



Letter to Shareholders

2016 is a year of transition for SHL. After the discussions with Shanghai Jiuchuan Investment (Group) Co., Ltd. last year, responsibility both in the Board of Directors and the leadership team was put into new hands.

Financial results in the first half-year are to be seen on this backdrop. Adjusted revenues^a were USD 18.3m, down 2.7% from the previous half-year. Adjusted EBITDA^a is USD 0.8m, compared to an adjusted EBITDA^a of USD 1.3m in the first half-year 2015. It resulted in an adjusted net loss^a of USD 2.5m versus an adjusted net loss^a of USD 1.8m in the first half 2015.

In Germany, adjusted revenues^a increased by 6.4% to USD 8.3m million (7.2% in local currency). The increase is attributed to the impact of the acquisition of GPH (Gesellschaft für Patientenhilfe) which was first consolidated on 1 April 2015. In order to finance the acquisition of GPH SHL received a long term loan of EUR 7m from a German bank, thus securing a level of free cash in hand.

In Israel, adjusted revenues^a were USD 9.9 million, down 9.2% (9.9% in local currency). The decline is mainly related to lower revenues from institutional clients. In May, SHL announced that Eran Kristal was appointed as General Manager, responsible for the management of SHL's operation in Israel. He commenced his position by the end of May with his main goal to accelerate the growth and profitability in Israel, where SHL is a market leader.

The results for the first half-year 2016 indicate that a first strategic priority is to improve profitability. This is being done by streamlining our operations

on all fronts and reducing our cost base. The initial impact was already seen in the second quarter of 2016 and led to a reduction in the free cash burn rate. The reduction in costs should continue to further materialize during the course of the year with the full impact seen in 2017.

In terms of defining SHL's way forward, the Board of Directors and the leadership team have been thoroughly analysing customer needs and market potential in the existing and new territories. It is clear that our initial focus will be on expanding our existing platforms in Germany and Israel, where we see growth opportunities, by leveraging our unique assets and market knowhow. In parallel, we are driving the monetization of the smartheart™ platform, as it offers a lot of potential and analysing different opportunities in new territories

We have recently witnessed the investment by Mrs. Cai Mengke, the co-founder and Non-Executive Vice Chairman of, Zhuhai Hokai Medical Instruments Co. Ltd ("Hokai") in SHL's shares. Hokai has significant knowhow and access to the Chinese healthcare market and Mrs. Cai's investment represents a strong trust in SHL's products, management and its value for the Chinese market.

I thank you for your trust in SHL and look forward to reporting on the further development of SHL.



Uzi Blumensohn
Chairman of the Board

Sincerely,



Yuval Shaked
CEO

Half-Year Report 2016

Financial Highlights

a. Adjusted Financial Information

in USD million (except per share amounts)	H1 2016	H1 2015	% change
Adjusted revenues ^b	18.3	18.8	(2.7)%
• Germany	8.3	7.8	6.4%
• Israel	9.9	10.9	(9.2)%
• Other	0.1	0.1	-
Adjusted LBIT ^b	(1.8)	(1.2)	n.a
Adjusted EBITDA ^b	0.8	1.3	(38.5)%
Adjusted net loss ^b	(2.5)	(1.8)	n.a
Adjusted LPS	(0.24)	(0.17)	n.a
Adjusted free cash flow ^{1,2}	(1.3)	(2.2)	n.a

b. Reconciliation to Adjusted Financial Information

	Revenues	EBIT/ (LBIT)	EBITDA/ (LBITDA)	Net income (loss)
H1 2015 as reported	21.1	0.8	3.8	0.2
One-time settlement agreement with past customer	(0.7)	(1.8)	(1.8)	(1.8)
Change in revenue estimate	(1.6)	(1.6)	(1.6)	(1.6)
Amortization of acquisition intangibles and stock based compensation	-	0.7	0.2	0.7
Restructuring charges	-	0.7	0.7	0.7
H1 2015 adjusted	18.8	(1.2)	1.3	(1.8)
H1 2016 as reported	17.4	(3.7)	(0.5)	(4.4)
Change in revenue estimate	0.9	0.9	0.9	0.9
Amortization of acquisition intangibles and stock based compensation	-	1.0	0.4	1.0
H1 2016 adjusted	18.3	(1.8)	0.8	(2.5)

1. Free cash flow – operating cash flow less purchase of capex and investment in intangible assets

2. Excluding a one-time payment received in H1 2015 of Euro 4.2 m related to a settlement agreement reached with a German health insurer

Adjusted figures

SHL has provided certain adjusted financial information to aid investors in better understanding the company's performance. Presenting these adjusted measures gives additional insight into operational performance and helps clarify trends affecting the company's business. For comparability of reporting, management considers this information in conjunction with GAAP amounts in evaluating business performance. These adjusted financial measures should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

INDEX

5	Report on Review of Interim Condensed Consolidated Financial Statements
6	Condensed Consolidated Balance Sheets
8	Condensed Consolidated Statements of Comprehensive Income (Loss)
9	Condensed Consolidated Statements of Changes in Equity
10	Condensed Consolidated Statements of Cash Flows
13	Notes to Interim Condensed Consolidated Financial Statements

The Shareholders and Board of Directors SHL Telemedicine Ltd.

Re: Report on review of interim condensed consolidated financial statements

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of SHL Telemedicine Ltd. ("the Company") and its subsidiaries as of June 30, 2016, and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters,

and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Tel-Aviv, Israel

September 15, 2016

Kost Forer Gabbay and Kasierer

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

CONDENSED CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4,200	7,463	4,005
Short-term investments	4,554	4,689	4,551
Trade receivables	5,110	15,490	7,075
Prepaid expenses	1,323	1,371	1,304
Inventory	3,469	2,861	3,268
Other accounts receivable	1,260	3,454	1,238
	19,916	35,328	21,441
NON-CURRENT ASSETS:			
Prepaid expenses	5,920	5,917	5,735
Long-term deposits	1,362	948	1,357
Deferred taxes	3,769	4,591	4,011
	11,051	11,456	11,103
PROPERTY AND EQUIPMENT:			
Cost	64,441	65,676	62,619
Less - accumulated depreciation	(54,423)	(51,573)	(51,915)
	10,018	14,103	10,704
GOODWILL	15,320	15,037	14,648
INTANGIBLE ASSETS, NET	15,695	19,332	16,558
Total assets	72,000	95,256	74,454

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

CONDENSED CONSOLIDATED BALANCE SHEETS U.S. dollars in thousands

	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities	6,710	10,619	10,351
Deferred revenues	2,035	1,870	1,828
Trade payables	1,527	1,319	1,015
Other accounts payable	5,466	5,971	6,840
	15,738	19,779	20,034
NON-CURRENT LIABILITIES:			
Long-term loans	14,595	11,532	9,448
Deferred revenues	529	585	523
Deferred taxes	886	1,259	1,076
Employee benefit liabilities	854	862	776
	16,864	14,238	11,823
Total liabilities	32,602	34,017	31,857
EQUITY:			
Issued capital	31	31	31
Additional paid-in capital	95,712	95,229	95,380
Treasury shares	(2,440)	(2,440)	(2,440)
Foreign currency translation reserve	(3,262)	(2,016)	(4,086)
Capital reserve for available-for sale investments and remeasurement gains on defined benefit plans	700	568	660
Accumulated deficit	(51,343)	(30,133)	(46,948)
Total equity	39,398	61,239	42,597
Total liabilities and equity	72,000	95,256	74,454

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

September 15, 2016
Date of approval of the
financial statements


Uzi Blumensohn
Chairman of the Board


Yuval Shaked
CEO

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands (except per share amounts)

	Six months ended June 30,		Year ended
	2016	2015	December 31,
	Unaudited		Audited
Revenues	18,290	21,085	40,673
Change in revenues estimate	(948)	-	(6,092)
Total revenues	17,342	21,085	34,581
Depreciation and amortization	1,087	1,255	2,470
Cost of revenues	9,284	8,590	18,088
Gross profit	6,971	11,240	14,023
Research and development costs	1,491	1,120	2,690
Selling and marketing expenses	4,577	5,405	10,794
General and administrative expenses	4,652	3,402	8,052
Other expenses	-	522	7,876
Operating income (loss)	(3,749)	791	(15,389)
Financial income	134	561	878
Financial expenses	(416)	(673)	(1,261)
Income (loss) before taxes on income	(4,031)	679	(15,772)
Taxes on income	364	499	863
Net income (loss)	(4,395)	180	(16,635)
Other comprehensive income (loss) (net of tax effect):			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains on defined benefit plans	-	-	90
	-	-	90
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Transfer to the profit or loss in respect of available-for-sale investments	37	(100)	(74)
Gain on available-for-sale investments	3	28	4
Foreign currency translation reserve	824	(484)	(2,554)
Total other comprehensive income (loss)	864	(556)	(2,534)
Total comprehensive loss	(3,531)	(376)	(19,169)
Earnings (loss) per share:			
Basic and diluted earnings (loss)	(0.42)	0.02	(1.59)

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Capital reserve for available-for-sale investments and remeasurement gains on defined benefit plans**	Accumulated deficit	Total
Balance as of January 1, 2015 (audited)	31	95,189	(2,619)	(1,532)	640	(30,313)	61,396
Exercise of options	* -	(170)	179	-	-	-	9
Share-based payments	-	361	-	-	-	-	361
Net loss	-	-	-	-	-	(16,635)	(16,635)
Total other comprehensive loss	-	-	-	(2,554)	20	-	(2,534)
Balance as of December 31, 2015 (audited)	31	95,380	(2,440)	(4,086)	660	(46,948)	42,597
Share-based payments	-	332	-	-	-	-	332
Net loss	-	-	-	-	-	(4,395)	(4,395)
Total other comprehensive income	-	-	-	824	40	-	864
Balance as of June 30, 2016 (unaudited)	31	95,712	(2,440)	(3,262)	700	(51,343)	39,398

* Represents an amount lower than \$ 1.

** As of June 30, 2016 the capital reserve for available for sale investments is in the amount of \$ 228 and the capital reserve on actuarial gains is in the amount of \$ 472. As of December 31, 2015 the capital reserve for available for sale investments amounts to \$ 188 and the cumulative gains on defined benefit plans amounts to \$ 472.

	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Capital reserve for available-for-sale investments and remeasurement gains on defined benefit plans**	Accumulated deficit	Total
Balance as of January 1, 2015 (audited)	31	95,189	(2,619)	(1,532)	640	(30,313)	61,396
Exercise of options	* -	(170)	179	-	-	-	9
Share-based payments	-	210	-	-	-	-	210
Net Income	-	-	-	-	-	180	180
Total other comprehensive loss	-	-	-	(484)	(72)	-	(556)
Balance as of June 30, 2015 (unaudited)	31	95,229	(2,440)	(2,016)	568	(30,133)	61,239

* Represents an amount lower than \$ 1.

** As of June 30, 2015 the capital reserve for available for sale investments is in the amount of \$ 186 and the capital reserve on actuarial gains is in the amount of \$ 382. As of December 31, 2014 the capital reserve for available for sale investments is in the amounts of \$ 258 and the capital reserve on actuarial gains is in the amount of \$ 382.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended
	2016	2015	December 31,
	Unaudited		Audited
Cash flows from operating activities:			
Net income (loss)	(4,395)	180	(16,635)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortization	3,386	3,015	6,336
Capital gain from sale of property and equipment	-	(6)	(26)
Impairment of property, plant and equipment	-	-	877
Impairment of intangible assets	-	-	1,800
Change in employee benefit liabilities, net	66	77	20
Financial expenses, net	282	112	383
Cost of share-based payments	332	210	361
Taxes on income	364	499	863
	4,430	3,907	10,614
Changes in operating assets and liabilities:			
Decrease in trade receivables, net	1,782	1,305	9,118
Increase in inventory	(155)	(641)	(387)
Increase in prepaid expenses	(101)	(236)	(238)
Decrease (increase) in other accounts receivable	(11)	76	2,183
Increase (decrease) in trade payables	(552)	280	(739)
Increase (decrease) in deferred revenues	164	(38)	(126)
Increase (decrease) in short and long-term other accounts payable	(897)	(140)	790
	230	606	10,601
Cash paid and received:			
Interest received	71	163	223
Interest paid	(320)	(394)	(758)
Income taxes paid	(276)	(45)	(65)
	(525)	(276)	(600)
Net cash provided by (used in) operating activities	(260)	4,417	3,980

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended
	2016	2015	December 31,
	Unaudited		Audited
Cash flows from investing activities:			
Purchase of property and equipment	(378)	(909)	(1,230)
Investment in intangible assets	(585)	(882)	(1,520)
Long-term deposit	-	-	(516)
Acquisition of GPH (a)	-	(6,140)	(6,236)
Proceeds from sale of property and equipment	-	7	32
Purchase of financial assets	(518)	(989)	(1,326)
Proceeds from sale of financial assets	584	10,667	11,328
Net cash provided by (used in) investing activities	(897)	1,754	532
Cash flows from financing activities:			
Proceeds from exercise of options	-	9	8
Short term bank credit, net	(4,790)	-	-
Proceeds from long-term loans	7,808	-	138
Payment of long-term loans	(1,706)	(1,613)	(3,313)
Net cash provided by (used in) financing activities	1,312	(1,604)	(3,167)
Effect of exchange rate changes on cash and cash equivalents	40	129	(107)
Increase in cash and cash equivalents	195	4,696	1,238
Cash and cash equivalents at the beginning of the period	4,005	2,767	2,767
Cash and cash equivalents at the end of the period	4,200	7,463	4,005

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended
	2016	2015	December 31,
	Unaudited		Audited
(a) Acquisition of GPH:			
Working capital (excluding cash)	-	179	179
Property and equipment	-	(1,169)	(1,169)
Intangible assets	-	(6,466)	(6,562)
Deferred taxes	-	1,316	1,316
	-	(6,140)	(6,236)
(b) Non-cash transactions:			
Purchase of property and equipment on credit	-	53	77

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1 | GENERAL

a. These consolidated financial statements have been prepared in a condensed format as of June 30, 2016, and for the six months then ended. These condensed consolidated financial statements are to be read in conjunction with the annual consolidated financial statements and accompanying notes of SHL Telemedicine Ltd. (“the Company”) as of December 31, 2015 and for the year then ended (“the annual financial statements”).

b. Following are data regarding the Israeli CPI and the exchange rates of the Euro, U.S. dollar and the Swiss Franc in relation to the new Israeli Shekel (NIS);

	Israeli CPI Points	Exchange rate of € 1 NIS	Exchange rate of U.S. \$ 1 NIS	Exchange rate of 1 CHF NIS
For the period ended				
June 30, 2016	221.1	4.28	3.85	3.94
June 30, 2015	222.9	4.22	3.77	4.05
December 31, 2015	221.1	4.25	3.9	3.92
Change during the period	%	%	%	%
June 2016 (6 months)	-	(0.3)	(0.1)	1.3
June 2015 (6 months)	(0.2)	(10.7)	(3.1)	3.2
December 2015 (12 months)	(1)	(9.9)	0.25	(0.25)

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim consolidated financial statements:

The interim condensed consolidated financial statements for the six months ended June 30, 2016 have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, “Interim Financial Reporting. The significant accounting policies and methods of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements.

NOTE 3 | TRANSACTIONS AND MATERIAL EVENTS DURING THE REPORTING PERIOD

a. ACQUISITION OF GPH (Gesellschaft für Patientenhilfe)

Further to Note 3 to the annual financial statements, during the measurement period (period limited to 12 months after the acquisition date during which initial amounts recognized for a business combination may be adjusted), the Company received information regarding the fair value of the trade receivables of GPH as of the acquisition date according to which the level of cost savings is lower than previously estimated. Based, among others, on the revised information during the reported period, the Company received an updated final allocation of the fair value of the assets and liabilities from an independent valuation specialist.

Based on the updated allocation, the fair value of the trade receivables was reduced by \$ 560, the deferred tax liability was reduced by \$ 134 and the goodwill arising on acquisition was increased by \$ 426. Due to the immateriality of the effects of the changes on the balance sheet, the comparative data for the prior year were not adjusted.

b. In January 2016, the Company's Board of Directors appointed Yuval Shaked as the Company's Chief Executive Officer effective March 2, 2016, replacing Erez Alroy and Yariv Alroy, the Co-CEOs, who stepped down on January 15, 2016.

c. Further to Note 21 to the annual financial statements, during the period, the Board of Directors approved the grant of 468,804 options to director and employees (398,804 of them to the CEO), under the 2015 Executive and Key Employee Israeli Share Option Plan. The options vest over a period of 3 years after the grant date (33% after 1 year, and 833% each quarter thereafter). The total fair value of the options granted is CHF 1,118 (\$ 1,120).

d. In January 2016, the Company's German subsidiary received a long-term loan from a bank in Germany in the amount of Euro 7,000 (\$ 7,808) to be repaid in 32 equal quarterly installments beginning September 2016. The loan bears annual interest of 3.45%.

The loan contains certain general default and financial covenants related to the Company's German operations including: (i) tangible equity to total assets of at least 18% in 2016, and 20% for the following years; (ii) net debt to EBITDA at the maximum of 1:3 in 2016, 1:2.75 until June 30, 2017 and 1:2.5 in each following period.

e. In May 2016, the Company received further results of the evaluation of annual performance-based contracts, according to which the level of cost savings is lower than previously estimated. Based on these results, the Company adjusted its estimate of performance-based revenues and reduced income receivable by \$ 948 as of June 30, 2016.

This adjustment is presented in the statement of comprehensive income as a change in revenues estimate.

NOTE 4 | FINANCIAL INSTRUMENTS

The following table shows the measurement hierarchy of financial assets measurement at fair value:

	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
	(Level 1)		(Level 1)
Available for sale			
investments	1,681	1,742	1,663
Financial assets at fair			
value through profit or loss	2,873	2,947	2,888
	4,554	4,689	4,551

NOTE 5 | SEGMENT INFORMATION

As presented in the annual financial statements, the Group operates in three geographic segments: Israel, Europe and Rest of world. Revenues are allocated based on the location of the end customer.

a. Segment revenues:

	Six months ended		Year ended
	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
Sales to external customers:			
Europe	7,317	10,098	13,414
Israel	9,944	10,913	21,069
Rest of world	81	74	98
Total revenues in financial statements	17,342	21,085	34,581

b. Segment profit:

	Six months ended		Year ended
	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
Europe	(2,928)	1,654	(7,233)
Israel	765	1,473	(81)
Rest of world	(751)	(1,293)	(2,928)
	(2,914)	1,834	(10,242)
Corporate and R&D expenses	(835)	(1,043)	(5,147)
Operating income (loss)	(3,749)	791	(15,389)
Financial expenses, net	(282)	(112)	(383)
Income (loss) before taxes on income	(4,031)	679	(15,772)

NOTE 6 | SUBSEQUENT EVENTS

a. In July 2016, the Company's Board of Directors appointed Ehud Ben Yair as the Company's Chief Financial Officer effective September 15, 2016 to replace Eran Antebi, the acting CFO.

b. In August 2016, the Company was informed by Cai Mengke, a Chinese investor, of the purchase of approximately 30% of the shares of the Company from the Copper Valley Finance Ltd./Prime Finance Corporation/Eli Alroy/Barak Capital Ltd. Shareholding Group.

Information For Investors

Capital structure

The issued share capital is divided into 10,489,333 registered shares with a par value of NIS 0.01 each (excluding 389,158 ordinary shares of NIS 0.01 par value each held by SHL)

Significant shareholders'

As of June 30, 2016, SHL was aware of the following shareholders with more than 3% of all voting rights in the company.

	Number of Ordinary Shares Held	% Including Treasury shares	% Excluding Treasury shares
Copper Valley Finance Ltd./ Prime Finance Corporation/ Eli Alroy/Barak Capital Ltd.	3,245,724	29.84%	30.95%
Alroy Group	2,782,608	25.58%	26.53%
G.Z. Assets and Management Ltd. Himalaya Asset Management Limited	921,533 580,093	8.47% 5.33%	8.79% 5.53%
SHL Treasury shares	389,158	3.58%	-

The above table of Significant Shareholders reflects both actual holdings as of June 30, 2016, after deducting from the total number of shares outstanding 389,158 Ordinary Shares held by SHL, and actual holding as of June 30, 2016 calculated including ordinary shares held by SHL, all as indicated above, but does not reflect holding on a fully diluted basis. All in accordance with notifications received by the Company from shareholders and the SAG registrar as of June 30, 2016.

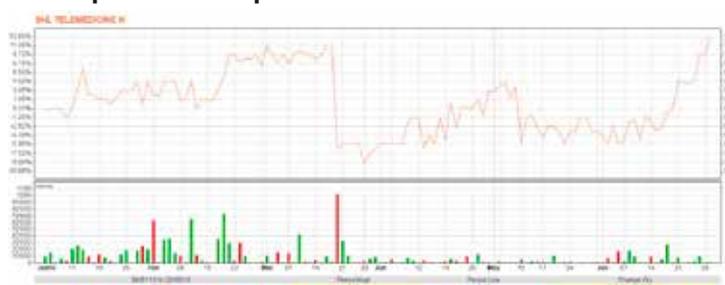
Statistics on SHL Telemedicine as at June 30, 2016

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares*	10,489,333
Market price high/low (CHF)	7.48/5.55
Market capitalization high/low (CHF million)	78.5/58.2
Market capitalization 30/06/16 (CHF million)	74.5
Share capital – nominal value (NIS)	104,893

* Excluding 389,158 ordinary shares held by SHL.

Share price development



Listing

All SHL shares are listed on SIX Swiss Exchange

Ticker symbol: SHLTN

Currency: CHF

Listing date: November 15, 2000

Company has an ADR program

on the OTCBB Ticker symbol: SMDCY

Investor relations

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