haifa - Medical Services Ltd.	Israel	100
SHL Telemedicine International Ltd. ("STI")	Israel	100
Shahal Rashlatz-Rehovot Medical Services Ltd.	Israel	100
SHL Telemedicine B.V.	Netherlands	100
SHL Telemedicine Global Trading Ltd.	Ireland	100
SHL Telemedicine North America LLC.	U.S.A.	100
SHL U.S.A. Inc.	U.S.A.	100
Personal Healthcare Telemedicine Services B.V.	Netherlands	100
Personal Healthcare Telemedicine Services GmbH	Germany	100

NOTE 21 | TAXES ON INCOME

a. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Law, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index through December 31, 2007. The amended law includes the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

b. Tax rates applicable to the income of the Group companies:

1. Companies in Israel:

On July 25, 2005 the Knesset (Israeli Parliament) approved the Law of the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: 2005 -34%, 2006 - 31%, 2007 - 29%, 2008 - 27%,2009 - 26% and 2010 and thereafter - 25%.

2. Foreign subsidiaries:

The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

A company incorporated in the U.S. - tax at the rate of 34%.

A company incorporated in Germany - tax at the rate of 39.8%.

A company incorporated in Ireland - tax at the rate of 12.5%.

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

	Year ended December 31,	
	2007	2006
Current taxes	4,028	607
Deferred taxes	920	95
Taxes in respect of previous years (see g below)	2,300	(205)
	7,248	497
Tax expense (benefit) - continuing operations	6,497	(412)
Tax expense - discontinued operations	751	909
	7,248	**497**

d. Deferred tax assets (liabilities):

Composition and changes in deferred taxes, as presented in the consolidated balance sheet, are as follows:

	Balance sheet items					
	Deferred revenues, net	Fixed and intangible assets	Employee benefit liabilities	Carry-forward tax losses	Others	Total
Balance at January 1, 2006	4,816	(560)	359	754	868	6,237
Amount included in statement of operations	(880)	42	(99)	943	(101)	(95)
Currency translation differences	383	(47)	20	119	74	549
Balance at December 31, 2006	4,319	(565)	280	1,816	841	6,691
Amount included in statement of operations	(811)	280	(95)	(140)	(154)	(920)
Currency translation differences	369	(34)	28	168	69	600
Balance at December 31, 2007	**3,877**	**(319)**	**213**	**1,844**	**756**	**6,371**

The balance is presented as follows:

	December 31,	
	2007	2006
Long-term asset	6,717	7,235
Long-term liability	(346)	(544)
	6,371	**6,691**

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

	Year ended December 31,	
	2007	2006
Income (loss) before taxes on income from continuing operations	**30,150**	**(3,794)**
Income (loss) before taxes on income from discontinued operations	**4,732**	**(2,803)**
Income (loss) before taxes on income	**34,882**	**(6,597)**
Statutory tax rate in Israel	**29%**	**31%**
Theoretical tax benefit	10,116	(2,045)
Increase (decrease) in taxes resulting from:		
Losses and other items for which deferred taxes were not provided	2,935	2,837
Tax adjustment in respect of inflation in Israel	(138)	9
Non-deductible expenses	357	396
Realization of carryforward tax losses for which deferred taxes were not recorded in prior years	(1,879)	(385)
Different tax rates	(222)	200
Taxes in respect of previous years	2,300	(205)
Tax on minority interest in earnings of subsidiaries	(1,448)	(601)
Change in deferred taxes due to changes in tax rates	-	226
Differences on capital gain measurement between financial reporting basis and tax reporting basis	(5,263)	-
Other	46	(46)
Total tax expense	**7,248**	**497**
Income tax expense reported in the consolidated statements of operations	**6,497**	**(412)**
Income tax attributable to discontinued operation	**751**	**909**
	7,248	**497**

f. Carryforward tax losses:

The carryforward losses for tax purposes as of December 31, 2007 amount to $ 7,093 (2006 -$ 11,701) in Israel (which may be carried forward indefinitely) and $ 60,485 (2006 - $ 48,946) in Europe. In the U.S., Raytel has no federal net operating losses and credits (2006 - $ 16,956), and state net operating losses and credits of $ 1,039 (2006 - $ 2,360), which expire at various times.

Deferred tax assets relating to carryforward tax losses as described above, and deductible temporary differences in the aggregate amount of $ 24,194 (2006 - $ 24,377) are not included in the consolidated financial statements as the management presently believes that it is not probable that these deferred taxes will be realized in the foreseeable future.

g. Tax assessment in dispute:

On August 1, 2005, the Company was issued tax assessments in Israel for the years 2000-2003 in the aggregate amount of approximately $ 8 million. The Company had contested the assessments and on August 31, 2005, filed an appeal against them. The appeal was denied, and the Company received a payment demand from the tax authorities. The Company filed an appeal against that demand. In the opinion of the management, the provision in the accounts is sufficient to cover this liability.

NOTE 22 | TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions:

	Year ended December 31,	
	2007	2006
Rent expense to shareholders	120	139

b. Compensation of key management personnel:

Short-term employee benefits	2,818	1,300
Share-based compensation	52	100
	2,870	1,400

c. Balances:

	Year ended December 31,	
	2007	2006
Provisions	3,361	3,024

d. Regarding the sale of a subsidiary to a shareholder - see Note 3.

NOTE 23 | COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

As collateral for the Group's liabilities, fixed charges have been placed on motor vehicles and insurance rights and fixed and specific charges have been placed on specific notes collectible, cash deposits and other assets of the Group.

b. Lease commitments:

Many of the Group's facilities are rented under operating leases for various periods ending through 2013.

Future minimum lease commitments in the years subsequent to December 31, under non-cancelable operating lease are as follows:

	2007	2006
First year	424	3,102
Second to fifth years	983	7,066
Thereafter	226	734
	1,633	10,902

c. Contingent liabilities:

1. The Group, from time to time, is party to various claims and disputes associated with its ongoing business operations. In management's opinion, none of these claims or disputes are expected, either individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operations or cash flows.

2. Tax assessment in dispute – see Note 21g.

NOTE 24 | EQUITY

a. The share capital is composed as follows:

	December 31, 2007		December 31, 2006	
	Authorized	Issued and outstanding*)	Authorized	Issued and outstanding*)
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,626,813	14,000,000	10,616,178

*) Net of treasury shares.

b. Treasury shares:

The Company owns 61,159 shares for a total cost of $ 269 as of December 31, 2007 and 2006.

c. Share Option Plans:

In October 2003, due to the tax reform in Israel that changed the tax regime with respect to options granted to employees and directors, the Company adopted the 2003 Share Option Plan ("the 2003 Share Option Plan") for the issuance of options to employees, directors, consultants and contractors of the Company and any of its subsidiaries, and determined that the option pool reserved for purposes of the former option plans (up to 856,627 Ordinary shares) shall further serve for purposes of the 2003 Share Option Plan .

In August 2004, SHL adopted the 2004 International Share Option Plan ("the 2004 International Share Option Plan"), which replaces the 2002 International Share Option Plan for the issuance of Options to non-Israeli employees, directors, officers and consultants of the Company and any of its subsidiaries, and determined that the option pool reserved for purposes of the 2003 Share Option Plan shall further serve for purposes of the 2004 International Share Option Plan.

On May 19, 2005, the Annual General Meeting of Shareholders of the Company approved the 2005 executive and key employee Israeli share option plan ("the 2005 Key Employee Share Option Plan" or "the Plan"). The maximum number of shares which may be issued under the Plan and under any other existing or future share incentive plans of the Company shall not exceed 856,627 shares, subject to adjustments as provided in the 2005 Key Employee Share Option Plan. The exercise price shall be the closing price for a share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors ("BOD"). Options granted under the Plan shall vest one-third on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of 36 months from the date of grant, unless determined otherwise by the Company's BOD, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's BOD, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six years from the date of grant, subject to early termination due to cessation of employment of the option holder.

During the fourth quarter of 2006, the BOD approved the grant of 254,500 options to officers, under the 2005 Share Option Plan. The weighted average fair value of options granted by the Company in October, November and December 2006, in the amount of CHF 1.35, was estimated based on the following data and assumptions (weighted averages): Share price - CHF 4.97; exercise price - CHF 4.99; expected volatility - 46%; risk-free interest rate 2.19%; expected dividends 0%, and expected average life of options - 6 years.

On May 7, 2007, the BOD decided to increase the maximum number of shares which may be issued under the Company's Option Plans from 856,627 shares to 1,056,627 shares.

On July 8, 2007 and October 15, 2007, the BOD approved the grant of 61,000 and 6,250 options, respectively, under the 2005 Share Option Plan. The weighted average fair value of options granted by the Company in July and October 2007, in the amount of CHF 2.47, was estimated based on the following data and assumptions (weighted average): share price - CHF 8.27; exercise price - CHF 8.78; expected volatility - 46%; risk-free interest rate - 3.1%; expected divided - 0%; and expected average life of options - 6 years.

In the years ended December 31, 2007 and 2006, the Company recorded share-based compensation in general and administrative expenses in the amount of $ 237 and $ 244, respectively.

d. The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2007		2006	
	No.	WAEP (CHF)	No.	WAEP (CHF)
Outstanding at the beginning of the year:	855,127	6.38	706,000	7.36
Granted during the year	67,250	8.78	254,500	4.99
Forfeited during the year	(30,845)	8.26	(105,373)	7.6
Exercised during the year*)	(10,635)	5.89	-	
Outstanding at the end of the year	**880,897**	**6.47**	**855,127**	**6.38**
Exercisable at the end of the year	**383,041**	**6.32**	**401,018**	**6.54**

*) The weighted average share price at the date of exercise of these options was CHF 10.6.

NOTE 25 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

a. Cost of revenues:

	Year ended December 31,	
	2007	2006
Salaries and related benefits	14,119	15,205
Payment to service providers	804	876
Depreciation	5,244	5,055
Rental fees and maintenance	2,371	2,524
Materials and components	1,129	1,277
Others	5,907	5,207
	29,574	**30,144**

b. Research and development costs, net:

	2007	2006
Salaries and related benefits	1,100	1,066
Amortization and impairment of development costs	2,413	887
Others	425	516
	3,938	2,469
Less - capitalization of development costs	(1,388)	(1,558)
	2,550	**911**

c. Selling and marketing expenses:

	Year ended December 31,	
	2007	2006
Salaries and related benefits	6,688	6,476
Advertising	2,169	1,182
Depreciation	286	241
Rental fees and maintenance	237	215
Maintenance of motor vehicles	459	427
Others	2,771	2,369
	12,610	**10,910**

d. General and administrative expenses:*)

	2007	2006
Salaries and related benefits	14,929	10,295
Rental fees and office expenses	2,798	2,779
Professional fees	2,903	3,333
Depreciation and amortization	1,016	952
Doubtful accounts and bad debts	5,245	3,122
Others	643	97
	27,534	**20,578**

*) In 2007 includes one-time expenses related to the sale of Raytel, see Note 3.

e. Financial income (expenses):

1. Financial income:

	2007	2006
Exchange rate differences	3,247	2,252
Gain on marketable securities	106	273
Interest and others	1,405	601
	4,758	**3,126**

2. Financial expenses:

	2007	2006
Exchange rate differences	(1,140)	(1,840)
Interest and others	(6,848)	(4,855)
	(7,988)	**(6,695)**

f. Other income (expenses), net:

	2007	2006
Loss on sale of fixed assets	-	(266)
Gain on sale of subsidiary (Note 3)	42,789	-
Other	735	(264)
	43,524	**(530)**

NOTE 26 | NET GAIN (LOSS) PER SHARE

	Year ended December 31,	
	2007	2006
Weighted average number of Ordinary shares (excluding treasury shares) for basic earnings per share	10,619,382	10,616,178
Effect of dilution:		
Share options	192,597	-
Weighted average number of Ordinary shares (excluding treasury shares) adjusted for the effect of dilution	**10,811,979**	**10,616,178**

NOTE 27 | SEGMENT INFORMATION

a.

1. Until near the end of 2007 the Company and its subsidiaries operated in two business segments:

Telemedicine services - providing telemedicine services and devices to subscribers utilizing telephonic and Internet communication technology. SHL's telemedicine solution offers centralized remote diagnostic and monitoring services to end-users, making use of computer systems, hi-tech devices, and specially designed medical data protocols. SHL's platform offers solutions to subscribing patients, health insurance companies, hospitals, clinics, physicians and other health care providers.

Medical services - operating a network of cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular diseases.

During 2007 the Company completed the discontinuation and divesture of its remaining imaging centers in the US (see Note 4), and has sold other ancillary operations to Philips (see Note 3) and as a result has ceased at the end of 2007 its operations in the medical services business segment (included in discontinual operations - Note 4). Accordingly, the Company no longer provides data regarding business segments.

2. The Company and its subsidiaries also operate in several geographic segments. The segments are determined based on the location of the end customers.

3. The assets of the segments include all of the operation assets, which are used by the segments and are comprised primarily of cash and cash equivalents, trade receivables, other accounts receivable, prepaid expenses, inventory, fixed assets and intangible assets.

The liabilities of the segments primarily include trade payables, other accounts payable, accrued severance pay and deferred revenues. The assets and the liabilities of the segments do not include deferred taxes.

b. Geographic segments:

The following tables present revenue and profit information, and certain asset and liability information regarding geographic segments:

1. Revenues:

	Year ended December 31,	
	2007	2006
Sales to external customers:		
Europe	8,917	4,717
United States	34,586	40,072
Israel	18,621	18,059
	62,124	62,848
Intersegment sales:		
Europe	455	80
Israel	2,943	1,871
	3,398	1,951
Total revenues	65,522	64,799
Adjustments	(3,398)	(1,951)
Total revenues in financial statements	**62,124**	**62,848**

2. Segments results:

	2007	2006
Sales less directly attributable and allocable expenses:		
Europe	(1,581)	(2,266)
United States	(858)	3,482
Israel	2,976	3,836
	537	5,052
Unallocated expenses	(10,681)	(4,747)
Operating profit (loss)	(10,144)	305
Financial expenses, net	(3,230)	(3,569)
Other income (expenses), net	43,524	(530)
Taxes on income (tax benefit)	(6,497)	412
Income (loss) from continuing operations	**23,653**	**(3,382)**

3. Segment assets:

	Year ended December 31,	
	2007	2006
Europe	10,121	14,525
United States	2,092	60,481
Israel	131,950	53,313
Total assets	**144,163**	**128,319**

4. Segment liabilities:

	2007	2006
Europe	7,922	6,141
United States	3,558	23,665
Israel	24,405	7,947
	35,885	37,753
Unallocated liabilities	47,782	60,760
Total liabilities	**83,667**	**98,513**

5. Tangible fixed assets:

	2007	2006
a) Capital expenditure:		
Europe	1,697	1,481
United States	3,730	4,142
Israel	485	1,320
	5,912	**6,943**
b) Depreciation:		
Europe	545	631
United States	3,056	3,280
Israel	5,129	4,737
	8,730	**8,648**

Milestones

1987	Company founded
1991	Home Care Center (HCC) introduced
1994	CardioBeeper® CB 12L introduced
1996	Telepress II and TeleDoor® developed
1997	SHL TeleMedicine International Ltd. founded
1998	CardioPocket® introduced
1998	Internet Medical Service developed
1999	CardioPocket® heart monitor wins UK "Millennium Product" award
1999	WatchMan® product named overall winner at IFSEC
2000	CardioBeeper® CB 12/12 introduced, receives FDA approval
2000	Royal Philips Electronics Group purchases 18% equity stake in SHL (September)
2000	SHL completes initial public offering on SWX New Market in Zurich, Switzerland (November)
2001	Multi-channel ECG receiver and Cardio mc Vision 7 receive FDA marketing clearance, Home Care Center exempted from FDA's premarket notification requirement.
2001	TeleBreather introduced, TelePress III receives FDA approval
2001	Philips Telemedicine(PHTS) joint venture formed with Philips Medical Systems; operations begin in Europe using SHL technology and services
2001	SHL acquires leading Israeli operator of nationwide 24/7 medical call center and house-call service, Bikurofe
2002	Introduction of new Swiss made Watchman®
2002	SHL expands into the USA with acquisition of leading US cardiac monitoring and testing provider Raytel
2003	Blood testing device TeleMarker™ launched in home market
2004	Assumption of full ownership of PHTS in Europe
2004	Extension of the US operation business through the acquisition of Cardiac Evaluation Center (CEC)
2007	CardioSen'C introduced, SHL's first digital cellular 12 lead ECG device
2007	Philips acquires SHL's US telemedicine operation – Raytel Cardiac services