SHL

Annual Report 2003

SHL TeleMedicine Ltd.

Corporate Statement

SHL TeleMedicine Ltd., based in Tel Aviv, Israel, specializes in developing and marketing technologically advanced personal telemedicine systems, and in the provision of medical call center services to subscribers.

Personal telemedicine is the transmission of medical data by individual subscribers from remote locations to a medical call center via standard telephone networks. With the help of sophisticated computer systems, call center medical staff use this data to diagnose and monitor subscribers' health following proprietary guidance protocols, and to respond fast and effectively to their needs.

SHL's personal telemedicine systems are designed to improve quality of care and lifestyle 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. In particular, the company's telemedicine systems can be used to reduce emergency care response times for sufferers of potentially fatal cardiac episodes.

The company maintains international business operations: SHL provides services in the USA through its wholly owned subsidiary Raytel Medical Corporation, a cardiovascular healthcare service provider, in Europe mainly through a fully owned subsidiary, and in Israel.

SHL TeleMedicine's 17-year track record and extensive experience have given the company a leading market position serving a client base of more than 300,000 long-term clients providing a reliable stream of recurring revenue.

Key Figures (December 31)

All financial units in USD 1,000	**2003**	2002
Employees	**1,207**	1,389
Sales	**98,784**	89,804
EBIT	**3,070**	11,655
EBITDA	**11,418**	18,061
Net profit (loss)	**(10,195)**	1,411
Total assets	**196,427**	207,892
Shareholder equity	**86,130**	90,459
Working capital	**7,420**	26,690
Gross profit margin	**47.0%**	51.0%
Details per share		
Net profit (loss) per share in USD	**(0.96)**	0.13
Return on equity	**n.m.**	1.6%

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SHL TeleMedicine – continually committed to being at the forefront of telemedicine solutions

This, the third year of SHL TeleMedicine's life as a publicly quoted company, has presented a very challenging trading environment for us against the backdrop of economic and political instability worldwide and in our domestic market. Despite all this, I am pleased to report that SHL is encouraged by its progress, its growing product portfolio and is consolidating its position as a world leader in telemedicine solutions as evidenced by its presence across the three continents it operates in, the number of patients who place their trust in SHL's products and services which has grown to 300,000 subscribers worldwide, and the increasing awareness amongst medical practitioners of the benefits of using telemedicine.

Telemedicine, the transmission of medical data via a standard telecommunications network by an individual patient in a remote location to a medical monitor center for the purpose of monitoring and diagnosis, retains a key role in modern healthcare. This remote monitoring of patients' health helps provide peace of mind to patients and improves the quality of life of those who know that help, reassurance and diagnosis are only a phone call away. Focused mainly on servicing cardiac, respiratory and blood pressure-related illnesses, SHL's products and services aim to maintain the highest levels of excellence in the services it provides to its customers.

In our continued efforts to address patients' needs, we launched TeleMarker™, a transtelephonic testing device which enables subscribers to self-perform a blood test to detect the presence of cardiac markers, all from the convenience of their own home. This device, which is the first of its kind, enables speedy detection of acute myocardial infarctions. Launched in our home market, it has been enthusiastically accepted by patients and doctors alike and further contributes to ratifying our world leadership in the telemedicine market.

This year has seen SHL's revenues increase by 10% to USD 98.8 million. The company, however, recorded losses of USD 10.2 million – USD 0.96 per share – that were substantially attributable to the provisions required for the operations of PHTS, the European joint venture with Philips, and fluctuations in exchange rates.

This is the first full year in which our US operation, Raytel, is fully consolidated into our financial accounts. It is continuing to perform well and contributes stable revenues to the overall business. In our home market, we continue to be the largest player in the telemedicine field with the number of subscribers growing to over 70,000. In Europe, SHL has assumed, since January 2004, the full ownership of PHTS.

Against this background of development and staying at the forefront of patients' needs, we are confident that we are set to remain the world's leading telemedicine provider with the ambition of being able to attend to other sectors of healthcare which would benefit from the many advantages telemedicine offers.

This year would not have been possible without the relentless hard work of our staff, the trust placed in our products and services by our clients and the support and trust our shareholders lend us year after year. For this I would like to sincerely thank you and I am sure that you join with me in extending our heartfelt appreciation to all our employees for their efforts on behalf of the Company. I look forward to reporting further milestones in SHL's development.

Yours sincerely,

Y Alroy

Yoram Alroy, Chairman and President

Increasing international presence sees rise in profitability of US operation

The year 2003 has seen significant progress from SHL's US operation Raytel, which has had an increase in profitability. However, overall group financial performance was not satisfactory. US operations continue to contribute to a large percentage of group revenues. With a growing international presence and further product development, SHL remains confident about the future.

During 2003, overall revenues increased by 10% to USD 98.8 million. EBITDA and EBIT margins for the 12-month period stood at 11.6% and 3.1% respectively, losses for the year amounted to USD 10.2 million with losses per share amounting to USD 0.96. SHL's operations proved to be stable in a challenging environment, and its solid balance sheet remains a strong backbone for future growth.

SHL remains poised to face the challenges and reap the rewards in the coming years.

SHL's US operations increased profitability following the restructuring which took place after the acquisition and which was designed to improve the efficiency and overall sales potential of its cardiac and diagnostic services. The success of this operation was ensured by the new management team

SHL will continue to introduce new products and services through technological innovation.

and the ongoing support of the SHL team, designed to oversee the smooth implementation of improved IT platforms, marketing initiatives and operational and financial reorganization.

Product highlights in home market

In its home market, SHL continues to be the leader in the provision of telemedical services and saw continued growth in sales of its services and in subscriber numbers which currently reached over 70,000. The Israeli operation benefited from the ongoing success of its broad range of telemedicine services. “Thin for Life”, the latest addition to these services, was received well in its first year of operation.

In its continued efforts of product development, SHL launched TeleMarker™, a blood-testing device aiding the diagnosis of acute myocardial infarction. The device had enjoyed good initial acceptance by Israeli subscribers. Its success warrants its introduction into other markets.

Outlook – SHL is poised to reap rewards of 2004

Maintaining its confidence in the opportunities which lie ahead for telemedicine, SHL remains poised to face the challenges and reap the rewards in the coming years.

With regards to its international network, SHL expects to continue to benefit from the growth and profitability seen in the US operation and plans to use it as a platform for the launch of additional products which have had proven success. With the January 2004 acquisition of the Philips share of PHTS, and after a strategic review, SHL aims to develop PHTS’ potential and thus continue its expansion in the European market.

Following its stated strategy of growth organically and through acquisition, SHL will continue to introduce new products and services through technological innovation and will examine interesting opportunities for selected acquisitions, especially to enhance its client base. All of this, in order to continue SHL’s efforts to enhance the telemedicine offering and to continue being the leading telemedicine provider of services and devices.

Extending the telemedicine offering across continents

2003 has presented itself as a demanding year for SHL TeleMedicine. Co-CEOs Erez and Yariv Alroy talk about the challenges they have faced and SHL's strategy and ambitions for 2004, especially with regard to its growing presence across continents.

The financial results in 2003 were lower than expected. Why?

Erez Alroy: SHL has continued to pursue its goals as stated at the end of last year. The pursuance of these goals has, however, been affected by an overall difficult economic environment which has influenced revenues. In addition, we had to make provisions to PHTS, our fully owned subsidiary since January 2004 in Europe, which impacted on earnings.

After facing the challenges of this year, would you say you have had to change aspects in your strategy?

Erez Alroy: The answer to this question is twofold. We remain confident in our business model and in the growth of telemedicine, including in the USA, which is a key market and is set to further benefit from the increase in demand for telemedicine services. With regards to Europe, with the recently acquired PHTS we are implementing the relevant steps to bring this activity in line with our overall strategy.

"We remain confident in our business model and in the growth of telemedicine."

Erez Alroy, Co-CEO

You have made progress in the US operations. What are the most prominent improvements?

Yariv Alroy: The US operation has certainly become a profitable and growing part of our business. It is now considered to be the leading provider of trans-telephonic monitoring services in the USA. During 2003, we were able to implement the majority of our reorganization plans for the US operation and we are now in a position to reap the rewards of this process: our US operation has become more profitable and contributes a large percentage to our overall revenues. Looking ahead to 2004, we are excited about the recently acquired business of Cardiac Evaluation Center Inc. and Cardiac Diagnostic Centers Inc. (CEC), which we acquired in January 2004. In addition, we are planning to capitalize on the success enjoyed by some of our products and services in our home market by launching these in the USA.

Would you say that the cardiac field is still the main market for telemedicine services?

Erez Alroy: SHL's telemedicine services are heavily focused on the cardiac field. Heart disease continues to be responsible for the highest death rates and our products and services are designed to help minimize the impact of heart disease by constant monitoring of our subscribers. The initial focus of SHL was therefore to operate in the cardiac market, though we have also identified other diseases or conditions, such as respiratory and hypertension, which would benefit from our services.

Where will future growth come from?

Yariv Alroy: SHL's future growth will continue as it has to date, both organically, as demand for our products increases, and via selected acquisitions. As we plan to continue focusing on our current business areas, acquisitions in the future will concentrate on enhancing our customer bases.

What are your key goals for 2004?

Erez Alroy: Continuing to improve profitability in the US operation and fully integrating CEC. We will implement our strategy in Europe and will do all we can to meet shareholders' expectations. In addition, we will continue to improve results in our home market.

SHL's share performance has been poor and underperforming. What do you do to avoid this happening again?

Erez Alroy: Truly, the share performance this year has been below expectations. We are confident that investors will honor SHL's long-term strategy once we can deliver good results over a few quarters.

"Our US operation has certainly become a profitable and growing part of our business."

Yariv Alroy, Co-CEO

A growing product and services range

At the heart of SHL's operations, is the **Medical Call Center** which is staffed with fully trained nurses and physicians able to diagnose a problem and provide advice on the course of action in emergencies, and in other cases simply provide reassurance that all is well. The efficiency and reliability of the Call Center is ensured by proprietary software containing medical records on each subscriber to SHL's products and services. This handles different aspects of patient record management and constitutes a solid reference tool for diagnosis and analysis of patient's new medical data. Evidence of its reliability is seen in its receiving 1.2 million calls and processing 800,000 ECG's annually.

CardioBeeper® 12/12

SHL's flagship products in the cardiac field include the **CardioBeeper 12/12®**, a compact hand-held device facilitating the transmission of a full 12-lead ECG to the monitor center in 12 seconds, and the **CardioBeeper 12L®** transmitter. All ECG transmitters are cleared for marketing by the FDA. They have all proved highly effective in enabling remote, real-time diagnosis of ECG abnormalities, including rhythm disturbances, ischemia and heart attacks. The **CardioPocket®**, a leather wallet containing a 1-lead rhythm strip ECG transmitter, provides a useful alternative for subscribers at times when they are not carrying the CardioBeeper.

Designed with emergency situations in mind, the improved **WatchMan®**, a wristwatch fitted with an integral distress button and microphone, facilitates instant communication with the monitor center. Complementary to this product, the Home Care Center is an interface for medical diagnostic devices as well as an emergency response system and with **TeleDoor®**, the monitor center staff will be able to unlock the subscriber's door allowing medical or security staff to enter in moments of panic and need.

The **Telepulse Oximeter**, a hand-held device that measures oxygen saturation and pulse, emitting an alarm when it detects dangerously low levels, is used for the monitoring of congestive heart failure. The **TelePress III**, reads and transmits blood pressure and pulse rates from up to two users in a household.

TelePress III

With regards to the remote monitoring of pulmonary diseases, the **TeleBreather** is a hand-held measurement device designed to detect asthma and chronic obstructive pulmonary disease, enabling subscribers to perform an automatic spirometric test over the telephone.

US operation offers a range of remote trans-telephonic products and services

Transtelephonic Pacemaker Monitoring Service of cardiac implantable devices offers routine testing via a standard telephone of implanted heart pacemakers and ICDs from the convenience of patients' homes. This service, designed to supplement periodic visits by the patient to a physician's office, can provide early detection of device-related complications. It provides physicians with information on pacemaker and lead performance, avoiding the risk of undetected pacemaker or ICD malfunction.

Holter Monitoring is the principal diagnostic procedure for cardiac arrhythmia, or irregular heartbeat. These monitoring sessions, which last 24 hours, consist in fitting the patients with a recording device with leads attached to their chest and which transmits consistently accurate and reliable cardiac arrhythmia. In addition, we also offer the **30-Day Arrhythmia Monitoring Service** designed to accurately document and diagnose the underlying cause of intermittent cardiac arrhythmias in patients who do not exhibit the symptoms on a daily basis. Through a 30-day monitoring, during which patients are given a pager-sized monitor, the patients will activate the monitor to record their ECG whenever typical symptoms such as palpitations, light-headedness, shortness of breath, dizziness or syncope arise. Thus the ECG will be transmitted by telephone to a monitor center for diagnosis.

SHL's US operation also has an **Anticoagulation Therapy Monitoring Service**: the **INR@Home** which provides patients requiring long-term oral anti-coagulation therapy (medication such as Coumadin) the ability to test themselves in the convenience of their home.

New Product Releases

TeleMarker™

In 2003, SHL's product offering was enhanced with the launch of **TeleMarker™**, a transtelephonic cardiac blood testing device used for the preliminary diagnosis of acute myocardial infarction. Easy to use by the subscriber at home, the TeleMarker™, obtains a precise blood sample and performs an accurately timed, laboratory-type analysis of multiple critical cardiac markers, the results of which are automatically transmitted over the telephone to the

TeleMarker™

medical monitor center. The analysis assists the call center staff to determine whether there are any suggestive MI signs, based on abnormal ECG changes or elevations in the cardiac markers, all key elements for accurate diagnosis. The TeleMarker™, like the rest of SHL's products, has as its aim to facilitate peace of mind and improve the quality of life of its subscribers.

Thin for Life program

The **Thin for Life program**, launched in SHL's home market Israel, was designed with the idea of combating the growing prevalence of obesity amongst the world's population and which is a serious threat to general health, especially to those patients with a preexisting heart condition. The program, which helps subscribers reduce and maintain their weight over a long period of time, works in conjunction with our **TeleWeight** device which measures the subscriber's weight and sends it to the call center for assessment by a clinical dietician.

Information for investors

Capital structure

The issued share capital is divided into 10,663,373 registered shares with a par value of NIS 0.01 each.

Distribution of profits

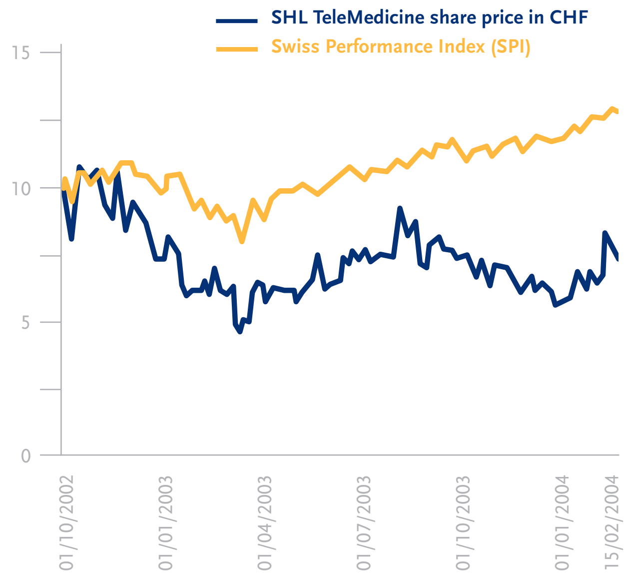
SHL TeleMedicine Ltd. currently intends to retain any future earnings to finance the development of its business and does not anticipate paying any cash dividends in the foreseeable future.

Major shareholders

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

Royal Philips Electronics	18.71 %
Alroy Group	18.67 %
Tower Holdings B.V.	14.28 %
G.Z. Assets and Management Ltd.	8.71 %
Public	39.63 %

Share price development



Listing

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

Statistics on SHL TeleMedicine shares as at December 31, 2003

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,663,373
Market price high/low (CHF)	9.2/4.0
Market capitalization high/low (CHF million)	98.1/42.7
Market capitalization 12/31/03 (CHF million)	60.8
Share capital nominal value (NIS)	106,633
Majority interests	60.37 %

Key figures per share as at December 31, 2003

Net loss per share (USD)	(0.96)
Return on equity	n.m.

Investor Relations

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Annual General Meeting

April 29, 2004

Next publications

Q 1 results: May 24, 2004
Q 2 results: August 23, 2004
Q 3 results: November 24, 2004

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 pre-market notification requirement
2001	TeleBreather introduced, TelePress III receives FDA approval
2001	Philips Telemedicine 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
2002	Personal nutrition service "Thin for Life" launched in home market
2003	Blood testing device TeleMarker™ launched in home market
2004	Assumption of full ownership of PHTS in Europe
2004	Extension of the US operation through the acquisition of Cardiac Evaluation Center (CEC)

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Corporate Governance 2003

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SHL TeleMedicine Ltd. Corporate Governance Report

For SHL TeleMedicine Ltd., based in Tel-Aviv, Israel, 2003 was a challenging and certainly an important year: This is the first full year in which our US operations, Raytel, are fully consolidated into our financial accounts. In our home market SHL continues to be a prominent and leading player in the telemedicine field. We now offer the benefit of SHL-brand high-quality telemedicine products and services to more than 300,000 customers worldwide.

SHL is pleased to present its second Corporate Governance Report. In this section of our 2003 Annual Report we are happy to demonstrate our continued strive for greater corporate transparency in the belief that this knowledge will bring a greater understanding valuable to all those who are interested in the future of SHL.

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, 2003, unless otherwise stated (see "Significant Changes since December 31, 2003" on page 28), and complies with the Corporate Governance Directive of the SWX Swiss Exchange.

Group Structure and Shareholders

Group Structure

Description of all companies belonging to SHL's group:

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 of SHL is NIS 106,633.73 divided into 10,663,373 fully paid registered ordinary shares of NIS 0.01 par value each (including 83,077 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 18). The registered shares of SHL are traded on the main board of the SWX Swiss Exchange, security no. 1128957. As at December 31, 2003, the Company's market capitalization was approximately CHF 60.8 million.

SHL's registered office is 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 and 100 voting shares of NIS 1 par value each, all of which are held by SHL.

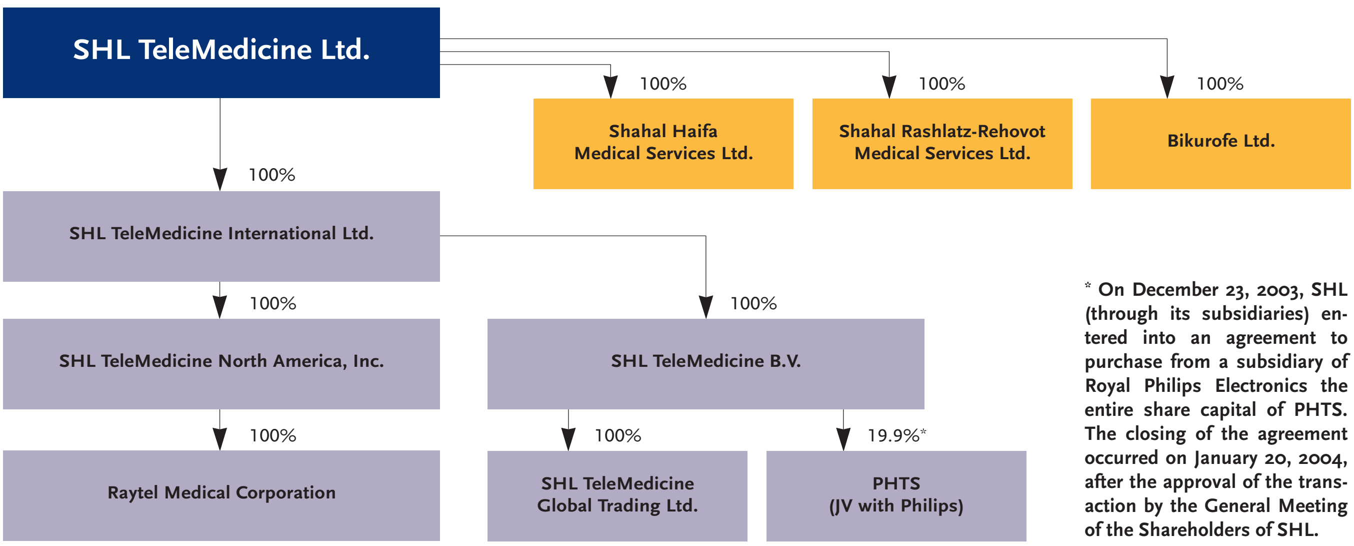
Shahal Haifa's registered office is at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

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. Shahal Rishon'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.

Shahal Rishon's registered office is at 90 Igal Alon Street (Ashdar Building), Tel-Aviv, Israel.

SHL's Corporate Chart



* On December 23, 2003, SHL (through its subsidiaries) entered into an agreement to purchase from a subsidiary of Royal Philips Electronics the entire share capital of PHTS. The closing of the agreement occurred on January 20, 2004, after the approval of the transaction by the General Meeting of the Shareholders of SHL.

Bikurofe Ltd. ("Bikurofe")

Bikurofe's authorized share capital is comprised of NIS 1,000,000 divided into 1,000,000 ordinary shares of NIS 1 par value each. Bikurofe's issued and outstanding share capital is comprised of 12,632 ordinary shares of NIS 1 par value each, all of which are held by SHL.
Bikurofe's registered office is 14 Rozansky Street, Rishon Le-Zion, 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. STI's issued and outstanding share capital is comprised of 8,260 ordinary shares of NIS 1 par value each and 1,740 preferred share of NIS 1 par value each, all of which are held by SHL.
STI's registered office is 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. SHL BV's issued and outstanding share capital is comprised of 74,043 ordinary shares of Euro 100 par value each, all of which are held by STI.
SHL BV's registered office is at Stadhouderskade 125 hs, 1074 AV, Amsterdam, The Netherlands.

SHL TeleMedicine North America, Inc. ("SHL N. America")

SHL N. America's authorized share capital is comprised of USD 100,000 divided into 1,000,000 shares of common stock of USD 0.1 par value each. SHL N. America's issued and outstanding share capital is comprised of 1,000,000 shares of common stock of USD 0.1 par value each, all of which are held by STI.
SHL N. America's registered office is at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

Raytel Medical Corporation ("Raytel")

Raytel's authorized share capital is comprised of USD 22,000 divided into 20,000,000 shares of common stock of USD 0.001 par value each and 2,000,000 shares of Preferred Stock of USD 0.001 par value each. Raytel's issued and outstanding share capital is comprised of 2,988,687 shares of common stock of USD 0.001 par value each, all of which are held by SHL N. America.
Raytel's registered office is 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 par value each. SHL Global's issued and outstanding share capital is comprised of 1,000 ordinary shares of Euro 1 par value each, all of which are held by SHL BV.
SHL Global's registered office is at Wil House, Shannon Business Park, Shannon, Co. Clare, Ireland.

Philips HeartCare Telemedicine Services Europe B.V. ("PHTS")

PHTS' authorized share capital is comprised of Euro 4,000,000 divided into 400,000 shares of common stock of Euro 10 par value each. PHTS' issued and outstanding share capital is comprised of 81,500 shares of common stock of Euro 10 par value each. On December 23, 2003, SHL, through its subsidiaries, entered into an agreement to purchase from a subsidiary of Royal Philips Electronics the entire share capital of PHTS. The closing of the agreement for the purchase of the shares of PHTS occurred on January 20, 2004, and SHL B.V. became the holder of the entire issued and outstanding share capital of PHTS. (See "Significant Changes since December 31, 2003" on page 28 below).

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

Significant Shareholders

Royal Philips Electronics	18.71%
Alroy Group*	18.67%
Tower Holdings B.V.**	14.28%
G.Z. Assets and Management Ltd.	8.71%
Public	39.63%

*** Alroy Group is comprised of Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.83% 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 6.79% 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 5.04% of the issued and outstanding share capital of SHL.**

**** As of December 31, 2003, Tower Holding B.V. was not registered in the SAG Register. Notwithstanding the aforesaid SHL was informed that Tower Holding B.V. is the beneficial owner of such amount of shares.**

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2003, and does not reflect holdings on a fully diluted basis.

Capital Structure

Authorized and Issued Capital

Authorized share capital as per December 31, 2003	
Number of Ordinary Shares	14,000,000
Par value of	NIS 0.01 each
Share capital	NIS 140,000

Issued and outstanding capital as per December 31, 2003	
Number of Ordinary Shares	10,663,373*
Par value of	NIS 0.01 each
Share capital	NIS 106,633.73

*** Including 83,077 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 18.**

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 106,633.73 divided into 10,663,373 fully paid registered Ordinary Shares (including 83,077 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 18). 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 has not undertaken 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 think 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 856,627 Ordinary Shares 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 16.

Changes in Capital Structure within the Last Three Financial Years

During 2002, SHL purchased 29,347 Ordinary Shares from the public on the SWX Stock Exchange. During 2003, SHL purchased additional 53,730 Ordinary Shares from the public 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 18.

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"). On 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(4)-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(3)-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 Poll 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 (the 2000 Share Option Plan, the 2002 International Share Option Plan and the 2003 Share Option Plan, together: the "Option Plans").

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.

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 the 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 canceled) 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.

Generally, all Options granted under the Option Plans 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	417,112	CHF 34.00
	97,975	CHF 22.65
Granted (in the Options Exchange)	388,501	CHF 5.90
Granted	113,560	CHF 6.89*
Cancelled (including in Options Exchange)**	411,097	CHF 34.00
Cancelled (including in Options Exchange)**	97,975	CHF 22.65
Cancelled**	729	CHF 5.90
Outstanding at end of year	6,015	CHF 34.00
Outstanding at end of year	387,772	CHF 5.90
Outstanding at end of year	113,560	CHF 6.89*
Total outstanding at end of year	**507,347**	

*** 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.**

**** Options that are cancelled are returned to the pool and may be regranted in the future.**

The Ordinary Shares

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 SeganInterSettle AG ("SIS"), all issued Ordinary Shares will be booked into the SIS Clearing System.

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 Ordinary Shares registered in the subregister 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 Regis-

tered 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, 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.

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 (2) 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 (1) 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 26.
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.

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, require the approval of the audit committee, the board of directors and the shareholders. The shareholders approval must include at least one-third (1/3) 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 (1/3) 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. 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 against 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.

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.

Convertible Bonds and Options

No Convertible Bonds were issued by SHL. Information on Options may be found in the Section "Share Options" on page 16.

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.

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 nine (9) members, of whom the only executive members are: Mr. Yoram Alroy and Mr. Yariv 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.

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	2004
Elon Shalev	Israeli	Non-executive member	1987	2004
Yariv Alroy	Israeli	Co-CEO	2001	2004
Tom Egelund	Danish	Non-executive member	2002	2004
Colin Schachat	Israeli	Non-executive member	2001	2004
Ziv Carthy	Israeli	Non-executive member	1997	2004
Dvora Kimhi	Israeli	Non-executive member/ Independent Director	2001	2004
Ron N. Salpeter	Israeli	Non-executive member/ Independent Director	2003	2006
Omri Levin	Israeli	Non-executive member	2003	2004

The following table sets forth the name, principal position, time of the 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 on
James Nolan	Irish	Non-executive member	2000	October 2003

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 of 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 director 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 chief editor of "Yediot Aharonot", the largest daily newspaper in Israel, and until recently he was a Senior Vice President of Discount Investment Corporation Ltd., one of the largest investment and holding companies in Israel. Mr. Shalev is currently a private entrepreneur. Mr. Shalev holds a BA degree in Political Science from the University of Tel-Aviv, Israel. Mr. Shalev is also a director of Shahal Haifa, Shahal Rishon and STI. Nationality: Israeli.

Yariv Alroy, Co-CEO
Yariv Alroy has been on the Board of Directors since 2001. He is also Co-CEO of SHL. He has been 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 a degree in law from the University of Tel-Aviv, Israel. Mr. Alroy is also a director of SHL N. America, Raytel and SHL Global. Nationality: Israeli.

Tom Egelund
Tom Egelund joined the Board of Directors of SHL as a director in April 2002. Mr. Egelund is also a Senior Vice President of Philips Medical Systems, which is a shareholder of PHTS and a subsidiary of Royal Philips Electronics N.V. that is a significant shareholder of SHL. Mr. Egelund holds an MD in Candidatus Medicinae from the University of Aarhus, Denmark, and a diploma in marketing with respect to health care and industry from the University of Aarhus, Denmark. Nationality: Danish.

Colin Schachat
Colin Schachat joined the Board of Directors of SHL as a director in April 2001. Mr. Schachat is also a Managing Director of Stonehage (Israel) Financial Services Limited, and a senior executive director of the holding Stonehage Group. A qualified lawyer with financial services experience, he holds a BA and an LLB 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 BSc in Information Systems Engineering from the Technion in Haifa, Israel, and an MBA from Harvard University. Mr. Carthy is also a director of STI. Nationality: Israeli.

Dvora Kimhi, Independent Director
Dvora Kimhi joined the Board of Directors of SHL as an Independent Director in February 2001. Ms. Kimhi is also General Counsel of Ananey Communications Ltd. From 1997 until 2001 Ms. Kimhi has served as the General Counsel of Noga Communications Ltd. A member of the Israeli Bar Association, she holds an LLB from the University of Tel-Aviv, Israel, and has specialized in contract law, communication regulation and legislative representation for television, satellite, and communications companies. Nationality: Israeli.

Ron N. Salpeter, Independent Director
Ron Salpeter joined the Board of Directors of SHL as an Independent Director in April 2003. From 1999, 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 an LLB from the Faculty of Law, University of Tel-Aviv, Israel, and a Master Degree (LLM) from Osaka University, Japan. Prior to 1999, Mr. Salpeter practiced law both in Israel and in Japan. Nationality: Israeli.

Omri Levin
Omri Levin joined the Board of Directors of SHL as a director in October 2003. Mr. Levin, who replaced Mr. James Nolan on the Board of Directors of SHL, is also the Chief Executive Officer of Philips, Israel, a subsidiary of Royal Philips Electronics N.V. that is a significant shareholder of SHL. From 1996 until 1999 Mr. Levin was the marketing manager for Nestlé Ice Cream in Israel and from 1999 until 2002 he acted as the General Manager of Adidas Israel Ltd., a wholly owned subsidiary of Adidas-Salomon AG. Mr. Levin holds a BA in Business Administration and Economics from the Hebrew University, Jerusalem, Israel. Nationality: Israeli.

James Nolan

James Nolan became a director of SHL in September 2000 and resigned from the Board of Directors of SHL and of SHL Global in October 2003, due to his appointment as the Senior Vice President Corporate Mergers & Acquisitions of Royal Philips Electronics N.V. that is a significant shareholder of SHL. From 1995 until 2000 Mr. Nolan served as a corporate finance executive in Robobank Mergers & Acquisitions. Mr. Nolan holds an MA in law from Oxford University, England, and an MBA from INSEAD, France. Mr. Nolan is also a member of the Board of Directors of SHL Global. Nationality: Irish

Cross-involvement is indicated in the information regarding each member of the Board of Directors above.

Election of Directors and Term of Office

Pursuant to the Articles of Association of SHL, members of the Board of Directors, except the two (2) Independent Directors (who are to be elected as described below), are elected 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.

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 five (5) years as of November 2000, and which will be automatically renewed for 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. Notwithstanding the above, Royal Philips Electronics undertook to vote its shares for the appointment of the three (3) nominees of the Alroy Group, during the period on which the shares held by members of the Alroy Group are locked according to relevant lock-up agreements (which expired on November 2002). Thereafter, 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 ($12^1/_2$) 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. 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, 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 ($^1/_3$) 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 term of an Independent Director is three (3) years and may be extended for additional three (3) years. 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 comprise of at least three (3) directors, including all of the Independent Directors.

Ms. Dvora Kimhi and Mr. Ron N. Salpeter serve as the Independent Directors on SHL's Board of Directors.

Internal Organizational Structure

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;
- 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.

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. 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. 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 make 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 (1) may not act as an alternate director for more than one (1) director, and a person serving as a director of the company may not act as an alternate director.

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 directions. 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) years from the date of such approval. The service of Mr. Yoram Alroy as both Chief Executive Officer and Chairman of the Board of Directors was approved by the shareholders of the Company on February 2001. Since September 2003, Mr. Yoram Alroy serves as the President and Chairman of the Board of Director and he no longer serves as the Chief Executive Officer of SHL.

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. 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.

Committees of the Board and Internal Auditor

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. 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.

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. Dvora Kimhi, Mr. Ron N. Salpeter and Mr. Omri Levin. 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.

Compensation Committee – The Board of Directors has appointed a Compensation Committee composed of the following members: Ms. Dvora Kimhi, Mr. Colin Schachat and Mr. Tom Egelund. 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.

Pursuant to the Articles of Association of SHL, 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 of SHL 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 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 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.

Management Board

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

Name	Nationality	Position
Yoram Alroy	Israeli	Chairman of the Board of Directors and President
Yariv Alroy	Israeli	Director, Co-CEO
Erez Alroy	Israeli	Co-CEO
Erez Termechy	Israeli	Chief Financial Officer
Irit Alroy	Israeli	Executive Vice President and CTO
Erez Nachtomy	Israeli	Executive Vice President
Yoshida Katz	Japanese	Executive Vice President
Ronen Gadot	Israeli	Executive Vice President
Bruce A. Reese	American	President and CEO – Raytel Cardiac Services
Swapan Sen	American	President and CEO – Raytel Diagnostic Services
Ronen Elad	Israeli	General Manager of Operations in Israel
Arie Roth	Israeli	Chief Medical Manager

Yoram Alroy, Chairman of the Board of Directors and President
For additional information see Section "Members of the Board of Directors" on page 20.

Yariv Alroy, Director and Co-CEO
For additional information see Section "Members of the Board of Directors" on page 20.

Erez Alroy, Co-CEO
Erez Alroy has been an executive manager of SHL since its inception. Prior to holding his current position of Co-CEO, he served as the Co-President, and 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 is also a director of Shahal Haifa, Shahal Rishon, STI and Raytel. Nationality: Israeli.

Erez Termechy, Chief Financial Officer
Erez Termechy has served as SHL's CFO since 1994. He is a certified public accountant (CPA) in Israel, and holds a BA in economics and accounting from Ben-Gurion University, Israel. Prior to joining SHL he worked as a CPA and controller in diverse fields. Mr. Termechy is a member on the Board of Managers of PHTS. Nationality: Israeli.

Irit Alroy, Executive Vice President and CTO
Irit Alroy who serves as an Executive Vice President and Chief Technology Officer of SHL has served as SHL's Manager of Information Technology since its start of operations. Ms. Alroy serves as an Executive Vice President and

CTO. Prior to that Ms. Alroy held different positions in the field of IT development. Ms. Alroy has a BSc 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 LLB from the University of Tel-Aviv, Israel. Mr. Nachtomy is a director of Bikurofe. Nationality: Israeli.

Yoshida Katz, Executive Vice President
Yoshida Katz has joined SHL on May 2002 as Executive Vice President for Business Development. Prior to his position at SHL, Mr. Katz served as Vice President for Business Development for Viven Ltd., an Israeli software house, specializing in mobile communication. Before that, Mr. Katz served in several senior positions in software companies in Israel. Yoshida Katz holds an MSc in Economics from the University of London, and a BA in Economics from Waseda University in Tokyo, Japan. Nationality: Japanese.

Ronen Gadot, Executive Vice President
Ronen Gadot joined SHL on September 2003 as an Executive Vice President for Business Development. Before joining SHL Mr. Gadot served as a Director of Business Development and Venturing of Philips Electronics, and started and managed the Philips Venture Capital Fund activity in Israel. Prior to joining Philips Mr. Gadot held several operations and marketing management positions in US Silicon Valley companies. Mr. Gadot holds a BSc in Industrial Engineering, and an MBA from INSEAD in Fontainebleau, France. Nationality: Israeli.

Bruce A. Reese, President and CEO – Raytel Cardiac Services
Bruce Reese started with Raytel Cardiac Services in April 2002. Prior to joining Raytel Cardiac Services, he was a Vice President with Philips Medical Systems, and he has held senior management positions with Hewlett Packard and Agilent Technologies. Bruce Reese has an MBA from Michigan State University. Nationality: American.

Swapan Sen, President and CEO – Raytel Diagnostic Services
Swapan Sen has worked for Raytel Medical Corporation for seventeen (17) years and in 2002 was appointed Chief Executive Officer of Raytel Diagnostic Services. Prior to his current position, Swapan Sen was the COO/President at Raytel. Before joining Raytel, Swapan Sen worked at the University of Pennsylvania for eight (8) years. In addition to a BSc in Biology, Mr. Sen holds an MSc in Healthcare Administration. Mr. Sen is also involved with many professional/scientific societies in the field of Diagnostic Imaging. Nationality: American.

Ronen Elad, General Manager of operations in Israel
Ronen Elad was appointed General Manager of operations in Israel in February 2001. Before joining SHL Mr. Elad founded and acted as General Manager of Rom-Phone, an Israeli emergency systems manufacturer and development company. Mr. Elad has also served as CEO of Marlam Medical Services for four (4) years. Mr. Elad is a director of Bikurofe. Nationality: Israeli.

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 Sacler School of Medicine of the University of Tel-Aviv, Israel. Nationality: Israeli.

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 the Company has terminated. Following such termination, SHL entered into a management services agreement with a 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 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 25.

Compensations, Shareholdings and Loans

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

Members of the Board of Directors, except for the Independent Directors, do not receive remuneration, in their capacity as such. The Independent Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto.

Pursuant to the Articles of Association of SHL, 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 of any of the directors in any other position, and the engagement of a controlling shareholder 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 (1/3) 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.

The grant of 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 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.

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 Management amounted in the financial year 2003 to approximately USD 2,673,568. The aforesaid sum includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts set forth in Section "Management Contracts" on page 24. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2003, was 4.379.

The total of all compensation payable to the non-executive members of the Board of Directors amounted in the financial year 2003 to approximately USD 20,120. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2003, was 4.379.

In the financial year 2003, no severance payments were paid to non-executive members of the Board of Directors or members of the Management who gave up their functions during the year under review.

Compensation for Former Members of Governing Bodies

One (1) non-executive director gave up his functions during to the year under review. The aforesaid non-executive director did not receive any compensation during the year under review.

No executive member of the Board of Directors gave up his or her functions as an executive member of the Board of Directors during the year under review.

Share Allotment in the Year under Review

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

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

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2003, by the executive members of the Board of Directors and the other members of the Management and parties closely linked to such persons amounted in aggregate to 1,974,840.

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, 2003, an aggregate of 1,974,840 Ordinary Shares. Ziv Carthy, a non-executive member of the Board of Directors is a controlling shareholder of G.Z. Assets and Management Ltd., that holds, pursuant to the Share Register, as of December 31, 2003, 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, 2003, Ordinary Shares.

Share Options

The number of Options pursuant to the Option Plans held, as of December 31, 2003, by the executive members of the Board of Directors and the other members of the Management and parties closely linked to such persons amounted in aggregate to 249,994 Options. 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 16 above.

No Options pursuant to the Option Plans are held, as of December 31, 2003, by the non-executive members of the Board of Directors and parties closely linked to such persons.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and the Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2003 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 57,160. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2003, was 4.379.

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, members of the 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 the Management amounted in the year under review to approximately USD 595,744. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2003, was 4.379.

SHL has not issued any Ordinary Shares or Options to such executive member of the Board of Directors and the Management during the financial year 2003.

The highest total compensation payable to a non-executive member of the Board of Directors amounted in the year under review to approximately USD 11,435. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2003, was 4.379.

SHL has not issued any Ordinary Shares or Options to such non-executive member of the Board of Directors during the financial year 2003.

Shareholders' Participation Rights

Voting Rights' Restrictions and Representations

Holders of Ordinary Shares have one (1) 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 on 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 ($33^1/_3$) 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 of SHL 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 next Section "Statutory Quorums".

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.

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. 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.

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 condition that the subject is 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.

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 be earlier than twenty-one (21) days prior the date of the General Meeting and not later than four (4) 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 a General Meeting.

Changes of Control and Defense Measures

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 ($33^1/_3$) percent of the voting rights (whether exercisable or not) of a Swiss company whose 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 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 shareholder, unless there is already a twenty-five (25) percent shareholder. 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 shareholder, unless there is already a shareholder holding more than fifty (50) 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.

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.

Auditors

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

Kost Forer Gabbay & Kasierer, a member firm of Ernst & Young, Tel-Aviv, Israel, are the auditors of SHL since 1997. Under the Israeli Companies Law and SHL's Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their reelection, removal or replacement by subsequent resolution. SHL's auditors were last reappointed at the 2003 Annual General Meeting.

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

Auditing Honorariums and Additional Honorariums

Ernst & Young charged in the financial year 2003 approximately USD 175,368 for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of SHL Group. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2003, was 4.379.

In addition, Ernst & Young charged approximately USD 207,586 for additional services performed for 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. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2003, was 4.379.

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 and discusses the auditing results with the external auditors.

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.raytel.com**.

Investor's Calendar

Annual General Meeting	April 29, 2004
Q1 Results	May 24, 2004
Q2 Results	August 23, 2004
Q3 Results	November 24, 2004

Contact persons for Investor Relations

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Significant Changes since December 31, 2003

On December 23, 2003, SHL, through its subsidiaries, entered into an agreement to purchase from a subsidiary of Royal Philips Electronics the entire share capital of PHTS. The closing of the agreement for the purchase of the shares of PHTS occurred on January 20, 2004, after the approval of the transaction by the General Meeting of the Shareholders of SHL and SHL B.V. became the holder of the entire issued and outstanding share capital of PHTS.

Consolidated Financial Statements 2003

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Financial Overview

1. General

2003 presented a very challenging environment for us against a background of economic and political instability worldwide and in our domestic market. Overall group financial performance was not satisfactory and the Company recorded a net loss for the year.

During the year, overall revenues increased by 10% to USD 98.8 million. EBITDA and EBIT margins stood at 11.6% and 3.1% respectively for the 12-month period. Loss for the year was USD 10.2 million, while the loss per share was USD 0.96.

SHL's US operation increased profitability following the restructuring which took place after the acquisition of Raytel and which was designed to improve the efficiency and overall sales potential of its cardiac and diagnostic services.

With regard to our European operations, we had to make provisions for PHTS losses, which together with the financial expenses derived from the credit facilities we gave to PHTS, impacted significantly our earnings. With the completion of the acquisition of PHTS from Philips in January 2004, SHL aims to restructure PHTS's operations and develop its potential in the European market.

In its home market SHL continued to be the leader in the provision of telemedicine services and saw continued growth in sales of services and in subscriber numbers which currently exceed 70,000. Profitability, however, was affected by the sale of fewer devices than in the previous year. "Thin for Life", the latest addition to SHL's telemedicine services, was well received in its first year of operation.

2. Results of Operations

Revenues in 2003 totaled USD 98.8 million, a 10% increase over the revenues in 2002 of USD 89.8 million. The increase in revenues resulted from the growth in international operations resulting from the Raytel acquisition. It should be recalled that SHL's acquisition of Raytel took effect as of April 1, 2002. In our home market there was a decline in revenues resulting mainly from the weaker trading conditions which prevailed in Israel over the past months and sales of fewer devices than in the previous year.

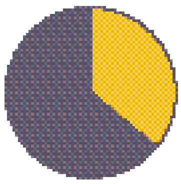
The Company operates in two segments:

– the telemedicine services segment which covers the provision of telemedicine services utilizing telephonic and Internet communication technology and the selling of related instruments through direct sales or by license and

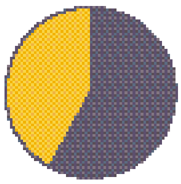
– the medical services segment which covers the operations of a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular disease. The segment also operates medical call centers, which provide 24-hours doctor "house-call" services.

Revenues from the telemedicine services segment amounted to USD 51.4 million in 2003 comprising 52% of total revenues with revenues from the medical services segment reaching USD 47.4 million, 48% of total revenues.

Geographically, revenues from the international market amounted to USD 71.2 million in 2003, compared to USD 57.4 million in 2002, with revenues from the local market amounting to USD 27.6 million in 2003, compared to USD 32.4 million in 2002, a decrease of 14.8%.



48 % Medical Services
52 % Telemedicine Services



28 % Israel
72 % International

Gross Profit

Gross profit in 2003 totaled USD 46.7 million compared to USD 45.8 million in 2002, representing a 2% increase. The gross margin for the year decreased to 47% from 51% in 2002 due primarily to the effect of the different product mix following the growth of the international operations which increased our revenues and profit but with lower margins and to the effect of lower sales of devices in our home market.

Research and Development (R&D)

R&D expenditure for the year totaled USD 1.8 million, 1.8% of revenues, compared to USD 1.7 million, 1.9% of revenues, in 2002. The amount of R&D charged to the statement of operations for 2003, which reflects the capitalization and amortization of the R&D investment over the years amounted to USD 0.67 million, compared to USD 0.42 million in 2002.

Selling and Marketing Expenses

Selling and marketing expenses totaled USD 10.2 million, 10.3% of revenues in 2003, compared to USD 7.0 million and 7.8% of revenues in 2002. The increase in selling and marketing expenses is attributed primarily to the first year of full consolidation of Raytel's operations.

General and Administration Expenses (G&A)

G&A expenses totaled USD 32.7 million, 33.1% of revenues in 2003, compared to USD 26.7 million and 29.7% of revenues in 2002. The increase in the amount of G&A expenses is also attributed primarily to the first year of full consolidation of Raytel's operations.

Earnings before Income Tax, Depreciation and Amortization (EBITDA), Earnings before Income Tax (EBIT)

EBITDA for the year amounted to USD 11.4 million, 11.6% of revenues, compared to USD 18.1 million and 20.1% of revenues in 2002. EBIT decreased to USD 3.1 million, 3.1% of revenues, compared to USD 11.7 million and 13.0% of revenues in 2002.

This decrease in profitability resulted mainly from the lower sales of devices in our home market and from the expenses and provisions we made due to the European activities.

Financial Expenses

Financial expenses for the year amounted to USD 4.7 million against gains of USD 1.8 million in 2002 and represent one of the major causes in the reduction of the Company's net income compared to the previous year. This reduction was caused by the utilization of cash resources mainly for the Raytel acquisition, lower interest rates and effect of the devaluation of the USD against the EUR.

Taxes on Income

Taxes on income amounted to USD 1.0 million compared to USD 3.2 million in 2002. The decrease in taxes on income is due to the decline in profit before tax.

Share in Losses and Provision against Shareholders' Loan to Associate

In 2003 the Company made a provision of USD 5.6 million (USD 7.4 million in 2002), against its loan to Philips Heart-Care Telemedicine Services representing the extent of the Company's share in the losses associated with the expenses of the joint venture prior to its acquisition by the Company at the beginning of 2004.

Net Loss

Net loss for the year amounted to USD 10.2 million, reflecting the events described above compared to the net profit of USD 1.4 million in 2002.

Losses per share totaled USD 0.96 compared to earnings of USD 0.13 in 2002.

3. Deferred Revenues

Revenues from services are recognized ratably over customers' service contracts.
At the end of December 2003, we have around USD 90 million of signed long term service contracts not included in our balance sheet, to be recognized as revenues in future years.

4. Major Changes in Assets, Liabilities and Equity

At December 31, 2003, our current assets stood at USD 75.2 million compared to USD 97.8 million at year-end 2002, of which USD 26.1 million represent cash and marketable securities balances. The main reason for the decrease is the decline in cash balances due to the funds required for capital investments and repayment of loans made during the year.
Our long-term and fixed assets totaled USD 69.4 million compared to USD 58.8 million at the end of the previous year. The main reasons for this increase are the increase in long-term deposits and in postdated notes derived from sales of devices in the local market and purchase of fixed assets.
Other assets also increased to USD 51.9 million compared to USD 51.3 million at the end of 2002, mainly due to the increase in R&D.
As a result, our total assets at the end of December 2003 totaled USD 196.4 million compared to USD 207.9 million at December 2002.
Current liabilities at December 31, 2003, amounted to USD 67.8 million compared to USD 71.1 million at year-end 2002. Of this amount, bank credit lines utilized at the end of the year amounted to USD 46.9 million compared to USD 47.6 million in 2002. The main reason for the decrease in current liabilities is the payment for acquisition of shares from former Raytel shareholders regarding the acquisition of Raytel.
Total equity at the end of 2003 amounted to USD 86.1 million compared to USD 90.5 million at the end of 2002. This decrease resulted from the net loss for the year partially offset by the positive effect of the devaluation of the USD against the NIS on the translated share and paid-in capital.
At December 31, 2003, equity represents some 44.0% of the total assets of the Company,

5. Cash Flow Movement

In 2003, we generated, positive cash flow from operating activities in an amount of USD 0.6 million compared to positive cash flow of USD 2.2 million in 2002. This decrease derived only from the negative effect of exchange rate differences on our cash balances and from the decrease in profits.
The Company's investment activities included USD 5 million, in acquiring additional Raytel shares, USD 3 million in the joint venture with Philips and USD 5.5 million in other capital expenditure and other assets.
During the year the Company repaid bank and other loans of USD 10.2 million.
At year-end 2003 we held USD 30.3 million in cash, marketable securities and long-term deposits against USD 51.8 million, at year-end 2002.

Erez Termechy

Erez Termechy
Vice President and Chief Financial Officer

Auditors' Report to the shareholders of SHL TeleMedicine Ltd.

We have audited the accompanying consolidated balance sheets of SHL TeleMedicine Ltd. and its consolidated companies (the Group) as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the financial statements of an associate, the investment in which on the equity basis of accounting totaled nil and USD 2 million as of December 31, 2003 and 2002, respectively, and the Group's share in losses and provision against shareholders' loan totaled USD 5.6 million and USD 7.4 million for the years ended December 31, 2003 and 2002, respectively. These financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for this certain associate, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the Group as of December 31, 2003 and 2002, and of the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in accordance with International Financial Reporting Standards.

Tel Aviv, Israel, March 18, 2004

Kost Forer Gabbay and Kasierer

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Consolidated Balance Sheets US dollars in thousands

	Note	2002	2003
assets			
current assets:			
Cash and cash equivalents		36,609	17,807
Short-term deposits	4	15,210	2,896
Marketable securities	5	–	5,395
Trade receivables	6	23,649	23,206
Postdated notes	7	6,338	5,616
Prepaid expenses	8	3,664	4,944
Other accounts receivable	9	4,308	2,837
Inventory		6,085	6,192
Deferred taxes	19d	1,947	6,313
		97,810	75,206
long-term assets:			
Postdated notes	7	32,678	36,392
Prepaid expenses	8	11,998	14,515
Investment in associate	10	2,031	24
Long-term deposits	11	–	4,200
Deferred taxes	19d	607	1,772
		47,314	56,903
fixed assets:	12		
Cost		17,508 *	23,067
Less – accumulated depreciation		6,067 *	10,629
		11,441	12,438
intangible assets, net:	13	51,327	51,880
		207,892	**196,427**

*** Reclassified (see Note 2s)**

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

	Note	2002	2003
liabilities and shareholders' equity			
current liabilities:			
Bank credit and current maturities	14	47,559	46,865
Trade payables	15	6,375	7,589
Other accounts payable	16	17,186	13,332
		71,120	67,786
long-term liabilities:			
Long-term loans from banks, lease obligations and others	17	42,578	38,779
Accrued severance pay		1,474	1,446
Deferred taxes	19d	660	859
		44,712	41,084
minority interest:	18g	1,601	1,427
shareholders' equity:	22		
Ordinary shares of NIS 0.01 par value each:			
Authorized: 14,000,000 shares at December 31, 2002 and 2003			
Issued and outstanding: 10,663,373 shares at December 31, 2002 and 2003		22	24
Additional paid-in capital		78,142	84,530
Treasury shares at cost		(196)	(463)
Cumulative reporting currency translation adjustments		1,913	1,656
Retained earnings		10,578	383
		90,459	86,130
		207,892	**196,427**

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

March 18, 2004
Date of approval of the financial statements

Yariv Alroy
Director and Co-CEO

Yoram Alroy
Chairman of the Board of Directors and President

Consolidated Statements of Operations US dollars in thousands
(except per share amounts)

	Note	2001	2002	2003
Revenues from sales of devices and services	23a	30,615	89,804	98,784
Cost of sales of devices and services	23b	10,636	44,053	52,125
Gross profit		19,979	45,751	46,659
Research and development costs, net	23c	474	415	672
Selling and marketing expenses	23d	4,106	7,005	10,195
General and administrative expenses	23e	6,367	26,676	32,722
Operating income		9,032	11,655	3,070
Financial income (expenses):				
Exchange rate differences from cash deposits		5,180	4,694	(1,722)
From short-term deposits, net		1,572	344	(729)
Gain on marketable securities and derivative financial instruments, net		–	–	2,015
Other		1,664	(3,257)	(4,269)
		8,416	1,781	(4,705)
Other expenses, net	23f	150	17	24
Income (loss) before taxes on income		17,298	13,419	(1,659)
Taxes on income	19c	2,598	3,230	1,022
		14,700	10,189	(2,681)
Minority interest		–	(1,425)	(1,913)
Share in losses and provision against shareholders' loan to associate	10	(2,644)	(7,353)	(5,601)
Net income (loss)		**12,056**	**1,411**	**(10,195)**
Net basic and diluted earnings (loss) per share	**24**	**1.13**	**0.13**	**(0.96)**

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

Statements of Changes in Shareholders' Equity (Deficiency)

US dollars in thousands

	Share capital	Additional paid-in capital	Treasury shares	Cumulative reporting currency translation adjustments	Retained earnings (accumulated deficit)	Total
Balance at January 1, 2001	31	92,012	–	2,619	(2,889)	91,773
Issuance expenses	–	(418)	–	–	–	(418)
Reporting currency translation adjustments	–	–	–	(8,338)	–	(8,338)
Net income	–	–	–	–	12,056	12,056
Balance at December 31, 2001	31	91,594	–	(5,719)	9,167	95,073
Treasury shares	–	–	(196)	–	–	(196)
Reporting currency translation adjustments arising from first adoption of SIC-30	(7)	(7,772)	–	7,779	–	–
Reporting currency translation adjustments	(2)	(5,680)	–	(147)	–	(5,829)
Net income	–	–	–	–	1,411	1,411
Balance at December 31, 2002	22	78,142	(196)	1,913	10,578	90,459
Treasury shares	–	–	(241)	–	–	(241)
Reporting currency translation adjustments	2	6,388	(26)	(257)	–	6,107
Net loss	–	–	–	–	(10,195)	(10,195)
Balance at December 31, 2003	**24**	**84,530**	**(463)**	**1,656**	**383**	**86,130**

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

Consolidated Statements of Cash Flows US dollars in thousands

	2001	2002	2003
cash flows from operating activities:			
Net income (loss)	12,056	1,411	(10,195)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	(13,243)	804	10,840
Net cash provided by (used in) operating activities	(1,187)	2,215	645
cash flows from investing activities:			
Investment in associate	(144)	–	–
Shareholders' loan to associate	(4,839)	(5,955)	(3,062)
Purchase of fixed assets	(1,302)	(3,181)	(4,396)
Payment for acquisition of consolidated company, net of cash acquired, and business activities (b)	(7,272)	(25,017)	(968)
Payment of liability regarding the acquisition of Raytel (Note 3)	–	–	(4,147)
Investment in intangible assets	(1,831)	(1,417)	(1,143)
Proceeds from sale of fixed assets	663	5	53
Short-term deposits, net	13,024	(15,000)	12,109
Long-term deposits	–	–	(4,200)
Investment in marketable securities	–	–	(5,317)
Net cash used in investing activities	(1,701)	(50,565)	(11,071)
cash flows from financing activities:			
Proceeds from issuance of Ordinary shares, net	(837)	–	–
Proceeds from long-term loans from banks and others, net	119	45,154	2,190
Repayment of long-term loans from related parties	(381)	(142)	–
Repayment of long-term loans from banks and others	(3,343)	(5,606)	(26,043)
Short-term bank credit, net	18,902	(6,620)	15,945
Distributions to minority interest	–	(900)	(2,087)
Treasury shares acquired	–	(196)	(241)
Net cash provided by (used in) financing activities	14,460	31,690	(10,236)
Effect of exchange rate changes on cash and cash equivalents	(4,805)	(3,877)	1,860
Increase (decrease) in cash and cash equivalents	6,767	(20,537)	(18,802)
Cash and cash equivalents at the beginning of the year	50,379	57,146	36,609
Cash and cash equivalents at the end of the year	**57,146**	**36,609**	**17,807**

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

a adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:

	2001	2002	2003
Income and expenses not involving cash flows:			
Share in losses and provision against shareholders' loan to associate	2,644	7,353	5,601
Minority interest	–	1,425	1,913
Depreciation and amortization	1,798	6,595	8,527
Amortization of goodwill, related to carryforward tax losses for which deferred tax benefits were not recorded in prior years	1,050	–	–
Deferred taxes, net	175	236	(5,187)
Accrued severance pay	127	410	(143)
Erosion of principal of long-term liabilities, net	(303)	1,159	(142)
Losses on marketable securities	–	–	123
Exchange rate differences from short-term and long-term deposits	–	–	1,120
Others	124	45	18
	5,615	17,223	11,830
Changes in operating asset and liability items:			
Decrease (increase) in short-term deposits, net	(3,483)	3,062	(237)
Decrease (increase) in trade receivables, net	(1,632)	4,961	(3,795)
Decrease (increase) in postdated notes	(12,779)	(12,565)	189
Increase in prepaid expenses	(2,743)	(3,453)	(2,539)
Decrease (increase) in other accounts receivable	115	(963)	1,886
Decrease (increase) in inventory	(1,344)	(3,031)	377
Increase (decrease) in trade payables	306	(883)	1,118
Increase (decrease) in other accounts payable	2,702	(3,547)	2,011
	(18,858)	(16,419)	(990)
	(13,243)	**804**	**10,840**

b acquisition of newly consolidated companies and business activities:

	2001 [3]	2002 [2]	2003 [1]
Working capital (excluding cash)	(559)	(6,488)	–
Long-term assets	(224)	(467)	–
Fixed assets, net	(583)	(9,002)	(1,288)
Long-term liabilities	1,094	22,581	–
Minority interest	–	1,076	–
Goodwill upon acquisition	(5,981)	(37,329)	(23)
Non-competition agreement	(1,019)	–	(190)
Liability regarding the acquisition of newly consolidated company	–	4,612	533
	(7,272)	**(25,017)**	**(968)**

1 On January 1, 2003, the Company purchased business activities (see Note 1[b][2]).
2 During the second quarter of 2002, SHL TeleMedicine North America Inc. purchased all of the shares of Raytel Medical Corporation Inc. (see Note 3).
3 On December 31, 2001, the Company purchased all of the shares of Bikurofe Ltd. in consideration of USD 7.8 million (see Note 18d).

c significant non-cash transactions:

	2001	2002	2003
Acquisition of newly consolidated company	–	4,612	–
Acquisition of business activities	–	–	533

d supplemental disclosure of cash flows activities:

	2001	2002	2003
Interest received	**2,491**	**2,513**	**1,272**
Interest paid	**3,202**	**5,756**	**6,061**
Income taxes paid	**–**	**2,433**	**1,816**

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

note 1 | General

a company description:

SHL TeleMedicine Ltd. ("the Company") and its consolidated companies ("the Group") develop and market advanced personal telemedicine systems as well as medical call center services to subscribers. The Group provides remote monitoring services in cardiology, pulmonology, and other areas. In Israel, the Company also operates and dispatches ambulances from its call centers to patients for emergency treatment. The Company sells medical equipment and related communication equipment to subscribers and related companies.

b acquisitions:

1. On April 1, 2002, SHL TeleMedicine North America Inc. ("NA"), indirect wholly owned subsidiary, purchased all of the shares of Raytel Medical Corporation Inc. ("Raytel"). Raytel is a US leading provider of remote pacemaker monitoring and other cardiac monitoring services. Raytel also operates outpatient diagnostic imaging facilities and cardiovascular and nuclear cardiology diagnostic service facilities (see Note 3).

2. On January 1, 2003, the Company entered into an agreement with Hashmira Medical Ltd. and S.Y. Protected Communities and Nursing Ltd. ("the sellers") for the acquisition of their rights in their business activities in the area of distress buttons, doctor calls services and dispatch call center services. The consideration for the transaction amounted to USD 1,500 (including fixed assets and other assets) to be paid in 18 monthly installments linked to the Israeli CPI, out of which USD 968 was paid until the balance sheet date.

c definitions:

In these financial statements:

The Company
SHL TeleMedicine Ltd.

Consolidated companies
Companies whose financial statements are fully consolidated with those of the Company.

Associate
A company over which the Company exercises significant influence and is not a consolidated company and the Company's investment therein is presented using the equity method of accounting.

The Group
SHL TeleMedicine Ltd. and its consolidated companies.

Related parties
As defined in IAS 24 of IASB.

note 2 | Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are as follows:

a basis of preparation:

1. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretation approved by the IASC that remain in effect.

2. The significant accounting policies applied in the financial statements of the Company in the prior years are applied consistently in these consolidated financial statements.

3. Financial statements in US dollars – the reporting currency:

The majority of sales of the Company that operates in Israel is made in New Israeli Shekels ("NIS") and the majority of the cost is paid in NIS. The NIS is the currency of the primary economic environment of the Company, therefore the functional currency of the Company is the NIS.

The Company has selected the US dollar as its reporting currency, rather than using its functional currency as its reporting currency, since an increasing portion of its revenues and expenses are incurred in US dollars and the Company believes that most of the users of its financial statements are more familiar with the US dollar than the NIS.

Because the Company selected the reporting currency to be the US dollar, the financial statements have been translated from the functional currency (NIS) to the reporting currency, in accordance with the principles set forth in IAS 21, SIC-19 and SIC-30 as follows:

All the assets, liabilities, share capital and additional paid-in capital of the Company are translated into US dollars at the rate of exchange prevailing at each balance sheet date, and revenues and expenses are translated at average monthly exchange rates. The results from translation adjustments are recorded in a separate component of shareholders' equity.

Foreign Group Companies:

Philips HeartCare Telemedicine Services Europe ("JV"), an associate, is considered a "Foreign Entity" according to the definition of IAS 21. The functional currency of JV is the Euro. JV prepares its financial statements in Euro.

SHL TeleMedicine North America ("NA"), a consolidated company, is considered a "Foreign Entity" according to IAS 21. The functional currency of NA is the US dollar. NA prepares its financial statements in US dollars.

The Company uses the following procedures in translating the financial statements of "Foreign Entities" for incorporation in the Company's financial statements: assets and liabilities, both monetary and non-monetary, of the foreign entity are translated into the NIS at the rate of exchange prevailing at each balance sheet date, and revenues and expenses are translated at average monthly exchange rates. All resulting exchange differences are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated at the closing rate.

SHL TeleMedicine B.V. ("BV") and SHL TeleMedicine Global Trading Ltd. ("GT"), consolidated companies, are considered "Foreign operations that are integral of the operations of the reporting enterprise" according to IAS 21. The functional currency of BV and GT is the NIS. BV and GT prepare their financial statements in Euro.

The Company uses the following procedures in translating the financial statements of "Foreign operations that are integral of the operations of the reporting enterprise" for incorporation in the Company's financial statements: foreign currency monetary items are translated into NIS at the rate of exchange prevailing at each balance sheet date, non-monetary items are translated into NIS using the rate at the date of the transaction, and revenues and expenses are translated at average monthly exchange rates. The results from translation adjustments are recognized as income or as expenses in the period in which they arise.

The exchange rate differences of loans, which were received for the direct financing of the investment in the foreign entities and that are stated in or linked to the respective functional currency of those entities are also carried within shareholders' equity.

4. Impact of recently issued interpretation for accounting standards:

In December 2003, the International Accounting Standards Board ("IASB") released revised IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement. These standards replace IAS 32 (revised 2000), and supersede IAS 39 (revised 2000), and should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

In December 2003, as a part of the IASB's project to improve International Accounting Standards, the IASB released revisions to the following standards that supersede the previously released versions of those standards: IAS 1, Presentation of Financial Statements; IAS 2, Inventories; IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; IAS 10, Events after Balance Sheet Date; IAS 16, Property, Plant and Equipment; IAS 17, Leases; IAS 21, The Effects of Changes in Foreign Exchange Rates; IAS 24, Related Party Disclosures; IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; IAS 31, Interests in Joint Ventures; IAS 33, Earnings per Share; and IAS 40, Investment Property. The revised standards should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

On February 19, 2004, the IASB issued International Financial Reporting Standard 2, Share-Based Payment (IFRS 2), on the accounting for share-based payment transactions, including grants of share options to employees. IFRS 2 requires an entity that follows IAS to recognize the effect of share-based payment transactions in the financial statements based on the awards' fair value. IFRS 2 will be effective for annual periods beginning on or after January 1, 2005, and will apply to grants of shares, share options or other equity instruments that were granted after November 7, 2002, and had not yet vested at the effective date. The adoption of this standard will not have a material effect on the Company's financial position and results of operations.

b principles of consolidation:

The consolidated financial statements include the accounts of the Company and its consolidated companies. Significant intercompany transactions and balances between the Company and its consolidated companies were eliminated in consolidation.

Consolidated companies 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 consolidated companies is accounted for using the purchase method of accounting.

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

The consolidated statement of operations and consolidated cash flow statement in 2002 include the results and cash flows of Raytel for the 9-month period from purchase on April 1, 2002.

Minority interest represents the interests in Raytel's investment in several entities, not held by the group.

c investment in associate:

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

The Company's investment in the associate consists of a 19.9% ownership interest in Philips HeartCare Telemedicine Services Europe ("JV").

The Company's equity in losses of the associate is included up to the amount of the investment in the capital of the associate.

d cash equivalents:

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

e 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.

f trade receivables and postdated notes:

Trade receivables are recognized and carried at original invoice amount less an allowance for doubtful accounts.

Postdated notes that are linked to the Israeli CPI and do not bear interest, are presented at their present value, according to the market interest rate prevailing on the date on which they were issued.

g financial instruments:

1. Marketable securities and derivative financial instruments:

Under IAS 39, the Group classifies its investments in marketable debt and equity securities and investments in unlisted 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, 2003, all marketable investments of the Group were classified as available-for-sale. Available-for-sale investments are fair valued by using quoted market rates. The fair value changes of available-for-sale investments are recognized to the statements of operations at each reporting period.

The Group classified all foreign exchange options as held for trading. The changes in the fair values of these options are reported in the statement of operations accounts.

During 2003, the Group entered into a combination of foreign exchange options that comprise a zero-cost dollar. Such options expired during 2003 and resulted a gain in the amount of USD 2,066 that was reported as financial income in the statement of operations.

As of December 31, 2003, the Group has no option contracts or other freestanding financial derivatives.

2. Fair value of other financial instruments:

The carrying amounts of cash and cash equivalents, short-term deposits, trade receivables, postdated notes, other accounts receivable, credit from banks and others, trade payables, other accounts payable and long-term loans approximate their fair value.

h prepaid expenses:

Prepaid expenses, which are related to cost of sales of services, are amortized in the statement of operations, over the service contract.

i 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.

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
Leased devices	10

j 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.

2. Goodwill represents the excess of acquisition cost over the fair value of identifiable net assets of a consolidated company at the date of acquisition. Goodwill is amortized using the straight-line method over its useful economic life up to a presumed maximum of 20 years. Goodwill is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

Tax benefits as a result of tax losses from the time in which the investment was acquired, and which could not be 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 for goodwill is adjusted accordingly.

3. Non-competition agreement is amortized using the straight-line method over the useful life, which is 3 years.

k 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 main components in respect of which deferred taxes have been included are as follows: inventory, fixed assets, intangible assets, provision for vacation, accrued severance pay, doubtful accounts and carryforward tax losses. 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 profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at 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 the 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 decided not to distribute dividends that will cause additional tax liability.

l revenue recognition:

Revenue is recognized to the extent that it is probable that the economic rewards will pass to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

1. Revenues from sales of devices are recognized when the significant risks and benefits of ownership of the devices have passed to the buyer.

2. Revenues from services are recognized ratably over the service contract.

m 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, 2003.

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 rate of foreign currency:

For the year ended	Exchange rate of one US dollar	Israeli CPI *
December 31, 2003	NIS 4.379	178.6 points
December 31, 2002	NIS 4.737	182.0 points
December 31, 2001	NIS 4.416	170.9 points
Changes during the year		
2003	(7.6)%	(1.9)%
2002	7.3%	6.5%

*** Index on an average basis of 1993 = 100.**

n use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

o concentrations of credit risk:

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 and postdated notes are mainly derived from sales to customers in Israel and the USA. 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 debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

p accrued severance pay:

The Group's liability for severance pay for Israeli resident employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. The Group's liability for all of its employees is funded through insurance policies. The net amount of the severance liability presented in the balance sheet represents the Group liability for severance to its employees as of balance sheet date.

The amounts accumulated in managers' insurance policies in the name of the employees and their respective liabilities are not presented in the balance sheet since they are not under the Group's control and management.

Amounts paid to insurance policies for covering severance pay liability for the years ended December 31, 2001, 2002 and 2003, was USD 419, USD 619 and USD 594, respectively.

The number of employees of the Group (FTE) as of December 31, 2002 and 2003, was 1,389 and 1,207, respectively.

q pensions and saving plans:

Raytel has a defined contribution pension plan, which covers substantially all employees. Contributions to the plan are based upon a percentage of an employee's covered compensation, as defined. Expense under the plan was USD 376 and USD 400 for the period from April 1, 2002, to December 31, 2002 and 2003, respectively.

Raytel also has a tax-qualified "401(k) plan" which covers substantially all employees. Eligible employees may make salary deferral (before tax) contributions up to a specified maximum. Raytel makes a matching contribution of 25% of the amount deferred. Expense under the plan was USD 134 and USD 152 for the period from April 1, 2002, to December 31, 2002, and for 2003, respectively.

r earnings (loss) per share:

The Group calculates both basic and diluted earnings (loss) per share in accordance with IAS 33. Under IAS 33, 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.

s reclassification:

The reclassification is due to adjustment between cost and accumulated depreciation. There is no effect on net fixed assets value.

note 3 | Acquisition of Raytel Medical Corporation ("Raytel")

a

SHL TeleMedicine North America, Inc. ("NA"), a wholly owned subsidiary of SHL TeleMedicine International ("STI"), purchased in a tender offer all the issued and outstanding shares of Raytel at total cost of USD 35,100. Following completion of the acquisition of Raytel in June 2002, holders of about 13% of Raytel's outstanding shares ("petitioners") initiated an appraisal rights process ("claim") under the applicable law. During the second quarter of 2003, Raytel and the petitioners reached a settlement, according to which the claim was dismissed by the court with prejudice. The total payment of USD 4,147 that has been effected to the petitioners, was in accordance with the original merger price per share plus an immaterial addition. To date, payment in the amount of USD 536 has not yet been effected with regard to 2% of Raytel's outstanding shares.

For the adjustment of goodwill associated with the purchase, see Note 13.

The cost of the Raytel acquisition was allocated to its assets and liabilities based on their fair values.

Subsequent to the purchase of Raytel shares, NA merged with Raytel.

b

The fair value of the identifiable assets and liabilities of Raytel, which were purchased as of the purchase date, was:

Cash and cash equivalents	5,471
Trade receivables	24,767
Other accounts receivable	448
Prepaid expenses and other	1,299
Fixed assets, net	9,002
Investment in associates	56
Intangible assets	411
Goodwill upon acquisition	37,329
	78,783
Trade payables	(5,356)
Other accounts payable	(11,794)
Long-term loans	(25,457)
Minority interest	(1,076)
Fair value of net assets	**35,100**
Consideration:	
Cost of shares, at fair value	31,416
Costs associated with the acquisition	3,684
	35,100

The cash outflow on acquisition is as follows:

Cash of Raytel	5,471
Cash paid up to December 31, 2002	(30,488)
Net cash outflow	**(25,017)**

Raytel's results of operations were fully consolidated since April 1, 2002, and have contributed USD 763 loss to the net income of the Group in 2002.

note 4 | Short-term deposits

	Interest rate for 2003 %	December 31 2002	2003
Linked to the US dollar	2.5	15,210	–
NIS – unlinked	7.5	–	1,813
NIS – linked to Israel's CPI	5.8	–	1,083
		15,210	**2,896**

note 5 | Marketable securities

Available-for-sale marketable securities:

	2002	2003
Corporate debentures – linked to the US dollar	–	4,404
Governmental debentures – In NIS – unlinked	–	991
	–	**5,395**

note 6 | Trade receivables

	2002	2003
In Israel	2,193	2,958
Abroad	21,456	20,248
	23,649	**23,206**
After deduction of allowance for doubtful accounts	**13,392**	**15,944**

note 7 | Postdated notes

The balance represents customers' debts in respect of sale of devices in Israel. Customer debt in respect of sales of devices, in excess of the payment made in cash at the date of delivery, is paid in equal monthly payments over a maximal period of nine years. The postdated notes are composed of notes by authorization, notes receivable and postdated payments from credit card companies. (See also Note 2f).

note 8 | Prepaid expenses

Most of the prepaid expenses are related to services to be rendered in subsequent periods. The realization of prepaid expenses subsequent to the balance sheet date, is as follows:

	2002	2003
First year prepaid expenses – short-term	3,664	4,944
Second year	1,940	2,260
Third year	1,990	2,314
Fourth year	1,820	2,373
Fifth year	1,828	2,384
Thereafter	4,420	5,184
Prepaid expenses – long-term	11,998	14,515
	15,662	**19,459**

note 9 | Other accounts receivable

	2002	2003
Government authorities	3,350	2,443
Employees	170	199
Others	788	195
	4,308	**2,837**

note 10 | Investment in associate

a

On January 2001, a wholly owned subsidiary of the Company, STI (see Note 18b), entered into several agreements with Philips Medical Systems Netherlands B.V., a subsidiary of Royal Philips Electronics, a significant shareholder of the Company and its related companies ("Philips"). According to the agreement, STI, together with Philips, formed a Dutch company, Philips HeartCare Telemedicine Services Europe ("JV"), which engaged, on its own or through its consolidated companies, in the provision of telemedicine services in various countries throughout Europe. JV was established in May 2001.

JV provides remote monitoring services in cardiology for retail subscribers and has established offices in Germany and Italy. JV renders services to clients in Italy, Germany and Switzerland.

STI holds 19.9% of JV's shares and Philips holds 80.1%.

STI invested in JV's share capital USD 144 and, in addition, provided JV with a loan in an aggregate amount of USD 14,699. The loan was linked to the Euro and was repayable no later than December 21, 2010.

b investment in JV is comprised as follows:

	2002	2003
Investment in JV share capital	144	144
Accumulated losses	(144)	(144)
	–	–
Shareholders' loan	12,607	14,699
Provision against shareholders' loan*	(10,607)	(14,699)
	2,000	–
Other associates	31	24
	2,031	**24**

*** Due to JV losses, the Company decided to provide an amount of USD 5.6 million, in 2003 (previous year – USD 7.3 million), against the loan that was given to JV.**

c

On December 23, 2003, STI, and Philips Medical Systems International B.V. ("PMSI"), a subsidiary of Koninklijke Philips Electronics B.V., signed a final agreement pursuant to which STI will assume full ownership and control of JV.

On January 20, 2004 ("the closing date"), an extraordinary shareholders meeting of the Company approved the transactions contemplated in the agreement.

At the closing, STI purchased from PMSI the entire issued shares of JV held by PMSI for EUR 1 and assumed full responsibility for the operation, management and funding of JV. At the closing, PMSI made a cash contribution to JV, in amount of Euro 8,750. As of December 1, 2003, ("the effective date"), PMSI retained certain liabilities of JV, and STI guaranteed leasing payments of certain JV subsidiaries to Philips Leasing Services. During an agreed interim period as of, the effective date, PMSI will continue to render certain transition period services to JV and during such period JV and its subsidiaries will cease using the "Philips" brand name.

STI purchased from PMSI the full balance of PMSI's outstanding loans to JV at that time, in consideration for EUR 1 and a future revenue participating right. This right entitles PMSI to receive 3.5% of the annual revenues of JV, during the years 2005 – 2010, from the services currently rendered by JV and its subsidiaries in Germany, Italy and Switzerland and a percentage (regressive annual percent during the years 2004 – 2006) from the net proceeds if actually received by STI in the event of a sale or divestment of JV or any of its subsidiaries.

note 11 | Long-term deposits

	2003
Structured deposit[1]	2,000
Structured deposit[2]	2,200
	4,200

1 The deposit is linked to the US dollar and bears interest of 11% less double the 12-month LIBOR rate. The interest will be paid every six months. The maturity date will be at the earlier of the events: receipt of 12% of the deposit principal or in August 2013.

2 The deposit is linked to the US dollar and bears interest of 11% in the first year and from the second year to the maturity date 8% less double the 6-month LIBOR rate. The interest will be paid every six months.
The maturity date will be at the earlier of the events: the receipt of 11.75% of the deposit principal or November 2013.

note 12 | Fixed assets

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Leased devices	Total
cost:							
Balance at January 1, 2003 *	5,034	6,033	990	1,072	3,829	550	17,508
Additions during the year	1,391	1,852	220	5	665	263	4,396
Additions due to acquisition of business activities (Note 1[b][2])	–	1,288	–	–	–	–	1,288
Disposals during the year	(3)	(96)	(21)	(107)	(625)	–	(852)
Reporting currency translation adjustments	240	226	59	83	64	55	727
Balance at December 31, 2003	6,662	9,303	1,248	1,053	3,933	868	23,067
accumulated depreciation:							
Balance at January 1, 2003 *	2,351	2,411	253	339	651	62	6,067
Additions during the year	1,538	1,887	166	210	602	84	4,487
Disposals during the year	(2)	(49)	(11)	(51)	(153)	–	(266)
Reporting currency translation adjustments	152	109	17	33	22	8	341
Balance at December 31, 2003	4,039	4,358	425	531	1,122	154	10,629
Depreciated cost at December 31, 2003	**2,623**	**4,945**	**823**	**522**	**2,811**	**714**	**12,438**
Depreciated cost at December 31, 2002 *	**2,683**	**3,622**	**737**	**733**	**3,178**	**488**	**11,441**

As for charges, see Note 21.
* Reclassified.

note 13 | Intangible assets, net

	Research and development costs	Goodwill	Non-competition agreement	Others	Total
At January 1, 2003, net of accumulated amortization	3,246	47,077	633	371	51,327
Additions during the year	1,143	–	–	–	1,143
Additions for acquisition of business activities (see Note 1[b][2])	–	23	190	–	213
Additions due to final purchase price adjustments *	–	4,437	–	–	4,437
Amortization during the year	(672)	(2,772)	(395)	(201)	(4,040)
Realized income tax benefits subsequent to Raytel acquisition	–	(2,773)	–	–	(2,773)
Reporting currency translation adjustments	282	1,230	51	10	1,573
At December 31, 2003, net of accumulated amortization	**3,999**	**47,222**	**479**	**180**	**51,880**
At December 31, 2003:					
Cost	5,847	57,429	1,232	439	64,947
Accumulated amortization	(1,848)	(10,207)	(753)	(259)	(13,067)
Net carrying amount	3,999	47,222	479	180	51,880

*** The Company has adjusted the amount of the goodwill associated with the purchase of Raytel due to updated information available to the Company at December 31, 2003. The additions to goodwill during 2003 are due to the final purchase price adjustments for the remaining payments due to outstanding shareholders of Raytel (USD 385) and adjustment to the fair value of acquired accounts receivable for amounts determined to be uncollectible (USD 4,443) offset by a reduction (USD 453) for the expected recovery of taxes paid prior to acquisition.**

note 14 | Bank credit and current maturities

	Interest rate for 2003 %	2002	2003
Credit from banks:			
NIS – unlinked	Prime * + 0.22	3,568	17,387
NIS – linked to the dollar	Libor + 1.8	7,000	7,210
		10,568	24,597
Current maturities of long-term loans (see Note 17)		36,991	22,268
		47,559	**46,865**

As for charges, see Note 21.
*** The prime rate as of December 31, 2003 – 6.3%.**

note 15 | Trade payables

	2002	2003
Open accounts	6,209	7,476
Notes payable	166	113
	6,375	**7,589**

note 16 | Other accounts payable

	2002	2003
Employees and payroll accruals	3,997	3,983
Accrued liabilities	7,952	6,927
Government authorities	847	1,801
Former Raytel shareholders (see Note 3)	4,282	536
Other	108	85
	17,186	**13,332**

note 17 | Long-term loans from banks, lease obligations and others

a composed as follows:

	Interest rate for 2003 %	2002	2003
Loans from banks:			
NIS – unlinked	Prime * +0.75	17,332	6,542
NIS – linked to Israel's CPI	5.66	10,787	10,061
NIS – linked to the dollar	Libor +1.35	13,943	14,643
NIS – linked to the Euro	Libor +1.86	9,941	9,025
Dollar, net **1.**	Libor +0.74	5,000	3,598
		57,003	43,869
Less – current maturities		21,672	9,510
		35,331	34,359
Lease obligations:			
Lease obligations of vehicles – NIS – linked to Israel's CPI	7	192	119
Capital lease obligations and non-recourse notes **2.**	5.5 – 13.5	1,784	1,030
		1,976	1,149
Less – current maturities		1,011	821
		965	328
Other long-term loans:			
NIS – linked to Israel's CPI	5.45	282	92
Revolving credit facility **3.**	US prime ** +1	12,308	9,937
US federal government **4.**	7	8,000	6,000
		20,590	16,029
Less – current maturities		14,308	11,937
		6,282	4,092
		42,578	**38,779**

*** The prime rate as of December 31, 2003 – 6.3%.**
**** The US prime rate as of December 31, 2003 – 5%.**

1. As security for long-term loans from banks of USD 24,000 received in connection with the financing of the Raytel acquisition, the Company pledged to banks certain liquid assets, including cash deposit of USD 20,402. In the balance sheet, this deposit has been offset against the loan.

2. The capital lease obligations and non-recourse notes are due in varying amounts, including interest at rates ranging from 5.5% to 13.5% through 2014.

3. Under the revolving credit facility, Raytel may borrow up to USD 15,000 based on a prescribed formula, with interest at the US prime rate plus 1% (5% as of December 31, 2003). The revolving credit facility was originally due on November 20, 2003. During 2003, the maturity of the facility was extended to May 21, 2004.

4. The settlement amount due to the US Federal Government is payable in annual installments of USD 2,000 including interest at the rate of 7%, through June 30, 2006 (see Note 21[c][1]).

b the long-term loans are repayable in the following years subsequent to the balance sheet date:

	2002	2003
First year – current maturities	36,991	22,268
Second year	8,178	9,885
Third year	7,195	7,465
Fourth year	6,977	5,373
Fifth year	4,939	4,477
Thereafter	15,289	11,579
	42,578	38,779
	79,569	**61,047**

c

The Company is required to maintain certain financial covenants and is currently in compliance with all such requirements.

d

As for charges, see Note 21.

note 18 | Investments in consolidated companies

	Country of incorporation	Percentage in equity interest 2002	2003
Shahal Haifa – Medical Services Ltd. (a)	Israel	100	100
SHL TeleMedicine International Ltd. (b)	Israel	100	100
Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd. (c)	Israel	100	100
Bikurofe Ltd. (d)	Israel	100	100
SHL TeleMedicine B.V. (e)	Netherlands	100	100
SHL TeleMedicine Global Trading Ltd. (f)	Ireland	100	100
SHL TeleMedicine North America Inc. (g)	USA	100	100

a Shahal Haifa – Medical Services Ltd.:

On December 31, 1996, the Company purchased all the shares in Shahal Haifa – Medical Services in consideration of USD 700. The Company recorded goodwill in the amount of USD 2,900 representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at date of acquisition.

b SHL TeleMedicine International Ltd. ("STI"):

During September 1997, the Company established STI. STI has the rights to develop and market the "Shahal Method" outside of Israel. According to a preferred share purchase agreement dated September 9, 1997, Vertex I.I.F. Limited Partnership ("Vertex") purchased 17.4% of STI share capital in consideration of USD 4,500. In an agreement entered into in April 2000 and amended and signed on August 30, 2000, between the Company, Vertex and STI, Vertex agreed to exchange all of its shares in STI for 7.15 % of the shares of the Company.

After the exchange, which was held on September 21, 2000, the Company holds 100% of STI.

The Company recorded goodwill in the amount of USD 11,300 representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at date of acquisition.

c Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd.:

On January 1, 2000, the Company purchased all the shares of Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd., a related company, in consideration of USD 105.

The Company recorded goodwill in the amount of USD 3,000 representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at date of acquisition.

d Bikurofe Ltd.:

On December 31, 2001, the Company purchased all the shares of Bikurofe Ltd., Israeli medical call centers service provider, in consideration of USD 7,800. This amount includes USD 1,000 for non-competition agreement.

The Company recorded goodwill in the amount of USD 5,900 representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at date of acquisition.

e SHL TeleMedicine B.V. ("BV"):

During May 2001, STI established BV, which holds 19.9% of the shares of JV (see Note 10) and holds 100% of the shares of SHL TeleMedicine Global Trading Ltd. (see f.).

f SHL TeleMedicine Global Trading Ltd. ("GT"):

GT was incorporated on October 23, 2001. GT was established in order to distribute innovative medical devices and to perform research and development activities.

g SHL TeleMedicine North America Inc. ("NA") (see Note 3).

note 19 | Taxes on income

a taxation under inflationary conditions:

According to the Income Tax (Inflationary Adjustments) Law, 1985 in Israel, the results for tax purposes are calculated in real terms based on the changes in the Israeli CPI.

b

Non-Israeli consolidated companies are taxed according to the applicable laws in their countries of residence.

c taxes on income included in the statements of operations:

	2001	2002	2003
Current taxes	1,093	2,862	6,094
Deferred taxes	1,505	236	(5,217)
Taxes in respect of previous years	–	132	145
	2,598	**3,230**	**1,022**

d deferred taxes:

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

	In respect of balance sheet items					
	Fixed assets and other assets	Employee benefit liabilities	Carryforward tax losses	Doubtful accounts	Others	Total
Balance at January 1, 2003	(603)	950	58	1,292	197	1,894
Amounts charged to statement of operations	225	251	1,255	1,194	2,292	5,217
Cumulative foreign currency translation adjustments	(59)	73	48	–	53	115
Balance at December 31, 2003	**(437)**	**1,274**	**1,361**	**2,486**	**2,542**	**7,226**

The balance is presented as follows:

	2002	2003
Among current assets	1,947	6,313
Among long-term assets	607	1,772
Among long-term liabilities	(660)	(859)
	1,894	**7,226**

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

	2001	2002	2003
Income (loss) before taxes on income, as reported in the consolidated statements of operations	17,298	13,419	(1,659)
Statutory tax rate in Israel	36%	36%	36%
Theoretical tax expense	6,227	4,831	(597)
Increase (decrease) in taxes resulting from:			
Losses for which deferred taxes were not provided	–	11	1,144
Tax adjustment in respect of inflation in Israel	(370)	(387)	469
Non-deductible expenses	425	1,121	1,169
Decrease in taxes resulting from realization of carryforward tax losses for which deferred taxes were not recorded in prior years	(863)	–	(57)
Tax exempt income	(2,821)	(2,035)	–
Different tax rates	–	61	(390)
Taxes in respect of previous years	–	132	145
Tax on minority interest in earnings of consolidated entities	–	(513)	(689)
Other	–	9	(172)
	2,598	**3,230**	**1,022**

f carryforward losses for tax purposes:

The consolidated carryforward losses for tax purposes for the year ended December 31, 2003, amount to USD 6,622 in Israel and USD 1,334 in the USA.
An asset in respect of deferred taxes in Raytel, amounting to USD 6,014 and carryforward losses for tax purposes in consolidated companies amounting to USD 3,211, were not included in the balance sheet as the time of its realization in the foreseeable future is uncertain.

note 20 | Transactions with related parties

a transactions with related parties:

	2001	2002	2003
Revenues:			
Sales and services to JV	6,287	3,169	62
Interest and linkage differentials from JV	447	–	–
	6,734	**3,169**	**62**
Expenses:			
Salaries to officers and directors	1,607	1,742	1,146
Rental expenses to shareholders	131	124	129
Interest to shareholder	20	–	–
	1,758	**1,866**	**1,275**

b

On September 21, 2003 (the "Effective Date"), the Company signed a management services agreement (the "agreement") with Alroy Yoram Consulting and Management Ltd. (the "Service Provider") – a wholly owned company by Mr. Yoram Alroy, the Chairman of the Board of Directors and the President of the company.

According to the agreement, Mr. Yoram Alroy, through the Service Provider, will continue to provide management services to the Company in a level equal to $^{2}/_{3}$ of full time position. The consideration for the management services was reduced accordingly.

The Service Provider, together with Mr. Yariv Alroy and Mr. Erez Alroy shall be entitled to an aggregate annual bonus, equal to 3% of the Company's profits (as defined in the agreement), provided however, that the Annual Bonus shall not exceed USD 1,000 per year.

The agreement commenced on the Effective Date and shall continue for a period of 36 months (the "Initial Term"). The term shall automatically be renewed for consecutive 24-month periods (the "Extended Term[s]") unless an advance written notice, in accordance with the requirements of the agreement, submitted by either, the Company or the Service Provider.

c

On October 31, 2003, the Company approved the grant of options to purchase 32,560 Ordinary shares of the Company under the 2003 share option plan (see Note 22c) to Mr. Yoram Alroy, the Chairman of the Board of Directors and the President of the company.

d

As for the purchase agreement in respect of JV's shares, see Note 10.

note 21 | Charges, guarantees and contingent liabilities

a charges:

As collateral for the Company and its consolidated companies' 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:

The facilities of the Company and its consolidated companies are rented under operating leases for periods ending in 2009.

Future minimum lease commitments under operating leases for the years ended December 31, are as follows:

Year	
2004	5,130
2005	4,367
2006	3,762
2007	2,154
Thereafter	4,150
	19,563

c contingent liabilities:

1. Raytel and a consolidated company of Raytel were the subject of a US Government investigation that began in June 2000. In June 2001, Raytel reached an agreement with the Government to resolve the issues that were the subject of the investigation. In addition, in September 2001, Raytel entered into a settlement agreement with the Government to resolve related civil claims under which Raytel agreed to pay USD 11,500 over a period of five years. Through December 31, 2003, USD 5,500 has been paid. The settlement agreement did not release Raytel or the consolidated company from any future claims arising out of their other business operations, including the trans-telephonic pacemaker operations conducted at its New Jersey facility that had not complied in all respects with certain technical requirements relating to the duration of testing sessions. These financial statements include an accrual, which the Group management believes is adequate for all anticipated claims and costs in connection with this matter.

2. At December 31, 2002, former members of Raytel's Board of Directors and other individuals were named as defendants in a purported class action lawsuit opposing the merger transaction between Raytel and NA. The plaintiff expanded this lawsuit to include additional defendants, including some of the Company's nominated Raytel Board members. The plaintiff generally alleged that the individual defendants breached their fiduciary duties of loyalty, good faith, and independence in connection with the proposed merger transaction by engaging in self-dealing. During 2003, the case was dismissed with prejudice.

3. The Company and its subsidiaries are, from time to time, a party to various other claims and disputes associated with various aspects of its ongoing business operations. In management's opinion, none of these other 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.

note 22 | Shareholders' equity

a the share capital is composed as follows:

	Authorized	Issued and outstanding
	December 31, 2002 and 2003	
	Number of shares	
Ordinary shares of NIS 0.01 par value each	14,000,000	10,663,373

Each of the Company's shares confers upon their holders the following rights:

1. Equal rights to participate in the distribution of a dividend, whether a cash dividend or bonus shares, in the distribution of assets or any other distribution according to ratio of the paid-in capital or credit as paid in over the nominal value of the share.

2. Equal rights to participate and vote in the Company's general meetings.

3. Equal rights regarding capital and participation in the distribution of the Company's surplus assets in a liquidation event, according to the ratio of the amounts of paid-in capital or credit as paid in over their nominal value.

b treasury shares:

During 2002 and 2003, the Company purchased 29,347 and 53,730 shares of its own shares, respectively. On July 9, 2003, the Board of Directors of the Company resolved to extend the period for its repurchase of its own shares until March 31, 2004, for up to an aggregate amount of USD 2,000 (including all shares purchased as of that date). To date, the Company purchased its own shares, in the amount of USD 463.

Shares held by the Company are treated and presented in the balance sheet as deduction from equity.

c share option plan:

In September 2000, the Company 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, the Company 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, the Company granted to employees and consultants of the 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 50% of the Options to be vested on the second anniversary of the date of the grant and an additional 25% to be vested on each of the third and fourth anniversaries of the date of the grant.

During 2001, the Company granted to employees and consultants of the 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 of the Options to be vested on each of the first, second and third anniversaries of the date of the grant.

In July 2002, the Company 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 the Company 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 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 2000 Share Option Plan and the 2002 International Share Option Plan shall further serve for purposes of the 2003 Share Option Plan (the 2000 Share Option Plan, the 2002 International Share Option Plan and the 2003 Share Option Plan, together – the "Option Plans").

In October 2003, the Company granted to employees and consultants of the Group and an executive member of the Board of Directors of the Company 113,560 Options to purchase 113,560 Ordinary shares under the terms of the 2003 Share Option Plan. One-third of such Options have an exercise price of CHF 6.89; one-third 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 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.

In December 2003, the Company 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 the Company. 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 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 re-

sult 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 the Company 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.
Generally, all Options granted under the Option Plans are valid for a term of 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 ESOP presented according to exercise price is as follows:

Exercise Price in CHF	Total outstanding at the beginning of year	Granted	Cancelled*)	Total outstanding at the end of year
		No. of Options		
34.00	417,112	–	411,097 **)	6,015
22.65	97,975	–	97,975 **)	–
5.9	–	388,501	729	387,772
6.89	–	113,560	–	113,560
	515,087	**502,061**	**509,801**	**507,347**

***) Options that are cancelled are returned to the pool and may be re-granted in the future.**
****) Including in Options Exchange.**

note 23 | Supplementary information to statements of operations

a revenues from sales of devices and services:

	2001	2002	2003
Sale of services in Israel	11,115	19,553	23,367
Sale of devices in Israel	12,767	12,840	4,242
Sale of services abroad	5,721 *	54,389 *	71,175 *
Sale of devices abroad	1,012 **	3,022 **	–
	30,615	**89,804**	**98,784**

*** Includes royalties and service fees from JV, in the amount of USD 5,700, USD 169 and USD 62 for the years ended December 31, 2001, 2002 and 2003, respectively (see Note 10a).**

**** Includes sale of devices to JV, in the amount of USD 600 and USD 3,000 for the years ended December 31, 2001 and 2002, respectively.**

b cost of sales of devices and services:

Salaries and related benefits	3,906	18,666	22,619
Cost of devices sold	4,410	4,442	2,308
Payment to service providers	–	5,431	8,325
Depreciation	276	2,440	2,642
Maintenance of ambulances and motor vehicles	363	353	443
Rental fees and maintenance	482	4,405	5,901
Materials and components	163	3,258	3,790
Communications, postage and freight	110	2,199	2,723
Others	926	2,859	3,374
	10,636	**44,053**	**52,125**

c research and development costs, net:

Salaries and related benefits	592	651	802
Amortization of research and development costs	474	415	672
Medical consulting	109	106	107
Others	431	479	234
	1,606	**1,651**	**1,815**
Less – capitalization of development costs	(1,132)	(1,236)	(1,143)
	474	**415**	**672**

d selling and marketing expenses:

Salaries and related benefits	1,833	3,345	5,115
Advertising	897	936	1,468
Depreciation	141	157	227
Rental fees and maintenance	204	282	311
Maintenance of motor vehicles	392	731	953
Others	639	1,554	2,121
	4,106	**7,005**	**10,195**

e general and administrative expenses:

Salaries and related benefits	2,507	11,232	12,977
Rental fees, maintenance and office expenses	519	5,049	6,581
Professional fees	740	2,491	2,027
Depreciation and amortization	827	3,397	4,807
Doubtful accounts and bad debts	901	3,387	4,533
Others	873	1,120	1,797
	6,367	**26,676**	**32,722**

f other expenses, net:

Capital loss from sale of fixed assets	124	19	11
Expenses in respect of prior years	26	380	70
Other	–	(382)	(57)
	150	**17**	**24**

note 24 | Earnings (loss) per share

a basic earnings per share:

	2001	2002	2003
Net income (loss)	**12,056**	**1,411**	**(10,195)**
Weighted average number of Ordinary shares for basic earnings per share	**10,663,373**	**10,634,026**	**10,580,296**
Per share amount	**1.13**	**0.13**	**(0.96)**

b diluted earnings per share:

Net income (loss)	**12,056**	**1,411**	**(10,195)**
Weighted average number of Ordinary shares for basic earnings per share	10,663,373	10,634,026	10,580,296
Share Option	152	–	1,394
Weighted average number of Ordinary shares for diluted earnings per share	**10,663,525**	**10,634,026**	**10,581,690**
Per share amount	**1.13**	**0.13**	**(0.96)**

note 25 | Segments information

a

1. The Company and its consolidated companies operate in two business segments:
Telemedicine services – providing monitoring services utilizing telephonic and Internet communication technology and selling related instruments through direct sales or by franchises.
Medical services – operating a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular disease. The segment also operates medical call center services which provide 24-hours doctor "house-call" services and medical consultation over the phone.
2. The Company and its consolidated companies also operate in several geographic segments. The segments are determined based on the location of the customers.

3. The assets of the segments include all of the operational assets, which are used by the segments and are comprised primarily of cash and cash equivalents, short-term deposits, trade receivables, other accounts receivable, postdated notes, prepaid expenses, inventory, fixed assets and intangible assets.
The liabilities of the segments primarily include trade payables, other accounts payable and accrued severance pay.
The assets and the liabilities of the segments do not include deferred taxes.

b business segments:

The following tables present revenue and profit information, and certain asset and liability information regarding business segments.

	Telemedicine services			Medical services		
	2001	2002	2003	2001	2002	2003
Segment revenues:						
Sales to external customers	30,615	52,409	51,420	–	37,395	47,364
Operating income before unallocated expenses	9,032	9,442	(472)	–	4,126	5,513
Share in losses and provision against shareholders' loan to JV	(2,644)	(7,353)	(5,601)	–	–	–
Segment result	6,388	2,089	(6,073)	–	4,126	5,513
Unallocated expenses						
Operating income *						
Financial income (expenses)						
Other expenses, net						
Taxes on income						
Minority interest						
Net income for the year						
Other business information:						
Segment assets	126,180	143,073	144,915	8,815	58,370	41,434
Other assets						
Segment liabilities	(6,549)	(14,074)	(13,742)	(1,911)	(10,961)	(8,625)
Other liabilities						
Capital expenditure	3,453	3,534	6,217	–	1,064	823
Depreciation and amortization	2,848	3,052	4,588	–	3,543	3,939

* **Includes share in losses and provision against shareholders' loan to JV.**

Consolidated		
2001	2002	2003
30,615	89,804	98,784
9,032	13,568	5,041
(2,644)	(7,353)	(5,601)
6,388	6,215	(560)
–	(1,913)	(1,971)
6,388	4,302	(2,531)
8,416	1,781	(4,705)
(150)	(17)	(24)
(2,598)	(3,230)	(1,022)
–	(1,425)	(1,913)
12,056	1,411	(10,195)
134,995	201,443	186,349
1,236	6,449	10,078
136,231	207,892	196,427
(8,460)	(25,035)	(22,367)
(32,698)	(92,398)	(87,930)
(41,158)	(117,433)	(110,297)
3,453	4,598	7,040
2,848	6,595	8,527

c geographic segments:

1. The following is segment revenue from external customers by geographical area, based on the geographical location of the customers:

	2001	2002	2003
Israel	23,882	32,393	27,609
Europe	6,733	3,286	62
USA	–	54,125	71,113
	30,615	**89,804**	**98,784**

2. The following is the total carrying amount of segment assets by geographical location of assets:

	2002	2003
Israel	129,740	123,396
Europe	2,427	914
USA	73,171	64,032
	205,338	**188,342**

3. The following is the total cost incurred during the year, to acquire segment assets that are expected to be used during more than one year (fixed assets and intangible assets) by geographical location of assets:

	2001	2002	2003
Israel	3,453	2,801	3,411
Europe	–	123	648
USA	–	1,674	2,981
	3,453	**4,598**	**7,040**

note 26 | Linkage terms of monetary balances

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

December 31, 2002	In or linked to: foreign currency (mainly US dollars)	In or linked to: Israeli CPI	Unlinked	Total
assets:				
Cash and cash equivalents	36,129	–	480	36,609
Short-term deposits	15,210	–	–	15,210
Trade receivables	21,456	200	1,993	23,649
Postdated notes	–	39,016	–	39,016
Other accounts receivable	3,765	271	272	4,308
Shareholders' loan to associate	2,000	–	–	2,000
	78,560	**39,487**	**2,745**	**120,792**
liabilities:				
Credit from banks and others	7,000	–	3,568	10,568
Trade payables	5,418	–	957	6,375
Other accounts payable	11,606	–	5,580	17,186
Long-term loans and leases from banks and others (including current maturities)	50,976	11,261	17,332	79,569
Accrued severance pay	–	–	1,474	1,474
	75,000	**11,261**	**28,911**	**115,172**

December 31, 2003	In or linked to: foreign currency (mainly US dollars)	In or linked to: Israeli CPI	Unlinked	Total
assets:				
Cash and cash equivalents	13,810	–	3,997	17,807
Short-term deposits	–	1,083	1,813	2,896
Marketable securities	4,404	–	991	5,395
Trade receivables	20,248	82	2,876	23,206
Postdated notes	–	42,008	–	42,008
Other accounts receivable	1,975	841	21	2,837
Long-term deposits	4,200	–	–	4,200
	44,637	**44,014**	**9,698**	**98,349**
liabilities:				
Credit from banks and others	7,210	–	17,387	24,597
Trade payables	6,697	–	892	7,589
Other accounts payable	6,825	–	6,507	13,332
Long-term loans and leases from banks and others (including current maturities)	44,233	10,272	6,542	61,047
Accrued severance pay	–	–	1,446	1,446
	64,965	**10,272**	**32,774**	**108,011**

note 27 Subsequent events

1. On January 20, 2004, the closing of the purchase agreement with PMSI was effected, in which STI acquired the shares of JV held by PMSI and assumed full responsibility for the JV (see Note 10c).

The financial statements of the JV are not consolidated in these financial statements as of December 31, 2003. STI will account for the acquisition under the purchase method.

2. On January 28, 2004, NA acquired Cardiac Evaluation Center Inc. and Cardiac Diagnostic Centers Inc. (together "CEC").

CEC is active in the transtelephonic cardiac monitoring business and has a strong regional presence in the Midwest US, based in Milwaukee, Wisconsin and Cleveland Ohio. CEC services some 35,000 patients annually with revenues amounting to some USD 5,500. CEC currently has some 60 employees.

The overall acquisition price for CEC's business including special proprietary software and future consulting services of CEC's President and sole shareholder will amount to some USD 6,400. NA will account for the acquisition under the purchase method.

3. On January 20, 2004, Bikurofe Ltd., a wholly-owned subsidiary of the Company, entered into an agreement with a clinic for the acquisition of their business activities.

The consideration for the transaction amounted USD 1,390, USD 695 to be paid at the closing date, no later than February 19, 2004, and USD 695 to be paid in 36 equal monthly installments linked to Israel's CPI.