SHL

Annual Report 2004

SHL TeleMedicine Ltd.

Corporate Statement

SHL TeleMedicine Ltd., based in Tel Aviv, Israel, specialises 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 operation: SHL provides services in the USA through its wholly owned subsidiary Raytel Medical Corporation, a cardiovascular healthcare service provider, in Europe through its wholly owned subsidiary Personal Healthcare Telemedicine Services 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	2004	2003
Employees	1,266	1,207
Revenues	103,052	98,784
LBIT/EBIT	(1,708)	3,070
EBITDA	2,670	11,418
Net loss attributable to shareholders of SHL	(6,091)	(10,195)
Net loss	(4,717)	(8,282)
Total assets	195,743	196,427
Equity	81,515	87,557
Gross profit margin	43.3%	47.0%

Details per share		
Net loss per share	(0.58)	(0.96)
Return on equity	n.m	n.m.

Contents

2004 – A year of preparation for growth

As SHL Telemedicine stands on the brink of yet another year I wish to report on the Company's progress during 2004 - a year that saw us lay the foundations for future growth in our major markets - the US, Germany, and Israel

In the US, our telemedicine business, Raytel Cardiac Services (RCS), is progressing well. During the year we expanded our basic telemedicine monitoring activities by the acquisition of a regional company in the mid west and also began the process of entering into new fields, which we believe will be significant revenue drivers in the future. These include cooperation with St. Jude Medical (the world's leading mechanical heart valve company) for the promotion of our new INR@Home anticoagulation blood monitoring system. Raytel Diagnostic Services (RDS) experienced a disappointing year where a weakening in the market and increasing competition contributed to reduced volumes and margins from previous years. As part of our strategy to focus on our core telemedicine activities we are exploring strategic alternatives with regards to this division.

At the beginning of 2004 we carried out a restructuring of our European activities, Personal Healthcare Telemedicine Services (PHTS) following the assumption of full ownership from Philips. Special emphasis was placed on completing a series of studies in cooperation with German healthcare insurers and research institutes on the benefits of utilising SHL cardiac telemedicine monitoring programs. The results of the studies unequivocally confirmed considerable improvements in care and quality of life of chronic heart disease patients while significantly reducing the costs of treating these patients, including those with congestive heart failure (CHF).

As a result we were pleased to announce earlier this month on the signing of an important agreement with a German health insurer for the introduction of this telemedicine solution for their chronic heart disease patients. This development marks an important milestone in PHTS's growth in Germany and we expect to record significant revenues from this activity already in 2005.

In Israel our business activities have remained stable. We have responded to evolving market needs by offering an additional program for new prospective subscribers wishing to join the service, which is based on a fixed monthly payment, making it easier for them to join the service.

Although revenues for the year increased by 4.3% to USD 103.1 million, the Company recorded losses of USD 4.7 million compared with USD 8.3 million in 2003. Losses attributable to the shareholders of SHL amounted to USD 6.1 million compared with USD 10.2 million in 2003. The net loss per share amounted to USD 0.58 compared to a net loss per share of USD 0.96 in the previous year. The loss was mainly due to the weakness in performance of the diagnostic services sector in the US and other reorganisation costs.

The significant worldwide increase in life expectancy, and the increasing burden of elderly care and healthcare costs, is bringing a greater need for more efficient utilisation of resources like telemedicine. Focused mainly on servicing cardiac and related illnesses, SHL's products and services aim to maintain the highest levels of excellence in the solutions it provides while reducing costs. We are pleased that today all of the participants in the healthcare industry cycle, professionals, healthcare insurance companies and individual patients acknowledge the contribution that SHL's telemedicine programs are making. With solid building blocks laid for the future coupled with our continued innovation in the telemedicine field we are confident that we are set for a bright future.

As we look forward to the years to come, I wish to thank our partners and shareholders for the valuable and continued support we have received and, especially express our gratitude to all of SHL's employees worldwide.

Sincerely

Yoram Alroy,
Chairman and President

Sowing the seeds for the future

Revenues for 2004 increased by 4.3% to USD 103.1 million. However, the Company, recorded losses of USD 4.7 million compared with USD 8.3 million in 2003. Losses attributable to the shareholders of SHL amounted to USD 6.1 million compared with USD 10.2 million in 2003. The losses are mainly due to a continued weakness in the diagnostic services sector in the US and other reorganisation costs.

In 2004, overall revenues increased by 4.3 % to USD 103.1 million against USD 98.8 million in 2003. Revenues from abroad now comprise 75% compared to 71% in the previous year. EBITDA and LBIT amounted to USD 2.7 million and USD 1.7 million, respectively compared with an EBIT of USD 3.1 million and an EBITDA of USD 11.4 million in 2003. EBITDA and LBIT margins stood at 2.6 % and (1.6)%, respectively compared to 3.1% and 11.6% in 2003. Losses for the year amounted to USD 4.7 million compared with USD 8.3 million in 2003. Losses attributable to the shareholders of SHL amounted to USD 6.1 million compared to USD 10.2 million in 2003. Loss per share amounted to USD 0.58 compared to USD 0.96. The losses were mainly due to a continued weakness in the performance of the diagnostic services sector in the US and other reorganisation costs.

During 2004 SHL's operating cash flow improved dramatically. Prior to the inclusion of Personal Healthcare Telemedicine Services (PHTS) operations in Germany, which were funded by funds received from Philips, operating cash flow amounted to USD 7.6 million compared to USD 645 thousand in 2003. During the year the Company repaid loans and other debt, net of loans received by an amount of USD 6.6 million.

The US

During 2004 Raytel Cardiac Services (RCS) performed satisfactorily. A new CEO was appointed and he has begun a drive to increase the Company's activities. At the beginning of the year RCS expanded its telemedicine monitoring activities with the acquisition of Cardiac Evaluation Center (CEC), which serves some 35,000 patients in the mid west of America. RCS also entered into new fields that included an exclusive marketing alliance with St. Jude Medical (the world's leading mechanical heart valve company) for the promotion of the INR@Home anticoagulation blood monitoring system that is expected to be a significant revenue driver in the future.

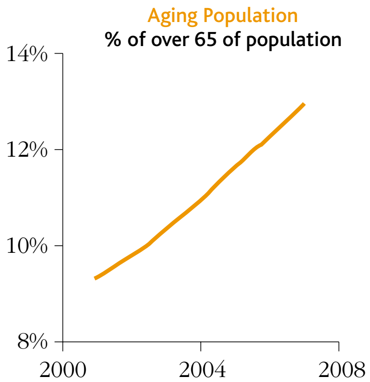
Raytel Diagnostic Services (RDS) experienced a disappointing year where a weakening in the market and increased competition in its local markets contributed to reduced volumes and margins from previous years. As part of SHL's strategy to focus on its core telemedicine activities SHL is exploring strategic alternatives with regards to this division.

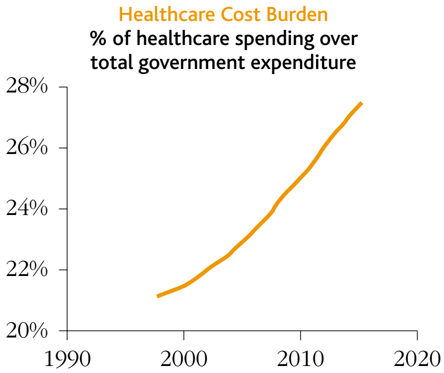
Europe

At the beginning of the year, SHL assumed full ownership from Philips of PHTS and went through an extensive restructuring process, which included the appointment of a new management team at the German operation and curtailment of the operation in Italy.

With the significant increase in life expectancy and the ever-increasing proportion of aging population as forecast below, bringing about an increased burden of elderly care and healthcare costs, there is a much greater need for more efficient utilisation of resources like telemedicine.

SHL is poised for significant growth in Germany





Source: Statistical database of the World Health Organization (WHO)

As a result, a series of studies were conducted in cooperation with German healthcare insurers and research institutes on the benefits of utilising SHL telemedicine monitoring solutions. The results of the studies unequivocally confirmed considerable improvements in care and quality of life for chronic heart disease patients while reducing the costs of treating these patients, including those with congestive heart failure (CHF) by up to 60%. The cost savings were achieved by, for example, a reduction of hospital admissions and hospitalisation days.

Based on the studies results SHL was pleased to announce earlier this month on the signing of an important agreement with a German health insurer for the introduction of SHL's telemedicine solution for their chronic heart disease patients. This development marks an important milestone in PHTS's growth in Germany and SHL expect to record significant revenues from this activity already in 2005. SHL anticipates that it will enter into cooperation with additional German healthcare insurers in 2005.

Israel

In its home market SHL continues to be the leader in the provision of telemedicine services with over 70,000 subscribers. SHL has responded to market needs by offering an additional program for new prospective subscribers wishing to join the service, which is based on a fixed monthly payment, making it easier for them to join the service. This will result in the future in an increase in service revenue with a decline in revenue from device sales.

Looking ahead

In 2004 SHL has sown the seeds for future growth in its core telemedicine activities as evidenced by the successful studies conducted in Germany and the exclusive marketing alliance signed in the US with St. Jude Medical for the promotion of the INR@Home service.

SHL believes the foundations laid during 2004, the continued development of state of the art products and the greater worldwide acknowledgment of the benefits of telemedicine promise that SHL is poised for expansion and growth in 2005 and beyond.

The SHL Telemedicine Solution

Personal telemedicine offers centralized remote diagnostic and monitoring services to end-users, making use of sophisticated computer systems, hi-tech devices, and specially designed medical data protocols.

SHL Telemedicine specializes in developing and marketing advanced and integrated personal telemedicine solutions. The SHL approach offers solutions not only to subscribing patients, but also to health insurance companies, hospitals and clinics, physicians and other health care providers.

SHL believes in harnessing technological innovation for the benefit of its users, offering sophisticated yet user-friendly modern devices designed to high quality specifications. Fully integrated into the advanced hi-tech modular call centre software, the devices can be adapted to work together to offer a comprehensive service suiting a variety of health conditions. These include cardiovascular diseases, high blood pressure, respiratory problems, hypertension and obesity. For each particular condition SHL has designed a specific package containing the relevant and optimal tools and services. This tailored package enables subscribers to communicate the necessary information concerning their specific condition, and to receive assessment and expert advise from the comfort of their own homes.

At the heart of SHL's telemedicine solution lies the Medical Call Centre (MCC), operating around the clock to provide premium service to subscribers'. Experienced and highly trained nurses are able to instantly give the caller personal attention by examining the caller's own medical history on-screen using SHL's proprietary medical record software. This is the first step in assessing and diagnosing the caller's condition, as well as offering the caller a sense of familiarity and comfort.

The medical call centre staff subsequently follow propriety communication protocols with the subscriber and evaluate the situation based on the subscriber's symptoms, real-time medical data transmission, and individual medical history . In some cases subscribers who have not contacted the MCC within pre-arranged time periods are called automatically, ensuring consistent monitoring patterns and on-going interaction between subscribers and SHL staff.

Applying the SHL Telemedicine approach offers users medical, economic and emotional benefits. Advantages from a medical point of view include reduced emergency response time, i.e saving lives, increased compliance to medication and an accurate, frequent real-time analysis of the subscriber's condition.

The economic benefits are, among others, a reduction in hospitalisation costs by reducing hospital admissions and hospitalisation days, optimisation of contacts with general practitioners and specialists and generally a more cost efficient healthcare system. Last but certainly not least are the emotional benefits SHL affords its users. Subscribers experience a sense of security and mobility, which contribute generally to an increased quality of life. Perhaps most importantly, the SHL solution gives people peace of mind and the knowledge that precise and personal medical expertise is only a phone call away.

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 development of its business and does not anticipate paying any cash dividends in the forseeable future.

Significant shareholders'

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

Royal Philips Electronics	18.76%
Alroy Group	18.72%
Tower Holdings B.V.	14.32%
G.Z. Assets and Management Ltd.	8.73%
Public	39.47%

The above table of Significant shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2004, after deducting from the total number of shares outstanding 112,469 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Statistics on SHL Telemedicine shares as at December 31, 2004

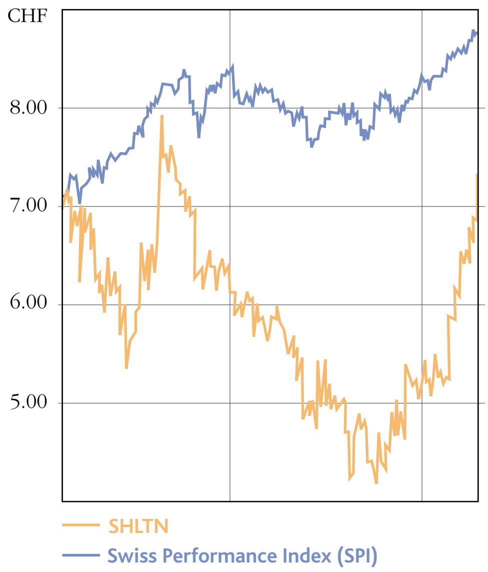
Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,663,373
Market price high/low (CHF)	8.1/4.3
Market capitalization high/low (CHF million)	86.3/45.9
Market capitalization 31/12/04 (CHF million)	57.0
Share capital – nominal value (NIS)	106,633
Majority interests	60.53%

Key figures per share at Decmber 31, 2004

Net loss per share attributable to equity holders of SHL (USD)	(0.58)
Return on equity	n.m.

Share price development



Listing

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

Investor relations

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Annual General Meeting

May 19, 2005

Next Publications

Q1 Results:	May 26, 2005
Q2 Results:	August 23, 2005
Q3 Results:	November 22, 2005

Corporate Governance 2004

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SHL TeleMedicine Ltd. Corporate Governance Report

In this section of our 2004 Annual Report we are happy to bring to you our Corporate Governance Report in order to give all those who are interested in the future of SHL a greater understanding of who we are.
The principles and rules of SHL on corporate governance are laid down in the Articles of Association of SHL and the Israeli Companies Law, 5759-1999 (the "Israeli Companies Law"). The information presented here is as of December 31, 2004, and complies with the Corporate Governance Directive of the SWX Swiss Exchange.

Group Structure and Shareholders

Group Structure

Description of all companies belonging to the SHL group:

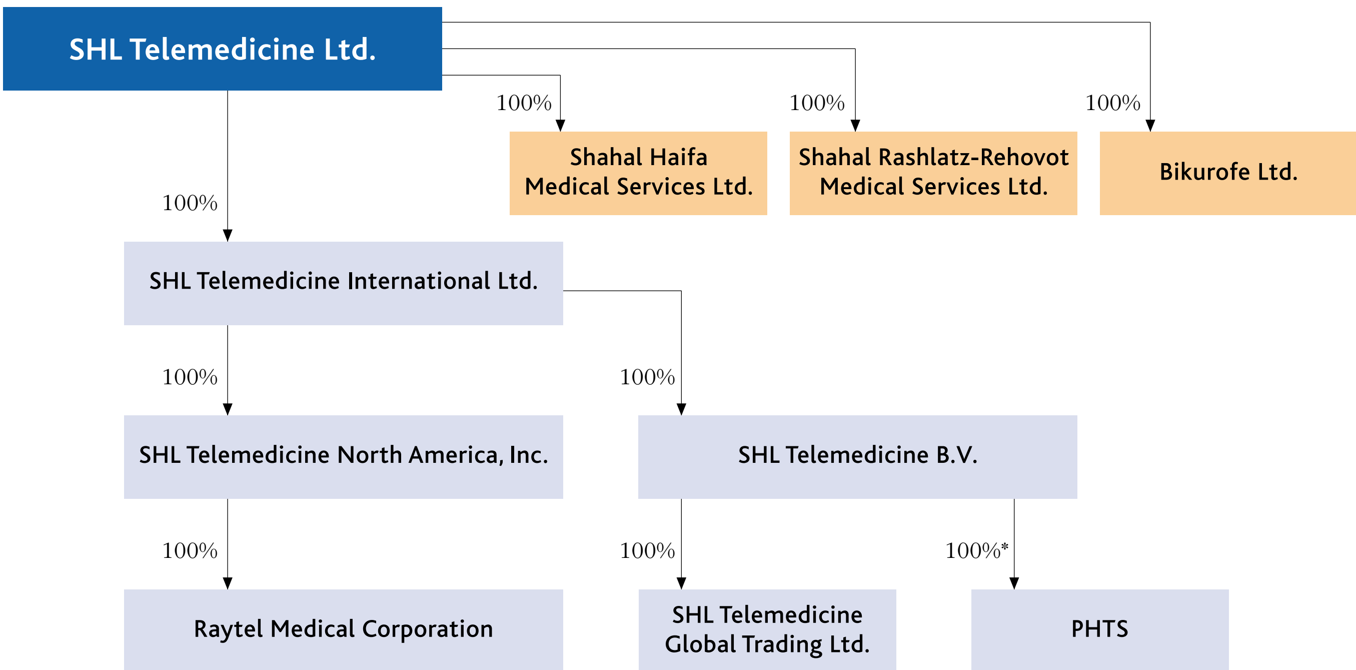
SHL TeleMedicine Ltd. ("SHL")

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 is NIS 106,633.73 divided into 10,663,373 fully paid registered ordinary shares of NIS 0.01 par value each (including 112,469 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 17). The registered shares of SHL are traded on the main board of the SWX Swiss Exchange, security no. 1128957, ISIN IL0010855885. As at December 31, 2004, SHL's market capitalization was CHF 57 million. SHL's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

Shahal Haifa - Medical Services Ltd. ("Shahal Haifa")

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

SHL's Corporate Chart



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

Shahal Rashlatz-Rehovot Medical Services Ltd. ("Shahal Rishon")

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

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 of which 12,632 ordinary shares of NIS 1 par value each are issued and outstanding, all of which are held by SHL. Bikurofe's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

SHL Telemedicine International Ltd. ("STI")

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

SHL Telemedicine B.V. ("SHL BV")

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

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

SHL N. America's authorized share capital is comprised of US$ 100,000 divided into 1,000,000 shares of common stock of US$0.1 par value each of which 1,000,000 shares of common stock of US$0.1 par value each are issued and outstanding, all of which are held by STI. SHL N. America's registered office is located 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 US$ 22,000 divided into 20,000,000 shares of common stock of US$ 0.001 par value each and 2,000,000 shares of Preferred stock of US$ 0.001 par value each of which 2,988,687 shares of common stock of US$0.001 par value each are issued and outstanding, all of which are held by SHL N. America. Raytel's registered office is located at 15 East North Street, City of Dover, County of Kent, Delaware, USA.

SHL Telemedicine Global Trading Ltd. ("SHL Global")

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

Personal Healthcare Telemedicine Services Europe B.V. (formerly - 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 of which 81,500 shares of common stock of Euro 10 par value each are issued and outstanding. On December 23, 2003, SHL, through its subsidiaries, entered into an agreement to purchase from a subsidiary of Royal Philips 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.

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	18.76%
Alroy Group*	18.72%
Tower Holdings B.V.	14.32%
G.Z. Assets and Management Ltd.	8.73%
Public	39.47%

* Alroy Group is comprised of Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.85% 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 6.81% 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 5.06 % of the issued and outstanding share capital of SHL.

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2004, after deducting from the total number of shares outstanding 112,469 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

There are no companies belonging to the consolidated entities of SHL whose equity securities are listed on a stock exchange. There are no cross-shareholdings exceeding 5% of the share capital and voting rights between any of the Significant Shareholders and SHL.

Capital Structure

Authorized and Issued Capital

Authorized share capital as of December 31, 2004

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

Issued and outstanding share capital as of December 31, 2004

Number of Ordinary Shares	10,663,373*
Par value of	NIS 0.01 each
Share capital	NIS 106,633.73

* Including 112,469 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 17.

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 112,469 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 17). 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 see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

SHL approved a maximum number of up to 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 14.

Changes in Capital Structure within the Last Three Financial Years

During 2002, 2003 and 2004 SHL purchased from the public on the SWX Stock Exchange 29,347, 53,730 and 29,392 Ordinary Shares, respectively. 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 17.

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-year vesting schedule which provides for fifty (50) percent of the options to be vested on the second anniversary of the date of the grant and an additional twenty-five (25) percent) to be vested on each of the third and fourth anniversary of the date of the grant.

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

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

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

In October 2003 SHL granted to employees and consultants of the SHL Group and an executive member of the Board of Directors of SHL 113,560 Options to purchase 113,560 Ordinary Shares under the terms of the 2003 Share Option Plan. One-third (1/3) of such Options have an exercise price of CHF 6.89; one-third (1/3) of such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2005, the exercise price shall be CHF 6.89; and one-third (1/3) of such Options have an exercise price of CHF 10.89, provided, however, that if such Options are exercised after October 30, 2006, the exercise price shall be CHF 6.89. All such Options shall fully vest on October 30, 2004.

In December 2003 SHL effectuated an options exchange program (the "Options Exchange Program") aimed at reducing the exercise price of Options granted under the terms of the 2000 Share Option Plan to reflect the market price of Ordinary Shares of SHL. The Options Exchange Program offered holders of such Options to cancel all Options previously granted to them in exchange for new Options to be granted under the terms of the 2003 Share Option Plan at an exchange ratio of 1:0.8 (i.e. 0.8 new Options for every 1 Option 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.

In August 2004, SHL adopted the 2004 International Share Option Plan (the "2004 International Share Option Plan"), which replaces the 2002 International Share Option Plan (the 2000 Share Option Plan, the 2002 International Share Option Plan, the 2003 Share Option Plan and the 2004 International Share Option Plan, together - the "Option Plans"). In August 2004 SHL granted to employees and consultants of the SHL Group 73,000 Options to purchase 73,000 Ordinary Shares under the 2004 International Share Option Plan and 16,250 Options to purchase 16,250 Ordinary Shares under the 2003 Share Option Plan. The options are fully vested as of December 31, 2004 (or as of August 1, 2004 with respect to one employee that was granted 18,000 Options under the 2004 International Option Plan (the "Senior Employee Options"). The exercise price of such Options is 9.5 CHF, provided, however, that if exercised on or after January 1, 2006 (or on or after August 1, 2005 with respect to the Senior Employee Options) one-third (1/3) of such Options will have an exercise price of CHF 5.5; if exercised on or after January 1, 2007 (or on or after August 1, 2006 with respect to the Senior Employee Options) an additional one-third (1/3) of such Options will have an exercise price of CHF 5.5; and if exercised on or after January 1, 2008 (or on or after August 1, 2007 with respect to the Senior Employee Options) an additional one-third (1/3) of such Options will have an exercise price of CHF 5.5.

Generally, all Options granted under the Option Plans are valid for a term of ten 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	6,015	CHF 34.00
	75,707 *	CHF 10.89
	37,853	CHF 6.89
	387,772	CHF 5.90
Total Outstanding at beginning of year	**507,347**	**CHF 7.05**
Granted**	89,250	CHF 9.50
Forfeited***	(36,488)	CHF 7.87
Outstanding at end of year	5,119	CHF 34.00
	67,707 *	CHF 10.89
	88,500 **	CHF 9.50
	33,853	CHF 6.89
	364,930	CHF 5.90
Total Outstanding at end of year	**560,109**	**CHF 7.39**

* One-half (1/2) 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-half (1/2) 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.

** The Options are fully vested as of December 31, 2004. The exercise price may change, so that from January 1, 2006 (or with respect to 18,000 Options – from August 1, 2005) one-third (1/3) of the Options will have an exercise price of CHF 5.5; from January 1, 2007 (or with respect to 18,000 Options – from August 1, 2006) an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5; and from January 1, 2008 (or with respect to 18,000 Options – from August 1, 2007) an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5.

*** Options that are forfeited are returned to the pool and may be re-granted 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 SegaInterSettle 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 such Ordinary Shares registered in the sub register on behalf of such Registered Person, all present and future rights and claims attached to the Ordinary Shares registered on SNOC's name in SHL's Register of Shareholders. SHL has irrevocably acknowledged and accepted such instruction of SNOC that a Registered Person is entitled to exercise all present and future rights and claims attached to the Ordinary Shares with respect to the number of Ordinary Shares registered on behalf of such person in the SAG Register.

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

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

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

Liquidation and Dividend Rights

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

Voting Rights

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. For additional information regarding voting rights of the Ordinary Shares, see Section "Voting Rights Restrictions and Representations" on page 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 of the shares, of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of shareholders having no personal interest voted against the transaction do not represent more than one (1) percent of the voting rights in the company. 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 14.

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 7 members only, 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	2005
Elon Shalev	Israeli	Non-executive member	1987	2005
Yariv Alroy	Israeli	Co-President	2001	2005
Colin Schachat	Israeli	Non-executive member	2001	2005
Ziv Carthy	Israeli	Non-executive member	1997	2005
Dvora Kimhi	Israeli	Non-executive member/ Independent director	2001	2007
Ron N. Salpeter	Israeli	Non-executive member/ Independent director	2003	2006

* For additional information regarding the election and term of office of SHL's directors please refer to section "Election of Directors and term of office" on page 19.

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
Tom Egelund	Danish	Non-executive member	2002	April 2004
Omri Levin	Israeli	Non-executive member	2003	April 2004

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

Elon Shalev
Elon Shalev has served as a director of SHL since 1987. From 1990 to 1993, he was SHL's Chief Operating Officer after which he served three (3) years as Chief Executive Officer for an Israeli TV News company. From 1996 to 1999, he was 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 the Board of Directors 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 member of the Board of Directors of SHL N. America, Raytel and SHL Global. Nationality: Israeli.

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 LL.B. from the University of Witwatersrand, South Africa. Nationality: Israeli.

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

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 LL.B. 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. Mr. Salpeter. From 1999 to until Mr. Salpeter was involved in the field of investment banking consulting and commencing in 2001 he is involved in the field of business development consulting large international enterprises. Mr. Salpeter holds a LL.B. from the Faculty of Law, University of Tel-Aviv, Israel and a Master Degree (LL.M.) from Osaka University, Japan. Prior to 1999, Mr. Salpeter practiced law both in Israel and in Japan. Nationality: Israeli.

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 (121/2) percent of the issued and outstanding share capital of SHL; (ii) two (2) directors nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least ten (10) percent of the issued and outstanding share capital of SHL; and (iii) one (1) director nominated by the Alroy Group, for as long as the Alroy Group holds, in the aggregate, at least five (5) percent of the issued and outstanding share capital of SHL.

Independent Directors

Israeli companies that have offered securities to the public in or outside of Israel under the provisions of the Israeli Companies Law are required to appoint two (2) Independent ("external") Directors. 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 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 an 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 may not act as an alternate director for more than one 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 directors. Office holders who are not directors are appointed by the General Manager who may determine the powers and duties of such office holders.

Under the Israeli Companies Law, the same person may not act as both Chief Executive Officer and Chairman of the Board of Directors of a publicly-traded company, unless the shareholders consent to such service, which, in any event, may not exceed three (3) 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 and Mr. Ron N. Salpeter. The role of the audit committee is to examine flaws in the business management of the company, in consultation with the internal auditor and the independent accountants, and to propose remedial measures to the Board of Directors. The Audit Committee also reviews for approval transactions between the company and office holders or interested parties.

Compensation Committee - the Board of Directors has appointed a Compensation Committee composed of the following members: Ms. Dvora Kimhi and Mr. Colin Schachat. 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, the Committees conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee are, mutatis mutandis, governed by the provisions contained in the Articles of Association for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors.

Internal Auditor – The Board of Directors has appointed 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

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
Ronen Gadot	Israeli	Executive Vice President
Shlomo Nimrodi	Israeli	President and CEO – Raytel Cardiac Services
Swapan Sen	American	President and CEO – Raytel Diagnostic Services
Eyal Lewin	Israeli	Managing Director – Personal Healthcare Telemedicine Services Germany
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 19.

Yariv Alroy, Director and Co-CEO
For additional information see Section "Members of the Board of Directors" on page 19.

Erez Alroy, Co-CEO
Erez Alroy has been an executive manager of SHL since its inception. Prior to holding his current position of Co-President, he served as the General Manager of SHL's operation in Israel, prior to that he has served as SHL's Sales Manager and Vice President of Marketing in Israel. Mr. Alroy is also a director on the Board of Directors 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 filed of IT development. Ms. Alroy has a B.Sc. from the Hebrew University of Jerusalem, Israel. Nationality: Israeli.

Erez Nachtomy, Executive Vice-President

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

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.

Shlomo Nimrodi, President and CEO - Raytel Cardiac Services

Shlomo Nimrodi started with Raytel Cardiac Services in August 2004. Prior to joining Raytel Cardiac Services, Mr. Nimrodi held for over 18 years various top level executive positions in several publicly traded and international corporations, including the position of CFO and COO for INDIGO, a worldwide leader in the field of digital printing systems and the position of President and CEO for VIZRT, a publicly traded telecommunication and broadcast graphics software solution company. Mr. Nimrodi holds an MBA with honor form the Jerusalem University and Harvard Business School Alumni – Advanced Management Program. Nationality: Israeli

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 Bachelor of Science degree in Biology, Mr. Sen holds a Masters of Science degree in Healthcare Administration. Mr. Sen is also involved with many professional/scientific societies in the field of Diagnostic Imaging. Nationality: American.

Eyal Lewin, Managing Director - Personal Healthcare Telemedicine Services Germany

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

Prof. Arie Roth, MD, Chief Medical Manager

Prof. Arie Roth has served as SHL's Chief Medical Manager since its start of operations. Prof. Roth is a senior member of the department of cardiology at the Tel-Aviv Sourasky Medical Center, University of Tel-Aviv, Israel, and received a medical degree from the 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 24.

Compensation, 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 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 of the shareholders voting power represented at the meeting in person or by proxy and voting thereon who have no personal interest in approving the resolution (not including abstaining votes), or (ii) the total shares of the shareholders who have no personal interest in approving the resolution voted against the resolution do not represent more than one percent of the voting rights in the company.

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

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

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 2004 to approximately USD 2,631 thousand. The aforesaid sum includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in the ”Management Contracts” section on page 23. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2004, was 4.308.

The total of all compensation payable to the non-executive members of the Board of Directors amounted in the financial year 2004 to approximately USD 21 thousand. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2004, was 4.308.

In the financial year 2004, 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

Two non-executive directors gave up their functions during the year under review. The aforesaid non-executive directors did not receive any compensation during the year under review.

No executive member of the Board of Directors gave up his 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 or to the non-executive members of the Board of Directors, or to the Management or parties closely linked to any such person during the year under review.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2004 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 the aggregate to 1,974,840. Elon Shalev, a non-executive member of the Board of Director is a member of the Alroy Group. The Alroy Group holds, pursuant to the Share Register, as of December 31, 2004, an aggregate of 1,974,840 Ordinary Shares. Ziv Carthy, a non-executive member of the Board of Director is a controlling shareholder of G.Z. Assets and Management Ltd., that holds, pursuant to the Share Register, as of December 31, 2004, 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, 2004, Ordinary Shares.

Share Options

Information with regards to Options held pursuant to the Option Plans as of December 31, 2004 by the executive members of the Board of Directors and the other members of Management and parties closely linked to such persons is as follows:

	No. of Options	Exercise Price
Outstanding at beginning of year	202,433	CHF 5.90
	15,853	CHF 6.89
	31,706 *	CHF 10.89
Total outstanding at beginning of year	**249,993**	**CHF 6.60**
Granted	73,000 **	CHF 9.50
Forfeited	-	-
Outstanding at end of year	202,433	CHF 5.90
	15,853	CHF 6.89
	31,706	CHF 10.89
	73,000 **	CHF 9.50
Total Outstanding at end of year	**322,993**	**CHF 7.25**

* One-half (1/2) 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-half (1/2) 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.

** The Options are fully vested as of December 31, 2004. The exercise price may change, so that from January 1, 2006 (or with respect to 18,000 Options – from August 1, 2005) one-third (1/3) of the Options will have an exercise price of CHF 5.5, from January 1, 2007 (or with respect to 18,000 Options – from August 1, 2006) an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5, and from January 1, 2008 (or with respect to 18,000 Options – from August 1, 2007) an additional one-third (1/3) of the Options will have an exercise price of CHF 5.5.

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 14 above.

As of December 31, 2004 parties closely linked to the non-executive members of the Board of Directors hold 901 Options to purchase Ordinary Shares with an exercise price of CHF 5.90 each, pursuant to the Option Plans.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and the Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2004 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 52 thousand. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2004, was 4.308.

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 480 thousand. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2004, was 4.308.

SHL has not issued any Ordinary Shares to such executive member of the Board of Directors and the Management during the financial year 2004. SHL has issued 18,000 Options to purchase 18,000 Ordinary Shares to such executive member of the Board of Directors and the Management during the financial year 2004. For terms of the Share Options granted see "Senior Employee Options" in the "Share Options" section on page 14.

The highest total compensation payable to a non-executive member of the Board of Directors amounted in the year under review to approximately USD 10 thousand. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2004, was 4.308.

SHL has not issued any Ordinary Shares or Options to such non-executive member of the Board of Directors during the financial year 2004.

Shareholders' Participation Rights

Voting Rights' Restrictions and Representations

Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. According to the SNOC Agreement each person registered in the SAG Register is entitled to vote the number of shares registered 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 (331/3) percent of the outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power present and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two (2) shareholders present in person or by proxy, regardless of the number of Ordinary Shares represented.

Under SHL's Articles of Association all resolutions submitted to the shareholders, unless provided for otherwise in the Articles of Association or under any applicable law, shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon. For resolutions that require special majority, see Section "Statutory Quorums" on page 26.

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 one suitable for discussion at a General Meeting. At a General Meeting resolution may be adopted only on subjects that were specified in the agenda for the particular General Meeting.

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) 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 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 (331/3) percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SWX Swiss Exchange, such person must make a mandatory offer to acquire all other shares. Since SHL is not incorporated in Switzerland, SHL believes that these provisions do not apply. However, it cannot be excluded that the Swiss securities supervisory authority or Swiss courts could rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction. For the provisions of the Israeli law, please see below. Pursuant to the Listing Agreement, SHL agreed to comply, to the extent possible, with procedural rules and will accept recommendations issued by the Swiss Takeover Board.

SHL's Articles of Association do not contain provisions regarding opting out or opting up.

Under the Israeli Companies Law 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 of Ernst & Young Global are the auditors of SHL since 1997. Under the Israeli Companies Law and the Articles of Association, the auditors of SHL are appointed by resolution of the Annual General Meeting and serve until their re-election, removal or replacement by subsequent resolution. SHL's auditors were last re-appointed at the 2004 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 2004 approximately USD 439 thousand for services rendered in connection with auditing the financial statements of SHL and its subsidiaries and the consolidated financial statements of the SHL Group. The exchange rate of one (1) USD to New Israeli Shekels on December 31, 2004, was 4.308.

In addition, Ernst & Young charged approximately USD 311 thousand for additional services performed for the SHL Group in the field of management consulting, tax advice, due diligence and other auditing activities. The aforesaid sums include payments made to other member firms of Ernst & Young outside of Israel. The exchange rate of one (1) USD to New Israeli Shekels on December 31. 2004, was 4.308.

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 SHL's 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	May 9, 2005
Q1 Results	May 26, 2005
Q2 Results	August 23, 2005
Q3 Results	November 22, 2005

Contact persons for Investor Relations

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Consolidated Financial Statements 2004

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Financial Overview

General

During 2004 SHL continued to make progress in all its main markets. In Europe, we assumed full ownership of PHTS from Philips and laid strong foundations for future growth with the new alliances signed in Germany. In the US we expanded our operations and entered into new markets and in Israel we maintained our leadership position.

During the year overall revenues increased by 4.3 % to USD 103.1 million. EBITDA and LBIT amounted to USD 2.7 million and USD 1.7 million, respectively with margins at 2.6 % and (1.6) %, respectively. Losses for the year amounted to USD 4.7 million of which USD 6.1 million is attributable to SHL shareholders. Loss per share amounted to USD 0.58. This years losses are mainly due to the performance of Raytel Diagnostic Services (RDS), which experienced a disappointing year due to a weakening in the market, and increasing competition that contributed to reduced volumes and margins from previous years together with reorganisation costs.

2004 saw a dramatic improvement in SHL's cash flow from operations, which amounted to USD 7.6 million, prior to the cash out flow relating to PHTS' operations in Germany, which was funded by funds received from Philips. During the year the Company repaid loans and other debt, net of loans received in an amount of USD 6.6 million.

SHL operates in two segments:

Telemedicine services

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

Medical Services

SHL operates a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primariliy associated with cardiovascular diseases. SHL also operates medical call centers, which provide 24/7 doctor "house calls".

Results of Operations

Revenues

Revenues in 2004 increased by 4.3% to USD 103.1 milion compared to USD 98.8 milion in 2003.

Revenues from the telemedicine services segment increased to USD 54.8 million - 53% of total revenues from USD 51.4 million - 52% of total revenues in 2003. The increase in revenues in the telemedicine services segment results from the first time consolidation of CEC - the acquisition effected at the beginning of 2004 by Raytel Cardiac Services (RCS) - and PHTS that was partially offset by a decline in device sales in Israel. Revenues from the medical services segment amounted to USD 48.3 million - 47% of revenues compared to USD 47.4 million - 48% of revenues in 2003. The increase in revenues results from improved performance of the medical services sector in Israel offset by the decrease in RDS's revenues. Revenues from abroad have continued to increase and now comprise 75% of total revenues compared to 71% in the previous year.

Gross profit

Gross profit amounted to USD 44.7 million a decrease of 4.3% compared to USD 46.7 million in 2003. The gross profit margin for the year also decreased to 43% from 47% in 2003. The decline in gross profit and margins is due to the reduced volumes and weaker margins in RDS resulting from a weak market and increased competition, a decrease in device sales in Israel resulting from the new programs introduced during the year, and the consolidation of PHTS's results. This was partially offset by an improvement in RCS.

Research and Development costs, net

Net R&D costs totalled USD 0.71 million, 0.7% of revenues compared with USD 0.67 million, 0.7% of revenues in 2003. R&D expenses before capitalization and amortization amounted to USD 1.8 million in both 2004 and 2003.

Selling and Marketing Expenses

Selling and marketing expenses increased to USD 12.8 million, 12.4% of revenues from USD 10.2 million, 10.3% of revenues in 2003. The increase in selling and marketing expenses is attributed primarily to the first time consolidation of PHTS and CEC.

General and Administrative Expenses

G&A expenses amounted to USD 32.8 million, 31.9% of revenues compared to USD 33.1 million or 33.5% of revenues. G&A expenses remained steady as the increase in expenses resulting from the first time consolidation of CEC and PHTS was offset by the amortization of negative goodwill.

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

EBITDA for the year decreased to USD 2.7 million, 2.6% of revenues from USD 11.4 million - 11.6% of revenues in 2003. LBIT decreased to USD 1.7 million, (1.6) % of revenues from an EBIT of USD 3.1 million - 3.1% of revenues in 2003. The decrease in profitability resulted from the decline in gross profit as set out above.

Financial Expenses

Financial expenses for the year decreased by 25% to USD 3.5 million from USD 4.7 million in 2003. The decrease in financial expenses resulted from lower prime interest rates on SHL's loans denominated in NIS partially offset by a higher LIBOR on SHL's USD denominated loans. In addition during 2004 the Israeli CPI increased by 1.2% compared to a decrease of 1.9% in 2003, which resulted in positive linkage differences.

Taxes on Income

Tax benefit amounted to USD 0.3 million compared to tax expenses of USD 1.0 million in 2003. The decrease in taxes is due to the decline in taxable income in 2004 as a result of the decrease in profits.

Net Loss

Net loss for the year amounted to USD 4.7 million out of which a loss of USD 6.1 million is attributable to the shareholders of SHL and an income of USD 1.4 million is attributable to the minority shareholders. Net loss for 2003 amounted to USD 8.3 million out of which USD 10.2 is attributable to the shareholders of SHL and an income of USD 1.9 is attributable to the minority shareholders. The decrease in net loss in 2004 results from the absence of the provision made against SHL's loan to PHTS representing the extent of SHLs share in losses associated with the expenses of the joint venture prior to its acquisition by SHL at the beginning of 2004 in the amount of USD 5.6 million, offset by the decrease in profitability as described in the sections above.

Major Changes in Assets, Liabilities and Equity

At December 31, 2004 SHL's current assets amount to USD 64.2 million of which USD 22.1 million is cash, cash equivalents and marketable securities and USD 23.9 million is trade receivables compared with USD 68.9 million in 2003 of which USD 26.1 million was in cash, cash equivalents, marketable securities and deposits and USD 23.2 million was in trade receivables.

SHL's long-term assets totalled USD 62.2 million compared with USD 63.2 million at the end of 2003. The decrease in long-term assets is mainly due to a decrease in post-dated notes resulting from lower device sales in the Israeli market.

Fixed and Intangible assets increased to USD 69.3 million compared to USD 64.3 million in 2003 due to the acquisition of CEC and consolidation of PHTS.

SHL's current liabilities amounted to USD 65.1 million of which USD 42.1 million is short-term bank credit compared to USD 67.8 million at December 31, 2003 of which USD 46.9 million was short-term bank credit. During 2004 the Company converted some USD 10 million of short-term loans into long-term loans and so increased its liquidity.

Long term liabilities totaled USD 49.2 million compared to USD 41.1 million at December 31, 2003. The increase results from the conversion of short-term loans into long-term loans and an accrual for restructuring and royalties in PHTS.

Equity totaled USD 81.5 million at December 31, 2004 compared to USD 87.6 million at December 31, 2003. The decrease results from the net loss in 2004 partially offset by the effect of the devaluation of the USD against the NIS on the translated share and paid in capital.

Cash Flow

During 2004 SHL generated positive cash flow from operations of USD 7.6 million, prior to the inclusion of PHTS' operations in Germany, which were funded by funds received from Philips, compared to USD 0.6 million in 2003. The improvement in operating cash flow is mainly attributable to an improvement in the operating cash flow of the Israeli operations. Including PHTS's operations operating cash flow totalled USD 1.3 million in 2004.

The Company invested during the year USD 11.8 million. Of this amount USD 4.7 million was for acquisitions, USD 5.2 million in fixed assets and USD 2.1 million in intangible assets. SHL also received USD 11.0 million from Philips upon the assumption of full ownership of PHTS.

During the year the Company repaid loans and other debt, net of loans received by an amount of USD 6.6 million.

At year end SHL had USD 26.9 million in cash, cash equivalents, marketable securities and deposits.

Erez Termechy

Erez Termechy,
Vice President & Chief Financial Officer

Independent Auditors' Report to the shareholders of SHL Telemedicine Ltd.

We have audited the accompanying consolidated balance sheets of SHL Telemedicine Ltd. and its subsidiaries ("the Group") as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2004. 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, accounted for on the equity method, for which the Group's share in losses and provision against shareholders' loan totaled $ 5.6 million and $ 7.4 million for the years ended December 31, 2003 and 2002 respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for this 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 audits and the report of the other auditors provide 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, 2004 and 2003, and of the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 30, 2005

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

Consolidated Balance Sheets US dollars in thousands

	Note	December 31, 2004	2003
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	16,884	17,807
Short-term deposits		–	2,896
Marketable securities	6	5,196	5,395
Trade receivables	7	23,867	23,206
Post-dated notes	8	6,547	5,616
Prepaid expenses	9	4,244	4,944
Other accounts receivable	10	1,249	2,837
Inventory		6,238	6,192
		64,225	**68,893**
LONG-TERM ASSETS:			
Post-dated notes	8	33,187	36,392
Prepaid expenses	9	14,358	14,515
Investment in associate	11	8	24
Long-term deposits	12	4,772	4,200
Deferred taxes	21f	9,873	8,085
		62,198	**63,216**
FIXED ASSETS:	13		
Cost		31,428	23,067
Less - accumulated depreciation		15,112	10,629
		16,316	**12,438**
INTANGIBLE ASSETS, NET	14	53,004	51,880
Total assets		**195,743**	**196,427**

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

Consolidated Balance Sheets US dollars in thousands

	Note	December 31, 2004	December 31, 2003
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long term loans	15	42,074	46,865
Trade payables		8,647	7,589
Income taxes payable		2,201	3,207
Other accounts payable	16	12,150	10,125
		65,072	**67,786**
LONG-TERM LIABILITIES:			
Loans from banks, lease obligations and others	17	43,219	38,779
Provisions	18	3,613	-
Accrued severance pay	19	1,531	1,446
Deferred taxes	21f	793	859
		49,156	**41,084**
COMMITMENTS AND CONTINGENT LIABILITIES	23		
Total liabilities		114,228	168,870
EQUITY:	24		
Equity attributable to equity holders of the parent:			
Issued capital		31	31
Additional paid-in capital		91,594	91,594
Treasury shares at cost		(558)	(432)
Foreign currency translation reserve		(5,162)	(5,446)
Retained earnings (accumulated deficit)		(5,708)	383
		80,197	**86,130**
Minority interest		1,318	1,427
Total equity		**81,515**	**87,557**
Total liabilities and equity		**195,743**	**196,427**

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

March 30, 2005		
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 data)

		Year ended December 31,		
	Note	2004	2003	2002
Revenues from sales of services and devices	25a	103,052	98,784	89,804
Cost of sales of services and devices	25b	58,402	52,125	44,053
Gross profit		44,650	46,659	45,751
Research and development costs, net	25c	712	672	415
Selling and marketing expenses	25d	12,811	9,809	7,005
General and administrative expenses	25e	32,835	33,108	26,676
Operating income (loss)		(1,708)	3,070	11,655
Financial income (expenses)	25f	(3,534)	(4,705)	1,781
Other income (expenses), net	25g	207	(24)	(17)
Share in losses and provision against shareholders' loan to associate	11	-	(5,601)	(7,353)
Income (loss) before taxes on income		(5,035)	(7,260)	6,066
Taxes on income (tax benefit)	21e	(318)	1,022	3,230
Net income (loss)		**(4,717)**	**(8,282)**	**2,836**
Attributable to:				
Equity holders of the parent		(6,091)	(10,195)	1,411
Minority interest		1,374	1,913	1,425
		(4,717)	(8,282)	2,836
Basic and diluted earnings (loss) per share	**26**	**(0.58)**	**(0.96)**	**0.13**

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

Consolidated Statements of Changes in Equity US dollars in thousands

	Attributable to Equity Holders of the Parent								
	Issued capital	Additional paid-in capital	Treasury shares	Foreign currency translation reserve	Retained earnings (accumulated deficit)	Total	Minority interest	Total equity	Total recognized income (expenses)
Balance at January 1, 2002	**31**	**91,594**	**-**	**(5,719)**	**9,167**	**95,073**	**-**	**95,073**	**-**
Additions for newly consolidated company	-	-	-	-	-	-	1,076	1,076	-
Treasury shares	-	-	(195)	-	-	(195)	-	(195)	-
Currency translation differences	-	-	-	(5,830)	-	(5,830)	-	(5,830)	(5,830)
Distribution to minority interest	-	-	-	-	-	-	(900)	(900)	-
Net income	-	-	-	-	1,411	1,411	1,425	2,836	1,411
Balance at December 31, 2002	**31**	**91,594**	**(195)**	**(11,549)**	**10,578**	**90,459**	**1,601**	**92,060**	**(4,419)**
Treasury shares	-	-	(237)	-	-	(237)	-	(237)	-
Currency translation differences	-	-	-	6,103	-	6,103	-	6,103	6,103
Distribution to minority interest	-	-	-	-	-	-	(2,087)	(2,087)	-
Net loss	-	-	-	-	(10,195)	(10,195)	1,913	(8,282)	(10,195)
Balance at December 31, 2003	**31**	**91,594**	**(432)**	**(5,446)**	**383**	**86,130**	**1,427**	**87,557**	**(4,092)**
Treasury shares	-	-	(126)	-	-	(126)	-	(126)	-
Currency translation differences	-	-	-	284	-	284	-	284	284
Distribution to minority interest	-	-	-	-	-	-	(1,435)	(1,435)	-
Purchase of minority interest	-	-	-	-	-	-	(48)	(48)	-
Net loss	-	-	-	-	(6,091)	(6,091)	1,374	(4,717)	(6,091)
Balance at December 31, 2004	**31**	**91,594**	**(558)**	**(5,162)**	**(5,708)**	**80,197**	**1,318**	**81,515**	**(5,807)**

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

Consolidated Statements of Cash Flows US dollars in thousands

	Year ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	(4,717)	(8,282)	2,836
Adjustments required to reconcile net income (loss) to net cash provided by operating activities (a)	6,022	8,927	(621)
Net cash provided by operating activities	1,305	645	2,215
CASH FLOWS FROM INVESTING ACTIVITIES:			
Shareholders' loan to associate	-	(3,062)	(5,955)
Purchase of fixed assets	(5,155)	(4,396)	(3,181)
Net cash received in acquisition of newly consolidated company (acquisition of newly consolidated company, net of cash acquired) (b)	11,035	-	(25,017)
Payment for acquisition of business activities (c)	(4,734)	(968)	-
Investment in intangible assets	(1,118)	(1,143)	(1,417)
Proceeds from sale of fixed assets	1,283	53	5
Short-term deposits, net	2,824	12,109	(15,000)
Long-term deposits, net	37	(4,200)	-
Investment in marketable securities	27	(5,317)	-
Net cash provided by (used in) investing activities	4,199	(6,924)	(50,565)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term loans from banks and others, net	13,723	2,191	45,153
Repayment of long-term loans from banks and others	(11,108)	(26,043)	(5,606)
Short-term bank credit, net	(6,983)	15,941	(6,620)
Distributions to minority interest	(1,435)	(2,087)	(900)
Purchase of minority interest	(48)	-	-
Payment of liability regarding the acquisition of Raytel	(89)	(4,148)	-
Payment of liability regarding the acquisition of business activities	(521)	-	-
Treasury shares acquired	(126)	(237)	(195)
Repayment of long-term loans from related parties	-	-	(142)
Net cash provided by (used in) financing activities	(6,587)	(14,383)	31,690
Effect of exchange rate changes on cash and cash equivalents	160	1,860	(3,877)
Decrease in cash and cash equivalents	(923)	(18,802)	(20,537)
Cash and cash equivalents at the beginning of the year	17,807	36,609	57,146
Cash and cash equivalents at the end of the year	**16,884**	**17,807**	**36,609**

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

Consolidated Statements of Cash Flows US dollars in thousands

	Year ended December 31,		
	2004	2003	2002
(a) Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Share in losses and provision against shareholders' loan to associate	-	5,601	7,353
Depreciation and amortization	4,433	8,527	6,595
Deferred taxes, net	(1,552)	(5,187)	236
Loss (gain) on sale of fixed assets	(665)	11	19
Accrued severance pay	(145)	(143)	410
Exchange rate and linkage differences on principal of long-term liabilities, net	479	(142)	1,159
Losses on marketable securities and derivative financial instruments	250	123	-
Exchange rate differences for short-term and long-term deposits, net	55	1,120	-
Others	14	7	26
	2,869	**9,917**	**15,798**
Changes in operating asset and liabilities:			
Decrease (increase) in short-term deposits, net		(237)	3,062
Decrease (increase) in trade receivables, net	(558)	(3,795)	4,961
Decrease (increase) in post-dated notes	2,850	189	(12,565)
Decrease (increase) in prepaid expenses	1,113	(2,539)	(3,453)
Decrease (increase) in other accounts receivable	1,856	1,886	(963)
Decrease (increase) in inventory	1,025	377	(3,031)
Increase (decrease) in trade payables	810	1,118	(883)
Increase (decrease) in short and long-term other accounts payable and income tax payable	(3,943)	2,011	(3,547)
	3,153	(990)	(16,419)
	6,022	**8,927**	**(621)**

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

Consolidated Statements of Cash Flows US dollars in thousands

	Year ended December 31,		
	2004[1]	2003	2002
(b) Acquisition of newly consolidated company:			
Working capital (excluding cash)	583	-	(6,488)
Long-term assets	(188)	-	(467)
Fixed assets, net	(1,971)	-	(9,002)
Long-term liabilities	6,781	-	22,581
Minority interest	-	-	1,076
Goodwill upon acquisition	5,830	-	(37,329)
Liability regarding the acquisition of newly consolidated company	-	-	4,612
	11,035	**-**	**(25,017)**

1 On January 20, 2004, SHL Telemedicine International purchased PHTS (see Note 3).

	Year ended December 31,		
	2004[1]	2003	2002
(c) Acquisitions of business activities:			
Fixed assets, net	(2,278)	(1,288)	-
Goodwill upon acquisitions	(4,369)	(23)	-
Non-competition agreements	(852)	(190)	-
Liability regarding the acquisitions	2,765	533	-
	(4,734)	**(968)**	**-**

1 During 2004, the Group purchased business activities (see Note 4).

	Year ended December 31,		
	2004	2003	2002
(d) Significant non-cash transactions:			
Liability incurred for acquisition of newly consolidated company	-	-	4,612
Liability incurred for acquisition of business activities	2,765	533	-
(e) Supplemental disclosure of cash flows activities:			
Interest received	656	1,272	2,513
Interest paid	4,575	6,061	5,756
Income taxes paid	1,462	1,816	2,433

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

Notes to Consolidated Financial Statements US dollars in thousands

Note 1 | General

SHL Telemedicine Ltd. ("SHL" or "the Company") is a company incorporated in Israel whose shares are publicly-traded on the Swiss Exchange. SHL and its subsidiaries ("the Group") develop and market advanced personal telemedicine solutions. Personal telemedicine is the transmission of medical data by an individual, from a remote location, to a medical call center via telecommunication networks. SHL's personal telemedicine systems are designed to improve quality of care and 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. SHL is also active in the provision of other medical services.

Note 2 | Significant Accounting Policies

The significant accounting policies applied in the preparation of the consolidated 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) on a historical cost basis, except for available-for-sale marketable securities and derivative financial instruments which are measured at fair value.

2. The significant accounting policies applied in the financial statements of the Company in prior years are applied consistently in these consolidated financial statements, except as described in sections 3 and 4 below.

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

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

The Company has selected the U.S. dollar as the presentation currency in the consolidated financial statements, as an increasing portion of the consolidated revenues and expenses are received and incurred in U.S. dollars. The Company believes that most of the readers of its financial statements are more familiar with the U.S. dollar, than the NIS.

Because the presentation currency is the U.S. dollar, the financial statements of the Company and of a subsidiary whose functional currency is the Euro have been translated from the functional currency to the presentation currency, in accordance with the following principles set forth in IAS 21 (revised 2003), (which the Group decided to adopt early):

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

Exchange differences arising on loans received for the direct financing of investments in foreign operations and that are accounted for as a hedge of the net investment, are recognized directly in equity.

In December 2003, the IASB published International Accounting Standard 21 (revised 2003) - The Effects of Changes in Foreign Exchange Rates - which replaces IAS 21 (revised in 1993), SIC-19 and SIC-30. The Standard should be applied for annual periods beginning on or after January 1, 2005. Earlier application is encouraged. The Company decided to apply this Standard in 2004.

According to the new Standard, share capital, additional paid-in capital and treasury shares are translated into U.S. dollars using the exchange rate as of the date of the transaction. In the past, the Company had translated those items at the closing rate as of the date of the balance sheet presented, in accordance with SIC-30.

The effect of this change was a reclassification among the components of equity as of December 31, 2003. The change had no effect on the net equity, results of operations and cash flows of the Group.

4. Early adoption of IFRS’s:

In addition to IAS 21 (revised 2003) referred to in 3, above, the Group has decided to early adopt IAS 1 (revised 2003), Presentation of Financial Statements. The principal impact of the adoption of IAS 1 is in the presentation of minority interest in the balance sheet and in the statement of income. Comparative amounts have been reclassified accordingly.

5. Impact of recently issued 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 supersedes 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 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 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 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.

In February 2004, the IASB issued IFRS 2, Share-Based Payment, on the accounting for share-based payment transactions, including grants of share options to employees. IFRS 2 requires an entity to recognize the effect of share-based payment transactions in the financial statements based on the award's 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. SHL believes the adoption of IFRS 2 will not have a material impact on the Group's consolidated financial statements as all outstanding options had vested as of December 31, 2004.

In March 2004, the IASB issued IFRS 3 'Business Combinations'. IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. IFRS 3 requires all business combinations to be accounted for by applying the purchase method. Further, upon acquisition the identifiable assets and liabilities acquired are measured at their fair values at the acquisition date and any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items.

In respect of goodwill acquired in a business combination for which the agreement date was before March 31, 2004, IFRS 3 requires that the Group discontinue amortizing such goodwill commencing from January 1, 2005 and test the goodwill for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). In the years ended December 31, 2004, 2003 and 2002, amortization of goodwill amounted to $ 3,200, $ 2,772 and $ 2,440, respectively.

The carrying amount of negative goodwill as of December 31, 2004 in the amount of $ 623 is to be credited to the opening balance of retained earnings on January 1, 2005.

b. Principles of consolidation:

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

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

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

The consolidated statements of operations and cash flows for the year ended December 31, 2004 include the results of operations and cash flows of PHTS from January 1, 2004, see Note 3.

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

c. Investment in associate:

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

d. Cash and cash equivalents:

Cash and cash equivalents in the balance sheets 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 post-dated notes:

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

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Post-dated notes that are linked to the Israeli Consumer Price Index (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, 2004, all marketable securities of the Group were classified as available-for-sale. Available-for-sale securities are presented at fair value based on quoted market prices. The fair value changes of available-for-sale securities is recognized in the statement of operations.

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.

During 2004 and 2003, the Group entered into a combination of foreign exchange options on a zero-cost basis. Such options expired during 2004 and 2003, and resulted in a loss in the amount of \$ 200 in 2004 and a gain in the amount of \$ 2,066 in 2003. These were reported as financial income (expenses) in the statement of operations. As of December 31, 2004, the Group had no option contracts or other freestanding financial derivative instruments.

2. Fair value of other financial instruments:

The carrying amounts of cash and cash equivalents, short-term deposits, trade receivables, post-dated 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 sales of services, are amortized to the statement of operations, over the average period of service.

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. Recoverable amount is the higher of net selling price and value in use.

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

2. The annual depreciation rates are as follows:

	%
Computers and communication equipment	15 - 33
Medical equipment	10 - 15
Office furniture and equipment	6 - 15
Motor vehicles and ambulances	15 - 20
Leasehold improvements	Over the shorter of the term of the lease or the useful life
Devices on loan to customers	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 and if necessary, the costs are written down to their recoverable amount.

2. Goodwill represents the excess of acquisition cost over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is 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 have been taken into account in order to determine the amount for goodwill, are recognized on an ongoing basis at the time in which a tax benefit is utilized, and the balance of goodwill is adjusted accordingly.

3. Negative goodwill is attributed to future losses that are identified in the acquirer's plan for the acquisition and can be measured reliably. A portion of negative goodwill is recognized as income in the statement of operations (in general and administrative expenses) simultaneously with the recognition of future losses and expenses. Negative goodwill is presented as a deduction from intangible assets.

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

5. Deferred debt costs are capitalized and are amortized over the term of the related debt.

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 for which deferred taxes have been included are as follows: inventory, 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 income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured based on the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or subsequently enacted at balance sheet date.

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

l. Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

m. Treasury shares:

The cost of shares held by the Company is presented in the balance sheet as a deduction from equity.

n. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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 when the service is rendered.

o. 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, 2004.

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

Data regarding Israeli CPI and exchange rates of foreign currency:

For the year ended	Exchange rate of one U.S. dollar	Israeli CPI *
December 31, 2004	NIS 4.308	180.7 points
December 31, 2003	NIS 4.379	178.6 points
December 31, 2002	NIS 4.737	182.0 points
Changes during the year		
2004	(1.6)%	1.2%
2003	(7.6)%	(1.9)%

* Index on an average basis of 1993 = 100.

p. 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.

q. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, trade receivables and post-dated notes. 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 post-dated notes are mainly derived from sales to customers in Israel and U.S. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

r. Earnings (loss) per share:

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

s. Reclassification:

1. Deferred taxes:

The balance sheet as of December 31, 2003 was revised in order to reflect the reclassification of deferred taxes in the amount of $ 6,313, from current assets to long-term assets, in accordance with IAS 12.

2. Cash flows:

The statement of cash flows for 2003 was revised in order to reflect the reclassification of the repayment of liability regarding the acquisition of newly consolidated company from investing activities to financing activities.

3. Salaries and related benefits:

Salaries and related benefits of management in the amount of $ 386 in 2003 were reclassified from selling and marketing expenses to general and administrative expenses.

4. Components of equity - see a.3 above.

Note 3 | Acquisition of Personal Healthcare Telemedicine Services B.V. (Formerly - Philips Heartcare Telemedicine Services Europe) ("PHTS")

a. On December 23, 2003, a wholly-owned subsidiary of the Company, SHL Telemedicine International ("STI") and Philips Medical Systems International B.V. ("PMSI"), an indirect subsidiary of a significant shareholder of the Company, signed a final agreement pursuant to which STI, through a wholly-owned subsidiary, was to assume full ownership and control of PHTS (from 19.9% to 100%). At the closing date (January 20, 2004), STI purchased from PMSI all of the shares of PHTS held by PMSI for $ 1, and assumed full responsibility for the operation, management and funding of PHTS. PMSI made a cash contribution to PHTS, in amount of $ 11,056 prior to the closing. As of December 1, 2003 ("the effective date"), PMSI retained certain liabilities of PHTS, and STI guaranteed leasing payments of certain of PHTS' subsidiaries to Philips Leasing Services. During an agreed transition period, PMSI will continue to render certain services to PHTS and during such period PHTS and its subsidiaries will cease using the "Philips" brand name.

In addition, at the closing date, PMSI waived loans granted to PHTS in the amount of $ 26,535 and the remaining balance of loans ($ 13,084) that were granted by PMSI to PHTS were assigned from PMSI to STI in consideration of $ 1 and a future revenue participating right. This right entitles PMSI to receive 3.5% of the annual revenues of PHTS, during the years 2005 to 2010, from the services currently rendered by PHTS and its subsidiaries in Germany, Italy and Switzerland and a percentage (regressive annual percent during the years 2004 to 2006) from the net proceeds if actually received by STI in the event of a sale or divestment of PHTS or any of its subsidiaries.

Following the closing, PHTS initiated an overall restructuring process. This restructuring process included cost reduction steps, release of sales force and part of the management along with changes in the working methods and processes. Concurrently the operation in Italy was closed down.

These initial steps were partially concluded by the end of March 2004. During the period of the nine months following these initial steps, a new management team was put in place while continuing to refine the working processes and cost structures.

PHTS GmbH (Germany) is currently increasing its focus and efforts on new business prospects, expanding its customer base, and enhancing its leading position in the German market. For subsequent events, see Note 29.

b. The fair values of the identifiable assets and liabilities of PHTS, as of the purchase date, were as follows:

Cash and cash equivalents	11,035
Trade receivables	212
Other accounts receivable	263
Inventory	545
Fixed assets	1,707
	13,762
Trade payables	(204)
Other accounts payable	(1,174)
Lease obligations	(1,355)
Provision for restructuring (c)	(3,618)
	(6,351)
Fair value of net assets	7,411
Negative goodwill upon acquisition (d)	(7,411)
	-

The cash inflow upon acquisition was as follows:

Cash of PHTS	11,035
Cash paid	* -
Net cash inflow	**11,035**

* Represents an amount lower than $ 1.

PHTS's results of operations are fully consolidated from January 1, 2004. Losses of $ 5,136 for the year were offset by the recognition of negative goodwill as income - see d. below.

Net cash used in operating activities by PHTS in the year amounted approximately to $ 6,297

c. Provisions for restructuring:

Comprised as follows:

At the date of the acquisition of PHTS	(3,618)
Fair value adjustments *	179
Utilized	1,402
Currency translation differences	(135)
Balance at December 31, 2004	**(2,172)**

d. Negative goodwill upon acquisition:

The negative goodwill is attributed to the future losses of PHTS and will be recognized in income in the same periods as the related identifiable future losses .

Comprised as follows:

Negative goodwill upon acquisition	(7,411)
Fair value adjustments *	1,581
Negative goodwill recognized as income	5,136
Currency translation differences	71
Balance at December 31, 2004	**(623)**

* The Company adjusted the negative goodwill at December 31, 2004 when additional evidence became available for certain estimates. The reductions to the negative goodwill are due to a change in the valuation of the future revenue participation rights of PMSI in the amount of $ 2,193, offset by changes in the valuations of fixed assets, inventory, provisions for restructuring and others in a total amount of $ 612

Note 4 | Acquisition of Business Activities

a. On January 27, 2004, a wholly-owned subsidiary of the Company, SHL Telemedicine North America ("NA"), through a wholly-owned subsidiary Raytel Cardiac Services, acquired the business activities of Cardiac Evaluation Center Inc. and Cardiac Diagnostic Centers Inc. and continued these operations under the name of CES (Cardiac Evaluation Services).

CES operates in the trans telephonic cardiac monitoring business and has a strong regional presence in the Midwestern U.S.. CES is based in Milwaukee, Wisconsin and Cleveland Ohio. CES services some 35,000 patients annually with revenues amounting to some $ 5,500. CES currently has some 60 employees.

The overall acquisition price for CES's business, including special proprietary software, goodwill, and a non-competition agreement amounted to $ 5,667. The acquisition was recorded under the purchase method. In addition, NA signed a consulting service and royalty agreement with CES's President and sole shareholder in the total amount of $ 825 to be paid over a period of 30 months.

b. On January 20, 2004, Bikurofe Ltd., a wholly-owned subsidiary of the Company, acquired the business activities of the Ishay Institute for Heart Care ("Ishay"). Ishay operates in the field of diagnostic services.

The overall acquisition price for Ishay's business amounted to $ 1,390, including goodwill, a non-competition agreement and fixed assets. The acquisition was recorded under the purchase method.

Note 5 | Cash and Cash Equivalents

	December 31,	
	2004	2003
Cash in banks and on hand	2,786	4,310
Short-term deposits	14,098	13,497
	16,884	17,807

Note 6 | Marketable Securities

Available for sale marketable securities:

	December 31,	
	2004	2003
Corporate debentures		
- in U.S. dollars	4,214	4,404
Governmental debentures		
- in NIS - unlinked	982	991
	5,196	5,395

Note 7 | Trade Receivables

	December 31,	
	2004	2003
Gross amount	41,147	39,150
Less-allowance for		
doubtful accounts	17,280	15,944
	23,867	23,206

Note 8 | Post-Dated Notes

The balance represents customers' future installments derived from sales of devices in Israel presented at their present value and amortized over the installment term. The post-dated notes are composed of notes by authorization, notes receivable and post-dated payments from credit card companies and are for periods ended no later than 2013 (see also Note 2f).

	December 31,	
	2004	2003
Post-dated notes	42,126	45,057
Deferred interest revenues	(2,392)	(3,049)
	39,734	42,008
Less - current maturities	6,547	5,616
	33,187	36,392

Note 9 | Prepaid Expenses

The majority of the prepaid expenses are related to sales commissions paid on behalf of services to be rendered in future periods. These prepaid expenses are recognized in the statement of operations in future years, as follows:

	December 31,	
	2004	2003
First year prepaid expenses		
- short-term	4,244	4,944
Second year	3,215	2,260
Third year	2,685	2,314
Fourth year	2,485	2,373
Fifth year	2,045	2,384
Thereafter	3,928	5,184
Prepaid expenses - long-term	14,358	14,515
Total prepaid expenses	**18,602**	**19,459**

Note 10 | Other Accounts Receivable

	December 31,	
	2004	2003
Government authorities	688	2,443
Employees	149	199
Interest	221	92
Others	191	103
	1,249	**2,837**

Note 11 | Investment in Associate

Investment in PHTS share capital *	-	144
Accumulated losses	-	(144)
	-	-
Shareholders' loan	-	14,699
Provision against shareholders' loan	-	(14,699)
	-	-
Other associates	8	24
	8	**24**

* On January 20, 2004, STI purchased all of the shares of PHTS (see Note 3). The financial statements of PHTS have been fully consolidated with those of the Company from January 1, 2004.

Note 12 | Long-Term Deposits

	December 31,	
	2004	2003
Structured deposit [1]	2,000	2,000
Structured deposit [2]	2,200	2,200
Bank deposit [3]	572	-
	4,772	**4,200**

1. The deposit is in U.S. dollars and bears annual interest of 11% less 2 times the 12 month LIBOR. The interest is paid every six months. The maturity date will be the earlier of the receipt of 12% cumulative interest or August 2013. The cumulative interest which the Company received until December 31, 2004 is 7.3%.

2. The deposit is in U.S. dollars and bears interest of 11% in the first year and from the second year to the maturity date 8% less 2 times the 6 month LIBOR. The interest is paid every six months. The maturity date will be the earlier of the receipt of 11.75% cumulative interest or November 2013. The cumulative interest which the Company received until December 31, 2004 is 11%.

3. A deposit in the amount of $ 170 is linked to the Euro and bears interest at the annual rate of 1.7%. A deposit in the amount of $ 402 is linked to the Israeli CPI, bears interest at the annual rate of 3.3%, and matures in 2006.

Note 13 | Fixed Assets

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	improvements	Devices on loan	Leased Total
Cost:							
Balance at January 1, 2004	6,662	9,303	1,248	1,053	3,933	868	23,067
Additions during the year	2,527	1,751	127	104	615	390	5,514
Additions for newly consolidated company (Note 3)	516	-	-	-	-	1,455	1,971
Additions due to acquisition of business activities (Note 4)	11	2,096	71	44	56	-	2,278
Transfer to inventory	-	-	-	-	-	(367)	(367)
Disposals during the year	(64)	(426)	(30)	(306)	(502)	-	(1,328)
Currency translation differences	93	62	18	9	21	74	277
Balance at December 31, 2004	**9,745**	**12,786**	**1,434**	**904**	**4,123**	**2,420**	**31,412**
Accumulated depreciation:							
Balance at January 1, 2004	4,039	4,358	425	531	1,122	154	10,629
Additions during the year	1,744	1,974	172	179	563	316	4,948
Disposals during the year	(61)	(357)	(20)	(176)	(96)	-	(710)
Currency translation differences	122	38	8	9	10	42	229
Balance at December 31, 2004	**5,844**	**6,013**	**585**	**543**	**1,599**	**512**	**15,096**
Depreciated cost at December 31, 2004	**3,896**	**6,773**	**849**	**361**	**2,524**	**1,913**	**16,316**
Depreciated cost at December 31, 2003	**2,623**	**4,945**	**823**	**522**	**2,811**	**714**	**12,438**

As for charges, see Note 23.

Note 14 | Intangible Assets, Net

	Development costs	Goodwill (negative goodwill)	Non-competition agreement	Others	Total
At January 1, 2004, net of accumulated amortization	3,999	47,222	479	180	51,880
Additions during the year	1,081	-	-	37	1,118
Additions for newly consolidated company (see Note 3)	-	(5,830)	-	-	(5,830)
Additions for acquisition of business activities (see Note 4)	-	4,369	852	-	5,221
Transfer to fixed assets	(170)	-	-	-	(170)
Amortization during the year	(750)	1,937	(537)	(122)	528
Realized income tax benefits subsequent to Raytel acquisition	-	(111)	-	-	(111)
Currency translation differences	72	300	(5)	1	368
At December 31, 2004, net of accumulated amortization	**4,232**	**47,887**	**789**	**96**	**53,004**
At December 31, 2004:					
Cost	6,862	54,667	2,111	476	64,116
Accumulated amortization	(2,630)	(6,780)	(1,322)	(380)	(11,112)
Net carrying amount	**4,232**	**47,887**	**789**	**96**	**53,004**

Note 15 | Bank Credit and Current Maturities

	Interest rate as of December 31, 2004 (%)	December 31, 2004	2003
Credit from banks:			
NIS - unlinked	Prime* + 0.2	16,434	17,387
In U.S. dollars	1.8	1,200	7,210
		17,634	24,597
Current maturities of long-term loans (see Note 17)		24,440	22,268
		42,074	**46,865**

As for collateral, see Note 23.
* The prime rate as of December 31, 2004 is 5.2%

Note 16 | Other Accounts Payable

	December 31, 2004	2003
Employees and payroll accruals	3,805	3,983
Accrued liabilities	4,274	5,079
Liability regarding the acquisition of CES	1,731	-
Government authorities	432	442
Former Raytel shareholders	447	536
Provision for restructuring - current portion (see Note 18)	978	-
Other	483	85
	12,150	**10,125**

Note 17 | Long-Term Loans from Banks, Lease Obligations and Others

a. Composed as follows:

	Interest rate as of December 31, 2004 (%)	December 31, 2004	2003
Loans from banks:			
NIS - unlinked	NIS Prime * + 0.59	8,974	6,542
NIS - linked to Israel's CPI	5.65	9,043	10,061
U.S. dollars	LIBOR + 1.39	22,836	14,643
Euro	LIBOR +1.86	7,224	9,025
Promissory notes - U.S. dollars [1]		4,000	-
U.S. dollars, net [2]		-	3,598
		52,077	43,869
Less - current maturities		11,584	9,510
		40,493	34,359
Lease obligations:			
Euro	7.4	1,006	-
NIS - linked to Israel's CPI	7	24	119
Capital lease obligations and non-recourse notes [3]	5.5 - 13.5	331	1,030
		1,361	1,149
Less - current maturities		635	821
		726	328
Other long-term loans:			
NIS - linked to Israel's CPI		-	92
Revolving credit facility [4]	U.S. prime ** +1	10,221	9,937
U.S. Federal Government [5]	7	4,000	6,000
		14,221	16,029
Less - current maturities		12,221	11,937
		2,000	4,092
		43,219	**38,779**

* The NIS prime rate as of December 31, 2004 - 5.2%.
** The U.S. prime rate as of December 31, 2004 - 5.25%.

(1) In connection with the CEC acquisition (see Note 4a), Raytel entered into two promissory notes as follows: (1) Principal of $ 2,500 bearing an interest rate of the three month LIBOR plus 1.95% (4.51% at December 31, 2004). (2) Principal of $ 1,500 bearing an interest rate of the three month LIBOR plus 1.80% (4.36% at December 31, 2004).

(2) U.S. dollars, net [a]:

	Interest rate as of December 31, 2004 (%)	December 31, 2004	2003
U.S. dollars	LIBOR * +0.7%	19,000	19,000
U.S. dollars		-	5,000
		19,000	24,000
Less - long-term deposit:			
U.S. dollars	3%	(12,000)	-
NIS - linked to Israeli CPI	3.3%	(7,000)	(20,402)
		(19,000)	(20,402)
		-	3,598

a As security for these loans, the Company pledged to banks certain liquid assets, including cash deposits, which are to be realized simultaneously with the repayment of the loans in June 2006. Accordingly these deposits have been offset against the loans.

* One-month LIBOR (3.1% as of December 31, 2004).

(3) 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.

(4) Under the revolving credit facility, Raytel may borrow up to $ 15,000 based on a prescribed formula, with interest at the U.S. prime rate plus 1% (6.25% as of December 31, 2004). The revolving credit facility is due May 31, 2005.

(5) The settlement amount due to the U.S. Federal Government is payable in annual installments of $ 2,000 plus interest at the rate of 7%, through June 30, 2006. Raytel and a subsidiary were the subject of a U.S. Government investigation that began in June 2000. In June 2001, Raytel reached an agreement with the U.S. 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 U.S. Government to resolve related civil claims under which Raytel agreed to pay $ 11,500 over a period of five years. Through December 31, 2004, $ 7,500 has been paid. The settlement agreement did not release Raytel or the subsidiary 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.

b. The long-term loans are repayable in future years, as follows:

	December 31, 2004	2003
First year - current maturities	24,440	22,268
Second year	13,339	9,885
Third year	8,213	7,465
Fourth year	7,227	5,373
Fifth year	4,834	4,477
Thereafter	9,204	11,579
	42,817	38,779
	67,257	61,047

c. The Company is required to maintain certain financial covenants, such as equity financial ratios and amounts, and is currently in compliance with all such requirements.

d As for collateral, see Note 23.

Note 18 | Provisions

	December 31, 2004	2003
Provision for restructuring [1]	2,172	-
Less - current portion	978	-
	1,194	-
Provision for future participation rights [2]	2,367	-
Less - current maturities	217	-
	2,150	
Other	269	-
	3,613	-

[1] See Note 3c.

[2] See Note 3d. The above balance is net of discount in the amount of $ 1,767.

Note 19 | Accrued Severance Pay

a. The Group's liability for severance pay for Israeli employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employee multiplied by the number of years of employment as of the balance sheet date. The Group's liability for all its employees is funded through insurance policies. The net amount of the severance liability presented in the balance sheet represents the Group's liability for severance less the amounts funded through insurance policies as of the 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, 2004, 2003 and 2002 was $ 596, $ 594 and $ 619, respectively.

b. Pensions and saving plans:

Raytel 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. In addition, as of January 1, 2004, Raytel makes contributions to the plan based upon a percentage of an employee's covered compensation as defined.

Expense under the plan was $ 674 and $ 152 in 2004 and 2003, respectively.

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 $ 400 in 2003. This plan has been discontinued as of January 1, 2005 and all contributions for 2004 were made to the 401(k) plan.

Note 20 | Investments in Subsidiaries

	Country of incorporation	Percentage in equity 2004 (%)	2003 (%)
Shahal Haifa - Medical Services Ltd.	Israel	100	100
SHL Telemedicine International Ltd. ("STI")	Israel	100	100
Shahal-Rishon Le-Zion, Rehovot Medical Services Ltd.	Israel	100	100
Bikurofe Ltd.	Israel	100	100
SHL Telemedicine B.V.	Netherlands	100	100
SHL Telemedicine Global Trading Ltd.[a]	Ireland	100	100
SHL Telemedicine North America Inc.[b]	U.S.A.	100	100
Personal Healthcare Telemedicine Services B.V. (see Note 3)	Netherlands	100	19.9

a. SHL Telemedicine Global Trading Ltd. ("GT"):

GT was incorporated on October 23, 2001. In November 2002, an operating license agreement was reach between STI and GT ("the agreement"), pursuant to which STI granted a license to GT for the use of the Company's intellectual property, the production rights, the acquisition from suppliers and the distribution of the Company's products to the Company's customers, as well as the right to develop new products. In exchange, the Company will receive annual royalties in the amount of 4.9% of GT's sales, as they were defined in the agreement.

b. SHL Telemedicine North America Inc. ("NA"):

NA, a wholly-owned subsidiary of STI, purchased in a tender offer all the issued and outstanding shares of Raytel Medical Corporation Inc. ("Raytel") at total cost of $ 35,100. Raytel is a U.S. 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. 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 $ 4,147 that has been effected to the petitioners, was in accordance with the original merger price per share. To date, payment in the amount of $ 447 has not yet been effected with regard to 2% of Raytel's outstanding shares.

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

The Company recorded goodwill in the total amount of $ 41,766, representing the excess of the aggregate acquisition cost over the fair value of the identifiable net assets at the date of acquisition with adjustments made due to updated information that was available to the Company at December 31, 2003.

Note 21 | 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 based on the changes in the Israeli CPI.

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

c. Reform in the Israeli tax system:

In 2003, the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2003, became effective ("the Reform Law") which deal with a comprehensive reform in certain aspects of the Israeli tax system. It is expected that the adoption of the law will result in a gradual decrease in the Group's tax liabilities, since a certain portion of the income of Group companies is derived from profits which are subject to capital gains tax. According to the provisions of the Reform Law, tax at a reduced rate of 25% will apply on capital gains accrued after January 1, 2003, instead of the regular tax rate. In case of a sale of properties purchased before the adoption of the Reform Law, the reduced tax rate will apply only to the portion of the profit which accrued after the adoption of the law. Further, the Reform Law states that capital losses carried forward for tax purposes may be offset against capital gains for an indefinite period. The Reform Law also provides for the possibility of offsetting capital losses from sales of properties outside Israel against capital gains in Israel.

d. In June 2004, the Israeli Government passed an Amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004, which progressively reduces the tax rates applicable to companies from 36% to 35% in 2004 to a rate of 30% in 2007.

e. Taxes on income (tax benefit) included in the statement of operations:

	Year ended December 31,		
	2004	2003	2002
Current taxes	1,250	6,094	2,862
Deferred taxes	(1,780)	(5,217)	236
Taxes in respect of previous years	212	145	132
	(318)	1,022	3,230

f. Deferred tax assets (liabilities):

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

	Balance sheet items					
	Fixed assets and intangible assets	Employee benefit liabilities	Carryforward tax losses	Doubtful accounts	Others	Total
Balance at January 1, 2004	(437)	1,274	1,361	2,486	2,542	7,226
Amounts included in statement of operations	173	(324)	470	1,998	(537)	1,780
Currency translation differences	(11)	6	44	8	26	73
Balance at December 31, 2004	**(275)**	**956**	**1,875**	**4,492**	**2,032**	**9,080**

The balance is presented as follows:

	December 31,	
	2004	2003
Long-term assets	9,873	8,085
Long-term liabilities	(793)	(859)
	9,080	**7,226**

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

	Year ended December 31,		
	2004	2003	2002
Income (loss) before taxes on income	(5,035)	(7,260)	6,066
Statutory tax rate in Israel	35%	36%	36%
Theoretical tax expense (benefit)	(1,762)	(2,613)	2,184
Increase (decrease) in taxes resulting from:			
Losses and other items for which deferred taxes were not provided	2,070	1,144	11
Tax adjustment in respect of inflation in Israel	(259)	469	(387)
Non-deductible expenses	1,234	1,169	1,121
Negative goodwill recognized as income	(1,724)	-	-
Decrease in taxes resulting from realization of carryforward tax losses for which deferred taxes were not recorded in prior years	(47)	(57)	-
Tax exempt income	-	-	(2,035)
Different tax rates	193	(390)	61
Taxes in respect of previous years	212	145	132
Tax on minority interest in earnings of subsidiaries	(467)	(689)	(513)
Attributed to deferred taxes due to changes in tax rates	121	-	-
Share in losses and provision against shareholders loan to associate	-	2,016	2,647
Other	111	(172)	9
	(318)	**1,022**	**3,230**

h. Carryforward tax losses:

The carryforward losses for tax purposes as of December 31, 2004 amount to $ 9,281 in Israel (which may be carried forward indefinitely) and $ 37,442 in Europe. In the U.S., Raytel has federal net operting losses and credits of $ 6,269, whose expiration commences in 2023, and state net operating losses and credits of $ 1,692, which expire at various times.

Deferred tax assets relating to deductible temporary differences and carry forward tax losses in Raytel, in the amount of $ 9,951, in Europe in the amount of $ 37,442 and in other subsidiaries in the amount of $ 3,598 are not included in the consolidated financial statements as management presently believes that it is not likely that these deferred taxes will be realized in the foreseeable future.

Note 22 | Transactions with Related Parties

a. Transactions with related parties:

	Year ended December 31,		
	2004	2003	2002
Revenues:			
Sales and services to PHTS	-	62	3,169
Expenses:			
Salaries to officers and directors	1,174	1,146	1,742
Rent expenses to shareholders	225	258	248
	1,399	**1,404**	**1,990**

b. On September 21, 2003, (“the Effective Date”) the Company signed a management services agreement (“the Agreement”) with Yoram Alroy Consulting and Management Ltd. (“the Service Provider”), a wholly-owned company of Mr. Yoram Alroy, who is also 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 a full time position. The consideration for the management services was reduced accordingly.

The Service Provider, together with Mr. Yariv Alroy (Director and Co-CEO) and Mr. Erez Alroy (Co-CEO), 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 $ 1,000 per year.

The Agreement commenced on the Effective Date and shall continue for a period of 36 months. The Agreement shall automatically be renewed for consecutive 24 month periods unless an advance written notice is 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 24c) to Mr. Yoram Alroy.

d. As for the purchase agreement in respect of PHTS’s shares, see Note 3.

Note 23 | Commitments and Contingent Liabilities

a. Charges:

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

b. Lease commitments:

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

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

Year	
2005	5,469
2006	4,561
2007	3,030
2008	1,686
2009	1,072
Thereafter	2,214
	18,032

c. Contingent liabilities:

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

Note 24 | Equity

a. The share capital is composed as follows:

	December 31, 2004		December 31, 2003	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,550,904	14,000,000	10,580,296

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:

On May 23, 2004, the Board of Directors resolved to extend the period of repurchase of shares for up to an aggregate amount of $ 2,000 until June 30, 2005 (including all shares purchased as of that date). The Company has repurchased 112,469 shares for a total cost of $ 558 as of December 31, 2004 (2003 - 83,077 shares at a cost of $ 432).

c. Share Option Plans:

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

In October 2003, the Company granted to employees and consultants of the Group and an executive member of the Board of Directors of the Company options to purchase 113,560 Ordinary shares under the terms of the 2003 Share Option Plan. One-third of the options has an exercise price of CHF 6.89; one-third of the options has an exercise price of CHF 10.89, provided, however, that if the options are exercised after October 30, 2005, the exercise price shall be CHF 6.89; and one-third of the options has an exercise price of CHF 10.89, provided, however, that if the options are exercised after October 30, 2006, the exercise price shall be CHF 6.89. All the options were fully vested 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 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 Program, options to purchase 485,627 Ordinary shares at a 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, 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 vest in accordance with the original vesting schedule of the exchanged options, except that all such options not yet vested on December 31, 2004, will fully vest on such date.

In August 2004, SHL adopted the 2004 International Share Option Plan ("the 2004 International Share Option Plan"), which replaces the 2002 International Share Option Plan for the issuance of Options to non-Israeli employees, directors, officers and consultants of the Company and any of its subsidiaries, and determined that the Option Pool reserved for purposes of the 2003 Share Option Plan shall further serve for purposes of the 2004 International Share Option Plan. In August 2004, SHL granted to employees and consultants of the Group options to purchase 73,000 Ordinary shares under the 2004 International Share Option Plan and options to purchase 16,250 Ordinary shares under the 2003 Share Option Plan. The options are fully vested as of December 31, 2004 (or as of August 1, 2004 with respect to one employee that was granted 18,000 options under the 2004 International Option Plan ("the Senior Employee Options"). The exercise price of the options is 9.5 CHF, provided, however, that if exercised on or after January 1, 2006 (or on or after August 1, 2005 with respect to the Senior Employee Options) one-third of the options will have an exercise price of CHF 5.5; if exercised on or after January 1, 2007 (or on or after August 1, 2006 with respect to the Senior Employee Options) an additional one-third of the options will have an exercise price of CHF 5.5; and if exercised on or after January 1, 2008 (or on or after August 1, 2007 with respect to the Senior Employee Options) an additional one-third of the options will have an exercise price of CHF 5.5.

Generally, all options granted under the Option Plans expire 10 years after the date of grant, subject to early termination due to cessation of employment of the option holder.

d. 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 January 1, 2004	Granted	Cancelled*	Total outstanding at December 31, 2004
		Number of options		
34.00	6,015	-	** 896	5,119
5.9	387,772	-	22,842	364,930
6.89	37,853	-	4,000	33,853
10.89[1]	75,707	-	8,000	67,707
9.5[1]	-	89,250	750	88,500
	507,347	**89,250**	**36,488**	**560,109**

Exercise price in CHF	Total outstanding at January 1, 2003	Granted	Cancelled*	Total outstanding at December 31, 2003
		Number 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	-	37,853	-	37,853
10.89[1]	-	75,707	-	75,707
	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.
1 Exercise price may be reduced under certain conditions - see c. above.

Note 25 | Supplementary Information to Statements of Operations

	Year ended December 31,		
	2004	2003	2002
a. Revenues from sales of services and devices:			
Services	101,348	94,542	73,942
Devices	1,704	4,242	15,862
	103,052	**98,784**	**89,804**
b. Cost of sales of services and devices:			
Salaries and related benefits	25,742	22,619	18,666
Cost of devices sold	1,228	2,308	4,442
Payment to service providers	10,457	8,325	5,431
Depreciation	3,995	2,642	2,440
Rental fees and maintenance	6,510	5,901	4,405
Materials and components	3,955	3,790	3,258
Communications, postage and freight	2,760	2,723	2,199
Others	3,755	3,817	3,212
	58,402	**52,125**	**44,053**
c. Research and development costs, net:			
Salaries and related benefits	864	802	651
Amortization of research and development costs	750	672	415
Medical consulting	107	107	106
Others	72	234	479
	1,793	1,815	1,651
Less - capitalization of development costs	(1,081)	(1,143)	(1,236)
	712	**672**	**415**
d. Selling and marketing expenses:			
Salaries and related benefits	7,733	4,729	3,345
Advertising	1,474	1,468	936
Depreciation	242	227	157
Rental fees and maintenance	284	311	282
Maintenance of motor vehicles	746	953	731
Others	2,332	2,121	1,554
	12,811	**9,809**	**7,005**

	Year ended December 31,		
	2004	2003	2002
e. General and administrative expenses:			
Salaries and related benefits	15,428	13,363	11,232
Rental fees and office expenses	6,067	6,581	5,049
Professional fees	3,472	2,027	2,491
Depreciation and amortization	4,566	4,807	3,397
Negative goodwill recognized as income	(5,136)	-	-
Doubtful accounts and bad debts	6,229	4,533	3,387
Others	2,209	1,797	1,120
	32,835	**33,108**	**26,676**
f. Financial income (expenses):			
Exchange rate differences on cash deposits	58	(1,722)	4,694
Gain (loss) from short-term deposits, net	-	(729)	344
Gain (loss) on marketable securities and derivative financial instruments, net	(118)	2,015	-
Interest and others	(3,474)	(4,269)	(3,257)
	(3,534)	**(4,705)**	**1,781**
g. Other income (expenses), net:			
Gain (loss) on sale of fixed assets	665	(11)	(19)
Expenses in respect of prior years	(168)	(70)	(380)
Other	(290)	57	382
	207	**(24)**	**(17)**

Note 26 | Earnings (Loss) Per Share

The following reflects the net income (loss) and share data used in the basic and diluted earnings (loss) per share computations:

a. Basic net earnings (loss) per share:

	Year ended December 31, 2004	2003	2002
Net income (loss) attributable to equity holders of the parent	(6,091)	(10,195)	1,411
Weighted average number of Ordinary shares for basic net earnings (loss) per share	10,569,488	10,592,946	10,634,026
Basic and diluted earnings (loss) per share	(0.58)	(0.96)	0.13

Note 27 | Segment Information

a. **1.** The Company and its subsidiaries operate in two business segments:

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

Medical services - operating a network of imaging centers and cardiac facilities that provide diagnostic, therapeutic and patient management services primarily associated with cardiovascular diseases. SHL also operates medical call centers, which provide 24Ø7 doctor "house calls".

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

3. The assets of the segments include all of the operation assets, which are used by the segments and are comprised primarily of cash and cash equivalents, short-term deposits, trade receivables, other accounts receivable, post-dated 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			Consolidated		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Segment revenues:									
Sales to external customers	54,763	51,420	52,409	48,289	47,364	37,395	103,052	98,784	89,804
Operating income (loss) before unallocated expenses	(1,322)	(472)	9,442	1,410	5,513	4,126	88	5,041	13,568
Share in losses and provision against shareholders' loan to PHTS	-	(5,601)	(7,353)	-	-	-	-	(5,601)	(7,353)
Segment results	(1,322)	(6,073)	2,089	1,410	5,513	4,126	88	(560)	6,215
Unallocated expenses							(1,796)	(1,971)	(1,913)
Operating income (loss)							(1,708)	*(2,531)	*4,302
Financial income (expenses)							(3,534)	(4,705)	1,781
Other income (expenses), net							207	(24)	(17)
Taxes on income (tax benefit)							(318)	1,022	3,230
Net income (loss)							**(4,717)**	**(8,282)**	**2,836**
Other business information:									
Segment assets	144,603	144,915	143,073	39,624	41,434	58,370	184,227	186,349	
Unallocated assets							11,516	10,078	
							195,743	196,427	
Segment liabilities	(19,590)	(13,742)	(14,074)	(8,552)	(8,625)	(10,961)	(28,142)	(22,367)	
Unallocated liabilities							(86,086)	(86,503)	
							(114,228)	(108,870)	
Capital expenditure	11,445	6,217	3,534	2,392	823	1,064	13,837	7,040	4,598
Depreciation and amortization	1,062	4,588	3,052	3,371	3,939	3,543	4,433	8,527	6,595

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

c. Geographic segments:

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

	Year ended December 31,		
	2004	2003	2002
Israel	26,113	27,609	32,393
U.S.A.	76,007	71,113	54,125
Europe	932	62	3,286
	103,052	**98,784**	**89,804**

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

	December 31,	
	2004	2003
Israel	102,282	114,920
U.S.A.	68,200	64,032
Europe	15,390	9,390
	185,872	**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:

	Year ended December 31,		
	2004	2003	2002
Israel	3,385	3,411	2,801
U.S.A.	9,985	2,981	1,674
Europe	467	648	123
	13,837	**7,040**	**4,598**

Note 28 | Linkage Terms of Monetary Balances

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

	In or linked to:				
December 31, 2004	U.S.$	Euro	Israeli CPI	Unlinked	Total
Assets:					
Cash and cash equivalents	7,786	4,156	-	4,942	16,884
Marketable securities	4,214	-	-	982	5,196
Trade receivables	20,494	107	187	3,079	23,867
Post-dated notes	-	-	39,734	-	39,734
Other accounts receivable	187	79	564	419	1,249
Long-term deposits	4,200	170	402	-	4,772
	36,881	**4,512**	**40,887**	**9,422**	**91,702**
Liabilities:					
Credit from banks and others	1,200	-	-	16,434	17,634
Trade payables	6,848	768	-	1,031	8,647
Income tax payable	1,805	-	396	-	2,201
Short and long - other accounts payable	6,751	4,893	482	3,637	15,763
Long-term loans and leases from banks and others (including current maturities)	41,387	8,231	9,067	8,974	67,659
Accrued severance pay	-	-	-	1,531	1,531
	57,991	**13,892**	**9,945**	**31,607**	**113,435**

	In or linked to:				
December 31, 2003	U.S.$	Euro	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	20,168	80	82	2,876	23,206
Post-dated notes	-	-	42,008	-	42,008
Other accounts receivable	1,975	-	841	21	2,837
Long-term deposits	4,200	-	-	-	4,200
	44,557	**80**	**44,014**	**9,698**	**98,349**
Liabilities:					
Credit from banks and others	7,210	-	-	17,387	24,597
Trade payables	6,663	34	-	892	7,589
Income tax payable	1,656	-	1,551	-	3,207
Other accounts payable	4,971	198	-	4,956	10,125
Long-term loans and leases from banks and others (including current maturities)	35,208	9,025	10,272	6,542	61,047
Accrued severance pay	-	-	-	1,446	1,446
	55,708	**9,257**	**11,823**	**31,223**	**108,011**

Note 29 | Subsequent Events

On March 14, 2005, a Frankfurt based health insurance company, Taunus Betriebskrankenkasse ("Taunus"), with over 800,000 insured members, entered into a cooperation agreement with the Company's wholly owned German subsidiary PHTS for the use of the SHL telemedicine solution by their insured members with chronic heart diseases, including congestive heart failure (CHF). For these members, Taunus will purchase from PHTS the SHL telemedicine monitoring solution. This cooperation agreement is expected to add substantially to PHTS's growth.

Milestones

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